

**Florida Prepaid  
College Board**

**FINANCIAL STATEMENTS**

**June 30, 2019**



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**Florida Prepaid College Board**  
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**June 30, 2019**

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**REPORT**

## **INDEPENDENT AUDITORS' REPORT**

Florida Prepaid College Board Members  
Tallahassee, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Florida Prepaid College Board, a component unit of the State of Florida, administratively housed under the State Board of Administration, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents. We have also audited the fiduciary fund type and the discretely presented component units of the Board as of and for the year ended June 30, 2019 as displayed in the Board's basic financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the fiduciary fund type and the discretely presented component units of the Florida Prepaid College Board, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8; and the Schedules of Board's Proportionate Share of Net Pension Liability and Related Ratios as of Measurement Date, Board's Contributions, Board's Proportionate Share of the Total Other Postemployment Benefits Liability, and Changes in the Board's Total OPEB Liability and Related Ratios on pages 65 to 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, on our consideration of the Florida Prepaid College Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Florida Prepaid College Board's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Tallahassee, Florida

December 9, 2019



## **MANAGEMENTS DISCUSSION AND ANALYSIS**

# Florida Prepaid College Board Management's Discussion and Analysis

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of financial performance for the Florida Prepaid College Board ("the Board"), provides an overview of the Board's financial activities for the fiscal year ended June 30, 2019. Please read this information in conjunction with the Board's financial statements, which begin on page 9.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Board presents the following basic financial statements: a Statement of Net Position – Enterprise Fund, a Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund, a Statement of Cash Flows – Enterprise Fund, a Statement of Fiduciary Net Position, and a Statement of Changes in Fiduciary Net Position.

The enterprise fund statements offer financial information about The Stanley G. Tate Florida Prepaid College Program, which the Board operates like a business. Fiduciary fund statements provide information about the financial relationships – like the Florida 529 Savings Plan, The Stanley G. Tate Florida Prepaid College Foundation, Inc. and Florida ABLE, Inc. – in which the Board acts as a trustee for the benefit of others, to whom the resources in question belong.

The Board's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed on a given date. This information is reported on the Statement of Net Position – Enterprise Fund, which reflects the Board's resources in relation to its obligations. The excess of assets over liabilities are equal to net position. The Board's financial position, or net position, is one way to measure the Board's financial health.

Information regarding the results of operations during the current year is reported in the Statement of Revenues, Expenses and Changes in Net Position – Enterprise Fund. This statement shows the increase or decrease in net position during the year as a result of operations.

The Board is the trustee, or fiduciary, for the Florida 529 Savings Plan, The Stanley G. Tate Florida Prepaid College Foundation, Inc. and Florida ABLE, Inc. The funds in these programs can only be used for the trust beneficiaries. The Board is responsible for ensuring that assets reported in these funds are used for their intended purposes. All of the Board's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

## FINANCIAL SUMMARY – The Stanley G. Tate Florida Prepaid College Program (the "Prepaid Plan")

### Financial Position

A summary comparison of the Prepaid Plan's Statement of Net Position at June 30, 2019 and June 30, 2018 is on the following page.

## Florida Prepaid College Board Management's Discussion and Analysis

### FINANCIAL SUMMARY – The Stanley G. Tate Florida Prepaid College Program (the “Prepaid Plan”) (CONTINUED)

<i>June 30,</i>	<b>2019</b>	2018	Change
Assets			
Restricted assets	\$ 17,650,460	\$ 15,788,022	11.80%
Total assets	<b>17,650,460</b>	15,788,022	11.80%
Deferred Outflows of Resources	<b>1,312</b>	1,249	5.04%
Liabilities			
Current liabilities	<b>3,299,977</b>	2,743,871	20.27%
Long-term liabilities	<b>10,650,696</b>	10,091,044	5.55%
Total liabilities	<b>13,950,673</b>	12,834,915	8.69%
Deferred Inflows of Resources	<b>279</b>	156	78.85%
Net position			
Invested in capital assets	<b>71</b>	74	-4.05%
Restricted	<b>3,700,749</b>	2,954,127	25.27%
Total net position	\$ <b>3,700,820</b>	\$ 2,954,201	25.27%



## Florida Prepaid College Board Management's Discussion and Analysis

### FINANCIAL SUMMARY – The Stanley G. Tate Florida Prepaid College Program (the “Prepaid Plan”) (CONTINUED)

#### Changes in Net Position

A summary comparison of the Prepaid Plan's Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2019 and June 30, 2018 is presented below.

<i>Years ended June 30,</i>	<b>2019</b>	2018	Change
Operating revenues - non-actuarial	\$ <b>417,629</b>	\$ 429,642	-2.80%
Operating expenses - non-actuarial	<b>(403,073)</b>	(407,578)	-1.11%
Increase (decrease) in actuarial receivables	<b>209,216</b>	61,188	241.92%
Decrease (increase) in actuarial liabilities	<b>(560,298)</b>	393,504	242.39%
Net operating revenues	<b>(336,526)</b>	476,756	170.59%
Non-operating revenues	<b>1,136,205</b>	145,778	679.41%
Non-operating expenses	<b>(53,060)</b>	(35,556)	49.23%
Net non-operating revenues	<b>1,083,145</b>	110,222	882.69%
Change in net position	<b>746,619</b>	586,978	27.20%
Net position, beginning	<b>2,954,201</b>	2,367,634	24.77%
Implementation of GASB 75	-	(411)	0.00%
Net position, ending	\$ <b>3,700,820</b>	\$ 2,954,201	25.27%

#### Financial Highlights

- Total market value of investments, not including pending trades and net of Obligations Under Securities Lending, which represents collateral held for securities on loan, at June 30, 2019 was \$12.6 billion as compared to \$11.5 billion at June 30, 2018.
- Projected value of assets exceeds the projected value of liabilities by \$3.697 billion, per the June 30, 2019 actuarial adequacy report prepared by Milliman, Inc., as compared to \$2.984 billion, per the June 30, 2018 report. The actuarial reserve was determined by deducting future contract benefits and expenses from the sum of investments, future contract payments receivable, and fees. The increase in the actuarial reserve is primarily due to an increase in the market value of invested assets and an expected increase in the present value of estimated future liabilities, resulting from a declining treasury rate environment.
- Tuition, fees, and dormitory housing benefits payable increased from \$10.733 billion at June 30, 2018 to \$11.293 billion at June 30, 2019, due primarily to an expected increase in the present value of estimated future liabilities, resulting from a declining treasury rate environment.
- Beginning with the 2010-2011 enrollment period, the Board began offering combined fee plans. Combined fee plans include Tuition, Local Fee, and if necessary, Tuition Differential Fee plan benefits. Enrollment counts reflect each component of combined fee plans enrolled.

## Florida Prepaid College Board Management's Discussion and Analysis

### FINANCIAL SUMMARY – The Stanley G. Tate Florida Prepaid College Program (the “Prepaid Plan”) (CONTINUED)

#### Financial Highlights (Continued)

- Total number of Florida Prepaid College Plans purchased during the 2018-2019 enrollment period as of June 30, 2019 was 39,966 (32,210 Tuition, 108 Tuition Differential Fee, 232 Local Fee, and 7,499 Dormitory). New Florida Prepaid College Plan purchases caused an increase to tuition and housing contracts receivable, revenue, tuition and housing benefits payable, and expenses.
- The total 2018-2019 gross investment portfolio (exclusive of the securities lending portfolio) return of 9.53% was due to realized and unrealized gains in the market value of the portfolio as of June 30, 2019. For comparison purposes, the total portfolio return for 2017-2018 was 0.99%. The liability segment of the portfolio, which is comprised of fixed income securities, returned 10.21% and constituted 76.76% of the total portfolio as of June 30, 2019. The reserve segment of the portfolio, which is comprised of fixed income and equity securities, returned 4.68% and constituted 23.24% of the total portfolio.
- Total administrative expenditures for the Prepaid Plan were \$19 million for administration and \$8.4 million for investment fees, totaling \$27.4 million during fiscal year 2018-2019, as compared to \$17.7 million for administration and \$8 million for investment fees, totaling \$25.7 million during 2017-2018.

### FINANCIAL SUMMARY – Florida 529 Savings Plan (the “Savings Plan”)

#### Financial Position

A summary comparison of the Savings Plan's Statement of Fiduciary Net Position at June 30, 2019 and June 30, 2018 is presented below.

<i>June 30,</i>	<b>2019</b>	2018	Change
<b>Assets</b>			
Restricted assets	\$ <b>736,383</b>	\$ 629,493	16.98%
Total assets	<b>736,383</b>	629,493	16.98%
<b>Liabilities</b>			
Current liabilities	<b>52,281</b>	22,425	133.14%
Long-term liabilities	<b>51</b>	46	10.87%
Total liabilities	<b>52,332</b>	22,471	132.89%
<b>Net position</b>			
Held in trust for individuals	<b>684,051</b>	607,022	12.69%
Total net position	\$ <b>684,051</b>	\$ 607,022	12.69%

## Florida Prepaid College Board Management's Discussion and Analysis

### FINANCIAL SUMMARY – Florida 529 Savings Plan (the “Savings Plan”) (CONTINUED)

#### Changes in Net Position

A summary comparison of the Savings Plan's Statement of Changes in Fiduciary Net Position for the years ended June 30, 2019 and June 30, 2018 is presented below.

#### Statement of Changes in Fiduciary Net Position (\$ in thousands)

<i>Years ended June 30,</i>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Additions	\$ <b>128,840</b>	\$ 118,940	89.99%
Deductions	<b>(51,811)</b>	(43,295)	12.25%
Increase in net position	<b>77,029</b>	75,645	183.40%
Net position, beginning	<b>607,022</b>	531,377	6.65%
Net position, ending	\$ <b>684,051</b>	\$ 607,022	17.68%

#### Financial Highlights

- Total market value of investments, including pending trades and income receivable, at June 30, 2019 was \$685 million as compared to \$607.4 million at June 30, 2018.
- Total active participants at June 30, 2019 were 80,481 as compared to 72,603 at June 30, 2018.
- Total new participants during fiscal year 2018-2019 were 8,832 as compared to 9,532 during fiscal year 2017-2018.
- Total administrative expenses for the Savings Plan were \$5.3 million for administration and \$1 million for investment fees, totaling \$6.3 million during fiscal year 2018-2019, as compared to \$5.3 million for administration and \$0.9 million for investment fees, totaling \$6.2 million during fiscal year 2017-2018.

## Florida Prepaid College Board Management's Discussion and Analysis

### FINANCIAL SUMMARY - Florida 529 Savings Plan (the "Savings Plan") (CONTINUED)

#### Financial Highlights

Savings Plan Summary Year Ended June 30, 2019				
Portfolio Options	Market Value (millions)	% of Total Portfolio	Option Performance <sup>1</sup>	Participants* By Investment
Blended Equity Portfolio	\$ 148,701,651	21.94%	5.41%	31,369
Balanced Portfolio	77,161,730	11.38%	6.87%	27,574
Age Based/Years to Enrollment Portfolio				52,318
Ages 0-4	21,703,338	3.20%	5.44%	
Ages 5-8	42,378,146	6.25%	6.04%	
Ages 9-12	66,648,037	9.83%	6.90%	
Ages 13-15	58,070,065	8.57%	7.38%	
Ages 16+	93,150,388	13.74%	8.01%	
<b>Fund Options</b>				
Money Market Fund	39,936,621	5.89%	2.55%	25,009
Fixed Income Fund	42,272,919	6.24%	8.01%	26,717
Domestic Equity Index Fund	27,159,397	4.01%	10.38%	11,492
Mid Cap Fund	9,365,680	1.38%	80.00%	10,605
Large Cap Value Fund	10,206,912	1.51%	1.93%	10,573
Large Cap Growth Fund	24,848,151	3.67%	9.49%	16,054
Small Cap Fund	9,049,609	1.34%	11.29%	9,582
International (Developed Markets) Fund	7,133,061	1.05%	-2.37%	9,219
<b>Total portfolio</b>	<b>\$ 677,785,705</b>	<b>100.00%</b>		

<sup>1</sup> Gross of Administration Fee which ranges from zero basis points to 75 basis points, depending on the investment option.

\*Participants may elect to invest in one or more investment options.



# **FINANCIAL STATEMENTS**



# Florida Prepaid College Board

## Statement of Net Position – Enterprise Fund

June 30, 2019	Florida Prepaid College Plan (Primary Government)
<b>Assets</b>	
Restricted assets	
Current	
Cash and cash equivalents	\$ 8,167,907
Investments	2,698,603,283
Future contract premiums and other receivables	357,739,314
Delinquent fees and contracts receivable	18,911,100
Investment trades receivable	190,575,541
Due from other funds	3,156,350
Other receivables	44,133
Accrued interest and dividends receivable	34,507,875
Total current restricted assets	3,311,705,503
Non-current	
Investments	12,308,679,790
Future contract premiums and other receivables	2,030,003,710
Equipment, net of depreciation	71,482
Total non-current restricted assets	14,338,754,982
Total assets	17,650,460,485
<b>Deferred outflows of resources</b>	
Deferred outflows related to pension obligations and OPEB	1,311,721
Total deferred outflows of resources	1,311,721
<b>Liabilities</b>	
Current liabilities	
Accounts payable and accrued expenses	52,641,117
Obligations under securities lending	2,127,637,152
Investment trades payable	470,653,930
Future contract benefits and expenses payable	644,981,156
Due to other funds	3,972,355
Compensated absences	91,951
Total current liabilities	3,299,977,661
Long-term liabilities	
Future contract benefits and expenses payable	10,647,912,052
Net pension liability	2,010,001
Other post-employment benefits payable	465,120
Compensated absences	308,690
Total long-term liabilities	10,650,695,863
Total liabilities	13,950,673,524
<b>Deferred inflows of resources</b>	
Deferred inflows related to pension obligations and OPEB	278,976
Total deferred inflows of resources	278,976
<b>Net position</b>	
Invested in capital assets	71,482
Restricted	3,700,748,224
Total net position	\$ 3,700,819,706

*The accompanying notes are an integral part of these financial statements.*

# Florida Prepaid College Board

## Statement of Revenues, Expenses and Changes in Net Position – Enterprise Fund

<i>Year ended June 30, 2019</i>	<b>Florida Prepaid College Plan (Primary Government)</b>
<b>Operating revenues</b>	
Contract premiums	\$ 559,852,704
Increase in actuarial value of future contract premiums	209,215,782
Less refunds	(144,602,742)
Contract premiums, net	624,465,744
Application and other fees	2,379,098
Total operating revenues	626,844,842
<b>Operating expenses</b>	
Contract benefits	384,091,528
Increase (decrease) in actuarial value of future contract benefits	560,297,852
Administration	18,981,868
Total operating expenses	963,371,248
Operating income	(336,526,406)
<b>Non-operating revenues (expenses)</b>	
Investment income	1,088,336,012
Investment expense	(8,391,316)
Securities lending income	47,671,724
Securities lending expense	(44,668,259)
Other revenue	196,992
Total non-operating revenues (expenses)	1,083,145,153
<b>Change in net position</b>	746,618,747
<b>Net position, beginning of year</b>	2,954,200,959
<b>Net position, end of year</b>	\$ 3,700,819,706

*The accompanying notes are an integral part of these financial statements.*

# Florida Prepaid College Board

## Statement of Cash Flows – Enterprise Fund

<i>Year ended June 30, 2019</i>	<b>Florida Prepaid College Plan (Primary Government)</b>
<b>Cash flows from operating activities:</b>	
Receipts from contract purchasers	\$ 562,045,971
Payments to schools and others for contract obligations	(529,793,929)
Payments to employees, vendors and other consultants	(17,288,986)
Net cash provided by operating activities	14,963,056
<b>Cash flows from capital and related financing activities:</b>	
Purchase of fixed assets	(26,535)
Net cash used in capital and related financing activities:	(26,535)
<b>Cash flows from investing activities:</b>	
Purchases of investments	(12,635,703,007)
Net investment income	157,343,905
Proceeds from sales and maturities of investments	12,460,514,310
Net cash used in investing activities	(17,844,792)
<b>Increase in cash and cash equivalents</b>	<b>(2,908,271)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>11,076,178</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 8,167,907</b>

*The accompanying notes are an integral part of these financial statements.*



# Florida Prepaid College Board

## Statement of Cash Flows – Enterprise Fund

### (Continued)

<i>Year ended June 30, 2019</i>	Florida Prepaid College Plan (Primary Government)
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ (336,526,406)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	21,975
(Increase) decrease in:	
Future contract premiums and other receivables	(209,215,782)
Delinquent fees and contracts receivable	(4,282,789)
Due from other funds	(3,150,227)
Deposits and prepaid items	2,758
Increase (decrease) in:	
Accounts payable and accrued expenses	3,583,578
Due to other funds	3,927,782
Future contract benefits and expenses payable	560,297,852
Compensated absences payable	71,760
Net pension and OPEB liability	232,555
Net cash provided by operating activities	\$ 14,963,056
Non-cash investing, capital, and financing activities:	
Change in the fair value of investments	\$ 669,740,044

*The accompanying notes are an integral part of these financial statements.*

# Florida Prepaid College Board Statement of Fiduciary Net Position

	Private-Purpose Trust Funds			
	Florida 529 Savings Plan (Primary Government)	Florida ABLE, Inc. (Component Unit)	Stanley G. Tate Florida Prepaid College Foundation, Inc. (Component Unit)	Private - Purpose Trust Fund Total
<i>June 30, 2019</i>				
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 94,259	\$ 94,259
Investments	-	3,183,200	1,589,514	4,772,714
Due from State Agencies	-	-	-	-
Due from other funds	-	-	176,758	176,758
Other assets	-	244	-	244
<b>Restricted assets</b>				
Cash and cash equivalents	563,192	363,049	3,100,270	4,026,511
Investments	716,124,362	15,725,416	20,215,627	752,065,405
Accounts receivable	7,785	43,909	-	51,694
Investment trades receivable	17,254,162	26,002	-	17,280,164
Accrued interest and dividends receivable	2,370,425	10,049	-	2,380,474
Due from other funds	59,941	-	3,739,736	3,799,677
Other assets	-	-	-	-
Equipment, net of depreciation	3,002	-	-	3,002
<b>Total assets</b>	<b>736,382,869</b>	<b>19,351,869</b>	<b>28,916,164</b>	<b>784,650,902</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued expenses	1,522,036	339,976	12,895	1,874,907
Due to other funds	5,541	519	3,154,370	3,160,430
Due to beneficiaries	-	-	23,955,363	23,955,363
Investment trades payable	50,737,353	18,567	-	50,755,920
Compensated absences	15,882	-	-	15,882
<b>Total current liabilities</b>	<b>52,280,812</b>	<b>359,062</b>	<b>27,122,628</b>	<b>79,762,502</b>
<b>Long-term liabilities</b>				
Compensated absences	50,811	-	-	50,811
<b>Total liabilities</b>	<b>52,331,623</b>	<b>359,062</b>	<b>27,122,628</b>	<b>79,813,313</b>
<b>Net position</b>				
Held in trust for individuals and program administration	684,051,246	18,992,807	-	703,044,053
Held in trust for scholarships and other	-	-	1,793,536	1,793,536
<b>Total net position</b>	<b>\$ 684,051,246</b>	<b>\$ 18,992,807</b>	<b>\$ 1,793,536</b>	<b>\$ 704,837,589</b>

*The accompanying notes are an integral part of these financial statements.*

## Florida Prepaid College Board Statement of Changes in Fiduciary Net Position

	Private-Purpose Trust Funds			
	Florida 529 Savings Plan (Primary Government)	Florida ABLE, Inc. (Component Unit)	Stanley G. Tate Florida Prepaid College Foundation, Inc. (Component Unit)	Private - Purpose Trust Fund Total
<i>Year ended June 30, 2019</i>				
<b>Additions</b>				
Contributions	\$ 84,612,058	\$ 8,646,370	\$ 3,595	\$ 93,262,023
Governmental support	-	1,624,500	-	1,624,500
Investment income	40,727,845	952,822	654,923	42,335,590
Application and other fees	3,499,905	-	61,850	3,561,755
Other income	67	32,787	1,804	34,658
Total additions	128,839,875	11,256,479	722,172	140,818,526
<b>Deductions</b>				
Payments in accordance with trust agreements	45,523,194	2,495,162	-	48,018,356
Scholarships	-	-	192,750	192,750
Administration expense	6,287,512	1,762,124	136,253	8,185,889
Total deductions	51,810,706	4,257,286	329,003	56,396,995
Change in net position held in trust for individuals and program administration	77,029,169	6,999,193	-	84,028,362
Change in net position held in trust for scholarships and other	-	-	393,169	393,169
Total change in net position held in trust	77,029,169	6,999,193	393,169	84,421,531
Net position, beginning of year	607,022,077	11,993,614	1,400,367	620,416,058
Net position, end of year	\$ 684,051,246	\$ 18,992,807	\$ 1,793,536	\$ 704,837,589

*The accompanying notes are an integral part of these financial statements.*

**NOTE 1 – ORGANIZATION AND PURPOSE**

***Description of the Reporting Entity***

The Florida Prepaid College Board (the “Board”) is a corporate body considered a component unit of the State of Florida, administratively housed under the State Board of Administration (the “SBA”). The Board was created pursuant to Chapter 1009.971(1) of the Florida Statutes to administer the Stanley G. Tate Florida Prepaid College Program (the “Prepaid Plan”) and the Florida 529 Savings Plan (the “Savings Plan”).

The legislation which created the Prepaid Plan was passed in 1987 and the Prepaid Plan was implemented in fall 1988. The Prepaid Plan was created to provide a medium through which the cost of a state postsecondary education may be paid in advance of enrollment at a rate lower than the projected corresponding cost at the time of actual enrollment. The Prepaid Plan is authorized by Chapter 1009.98 of the Florida Statutes and governed by Board Rules. The State of Florida (the “State”) guarantees to meet the obligations of the Prepaid Plan for qualified beneficiaries if funds in the Prepaid Plan are insufficient. In the event that the State determines the Prepaid Plan to be financially infeasible, the State may discontinue the provisions of the Prepaid Plan. If discontinued, any qualified beneficiary who has been accepted by, and is enrolled in, or is within five years of enrollment at, a state college, university or postsecondary institution, (or other institution as specified in the contract), would be able to exercise the complete benefits of the Prepaid Plan. All other contract holders would receive a refund with an additional amount for interest at prevailing rates.

The legislation which created the Savings Plan was passed in 2000 and the Savings Plan was implemented in fall 2002, to provide a vehicle whereby participants can save for qualified educational expenses. The Savings Plan is authorized by Chapter 1009.981 of the Florida Statutes and is also governed by Board Rules. Participant contributions are collected and invested in accordance with Savings Plan provisions and participant direction. Savings Plan provisions clearly state that the participant contributions are solely the debt of the Savings Plan and not the debt of the State. Participants retain ownership of all amounts on deposit with the Savings Plan, up to the dates of distribution on behalf of designated beneficiaries. Participant contributions and the earnings derived therefrom are held in trust for the participants.

The Savings Plan will continue in existence until it is terminated by law. Upon termination of the Savings Plan, all deposits would be returned to the participants and any unclaimed assets in the Savings Plan would revert to the Stanley G. Tate Florida Prepaid College Foundation in accordance with general laws regarding unclaimed property of the Florida Prepaid College Board.

In evaluating the Board as a reporting entity, management has considered all potential component units (traditionally separate reporting entities) for which the Board may or may not be financially accountable and, if accountable, be included in the Board’s financial statements.

**NOTE 1 – ORGANIZATION AND PURPOSE (CONTINUED)**

***Description of the Reporting Entity (Continued)***

The accompanying financial statements present the financial position and changes in financial position of the Board's discretely presented component units, the Stanley G. Tate Florida Prepaid College Foundation, Inc. (the Foundation) and Florida ABLE, Inc. (ABLE). The Board is a legally separate organization from the Foundation and ABLE. However, the Board is financially accountable for the Foundation and ABLE. In accordance with governmental accounting standards, the Board (the primary government) is financially accountable if it appoints a majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit or to impose specific financial burden on the Board. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Board's analysis disclosed no other component units that should be included in the Board's financial statements.

<b>Component Unit</b>	<b>Justification for Inclusion in the Reporting Entity</b>	<b>Separate Financial Statements</b>
Foundation	The Board's chair and executive director jointly appoint a majority of the Foundation's board and is able to impose its will, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, on the Foundation.	Available upon request P.O. Box 1117 Tallahassee, Florida 32302 (850) 922-6740
ABLE	ABLE is closely related to the Board and warrants inclusion in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14.	Available upon request P.O. Box 1117 Tallahassee, Florida 32302 (850) 922-6740

The Foundation is a direct-support organization of the Board and is authorized by section 1009.984 of the Florida Statutes. The Foundation was incorporated under the provisions of chapter 617 and approved by the Secretary of State. The legislation was passed in 1989 and the Foundation was implemented in 1990. The Foundation administers the Stanley Tate Project STARS Scholarship Program (formerly the Florida Prepaid Tuition Scholarship Program) and other scholarship programs, on behalf of the Board. The Stanley Tate Project STARS Scholarship Program provides prepaid scholarships to economically disadvantaged, at-risk students.

During 2015, the Florida legislature passed the Florida Achieving a Better Life Experience Act. The state law established ABLE to administer the Florida ABLE Program. ABLE was established to offer savings and investment options to individuals with a disability and their families with disability related expenditures.

**NOTE 1 – ORGANIZATION AND PURPOSE (CONTINUED)**

***Description of the Reporting Entity (Continued)***

The accompanying financial statements do not include the funds and accounts of the State of Florida, and therefore, are not intended to present the financial position and the results of operations of the State of Florida in conformity with generally accepted accounting principles.

**NOTE 2 – BASIS OF PRESENTATION**

***Prepaid Plan***

Proprietary funds report activities generally financed and operated like private businesses and include enterprise funds and internal service funds.

Enterprise funds are used to report activities for which a fee is charged to external users for goods or services. The Prepaid Plan charges an actuarially determined price to contract purchasers. The contract price and investment earnings thereon are intended to be sufficient to provide for the future costs of the services provided. As such, the Prepaid Plan is accounted for as an enterprise fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. Operating revenues and expenses for the Prepaid Plan include the contract revenue and expenses associated with covered college tuition and fees, and dormitory housing fees. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Savings Plan, Foundation and ABLE***

Fiduciary fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments.

Private-purpose trust funds are used to report all trust arrangements, excluding those recognized in pension, investment trust or agency funds, under which principal and income benefit individuals, private organizations, or other governments. In determining the basis of presentation, management considered the definitions of each of the four fiduciary fund types as presented in Statement No. 34 of the Governmental Accounting Standards Board, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments and determined the private-purpose trust fund category to be most definitive of the funds representing the Savings Plan, Foundation and ABLE.

**NOTE 2 – BASIS OF PRESENTATION (CONTINUED)**

***Basis of Accounting***

These financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

Enterprise funds and fiduciary type funds use the economic resources measurement focus and thus, the accrual basis of accounting. Revenues are recognized as earned when prepaid plans are purchased and expenses are recognized when services or benefits are received.

The Foundation receives donations from donor organizations with instructions to purchase contracts from the Prepaid Plan for specified third-party beneficiaries. The Foundation has no discretion in determining the parties to be benefited and it must deliver the contracts to the specified beneficiaries. Receipt of those donations is not a contribution to the Foundation, nor is the delivery of the contracts considered an expense of the Foundation. The unexpended funds from the donors are classified as restricted assets, and amounts due to beneficiaries in the statement of fiduciary net position totaled \$23,955,363 at June 30, 2019.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Cash and Cash Equivalents***

Cash and cash equivalents include certain investments in highly liquid instruments with original maturities of three months or less when purchased. Cash equivalents held at Northern Trust are classified as investments in accordance with GASB 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

***Investments***

Investments are recorded at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are used to determine fair value. When no quoted market price is available, market prices are provided by the custodial bank's external pricing vendors, or alternative pricing source, such as investment managers, if information is not available from the primary vendors.

***Equipment***

Equipment is reported at historical cost and depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Repairs are expensed as incurred.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Revenue Recognition***

Prepaid tuition, fees and dormitory housing contracts are set up to be paid under either a lump-sum plan, a five-year monthly payment plan or a monthly payment plan. The lump-sum plan is a one-time payment when the child is enrolled in the Prepaid Plan. The five-year monthly payment plan provides for 55 equal monthly payments. The monthly payment plan provides for equal payments each month until the child enters college. Revenues are recognized as earned when plans are purchased. Additionally, contract premiums revenue includes the annual change in the actuarially determined net present value of existing contract payments to be received in the future.

***Delinquent Fees and Contracts Receivable***

Delinquent fees and contracts receivable are the total due as of June 30, 2019 on contract payments that are past due. Management considers these amounts fully collectible as any contracts that remain delinquent past six months are cancelled and all fees are deducted from contract payments already received prior to cancellation.

***Future Contract Premiums and Other Receivables***

Future contract premiums receivable represents the actuarially determined present value of future receipts on contracts existing as of June 30, 2019. Future other receivables represent the actuarially determined present value of future revenue receivable from late payments, non-sufficient funds fees, and cancellation fees due as of June 30, 2019.

***Future Contract Benefits and Expenses Payable***

Future contract benefits payable represents the actuarially determined present value of future contract benefit obligations of the Prepaid Plan. Future contract benefits payable includes return of payments, which is the actuarially determined present value of future cancellation refund payments to participants. Future expenses payable represents the actuarially determined present value of future administrative expenses of the Prepaid Plan.

***Deferred Outflows of Resources***

In addition to assets, the Statement of Net Position – Enterprise Fund reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources* represents a consumption of net assets by the Board that is applicable to a future reporting period. Employee contributions subsequent to the measurement date related to the employer's net pension liability are reported as *deferred outflows of resources* until the next measurement date.



**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Deferred Inflows of Resources***

In addition to liabilities, the Statement of Net Position – Enterprise Fund reports a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources* represents an acquisition of net assets by the Board that is applicable to a future reporting period. Net differences between projected and actual earnings on pension plan investments identified during the measurement period are deferred and amortized as a component of pension expense in future periods.

***Compensated Absences***

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

***Interfund Transactions***

During the course of normal operations, the Board engages in transactions between funds. These transactions are reflected as operating transfers or as interfund receivables and payables. Management's intent to reimburse a fund determines whether or not the interfund transaction is recorded as a transfer or a receivable.

***Income Taxes***

The Foundation is a non-profit organization, exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. ABLE is a non-profit organization, exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is shown in the accompanying financial statements.

***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Subsequent Events***

Subsequent events have been evaluated through the date of the independent auditors' report which is the date the financial statements were available to be issued.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Future Accounting Pronouncements***

The Governmental Accounting Standards Board has issued statements that will become effective during the year ending June 30, 2020. The statements address:

- GASBS No. 84 - *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2018;
- GASBS No. 90 - *Major Equity Interest – an amendment of GASB Statements No. 14 and No. 16* – effective for reporting periods beginning after December 15, 2018 with earlier adoption encouraged; and

The Board is currently evaluating the effects that these statements will have on its 2020 financial statements.

**NOTE 4 – DEPOSITS AND INVESTMENT RISK DISCLOSURES**

***Deposits***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Board or Foundation's deposits may not be returned to them. Cash deposits consisted of interest bearing and non-interest bearing demand accounts at two financial institutions which are entirely insured by the Federal Depositary Insurance Corporation or by collateral pursuant to The Florida Security for Public Deposits Act (the Act). The Act establishes guidelines for qualification and participation by banks and savings associations, procedures for the administration of the collateral requirements and characteristics of eligible collateral. Under the Act, the Board's cash deposits in qualified public depositories are totally insured. Deposits are presented in the basic financial statements at cost plus accrued interest which is also the market or fair value. In addition to cash deposits in operating accounts, cash was received as collateral for securities lent under the Security Lending Agreement. At June 30, 2019, the Prepaid Plan and the Savings Plan had \$7,892,851 and \$112,015, respectively, invested in short-term cash and cash equivalents that is not insured or collateralized under the Act. The Board believes the credit risk related to these balances is minimal.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (CONTINUED)

#### *Deposits (Continued)*

The amount of deposits held in foreign currency total the following at June 30, 2019:

	(\$ in thousands)	
	Prepaid Plan	Savings Plan
Australian dollar	\$ 13	\$ 2
British pound sterling	83	11
Euro currency unit	204	25
Hong Kong dollar	57	-
Israeli shekel	2	-
Japanese yen	956	67
Norwegian krone	58	7
Singapore dollar	96	-
Total deposits held in foreign currency (US \$)	\$ 1,469	\$ 112

#### *Investments*

Investments managed by the Board are reported at fair value in accordance with the Custody and Investment Management Pricing Guidelines established by the Board's custodian bank, Northern Trust. Northern Trust uses a variety of independent pricing sources and collects various price types from their pricing providers. Price types include official close, last traded, bid/offer and mid. In the event an asset does not receive its preferred price type, they consider the next highest price type received that exists in the price type hierarchy.

Provider hierarchy is the preferred order of providers Northern Trust uses to price major asset types by region of the world. Generally, the provider and price type hierarchies will remain unchanged as long as the providers' prices remain in line with market consensus and pre-assigned tolerance levels. However, during events of extreme market volatility or the availability of prices from alternative sources, it is possible that a winning price can be sourced from a provider lower in the hierarchy. It is for these reasons that Northern Trust reserves the right to change its provider or price type hierarchies on any given day.

Northern Trust will make reasonable attempts to obtain a price from an independent source. If no independent price source is available, an alternative price source may be used. Northern Trust will not actively solicit these sources and will use them only as the result of a price challenge. Investment Managers may submit a price challenge and where appropriate provide a price, source, pricing methodology or other relevant supporting information which can facilitate the independent pricing of the asset by recognized market vendors. The Board does not provide direction regarding the substitution of prices in instances where securities are in the portfolio of an investment manager appointed by the Board.

**Florida Prepaid College Board**  
**Notes to Financial Statements**

**NOTE 4 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (CONTINUED)**

***Custodial Credit Risk***

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2019, the following securities were uninsured and unregistered, with securities held by the counterparty, or by its trust department.

<b>Prepaid Plan</b> <b>(\$ in thousands)</b>		<b>Fair Value</b>
<b>Asset Category</b>		<b>June 30, 2019</b>
Certificates of deposit		\$ 1,073,086
Commercial paper		434,745
Repurchase agreements		593,000
International corporate bonds and notes (\$ denom)		20,049
Total invested security lending collateral		\$ 2,120,880

***Concentration of Credit Risk***

At June 30, 2019, the Prepaid Plan held no securities in excess of 5% of the total investment portfolio. At June 30, 2019, the Savings Plan held the following securities in excess of 5% of the total investment portfolio:

<b>(\$ in thousands)</b>		
<b>Issuance</b>	<b>Fair value</b>	<b>Percent of total investments</b>
<b>Savings Plan</b>		
Federal National Mortgage Association	\$ 62,032,790	8.66%

Investments with the Federal National Mortgage Association are not backed by the full faith and credit of the U.S. Government, but have special authority to borrow from the U.S. Treasury.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND INVESTMENT RISK DISCLOSURES (CONTINUED)

Investments of the Prepaid Plan at June 30, 2019 were as follows:

(\$ in thousands)	
Asset Category	Fair Value June 30, 2019
Money market funds	\$ 431,302
U.S. guaranteed obligations:	
U.S. Treasury bills	7,680
U.S. Treasury bonds and notes	520,527
U.S. Treasury strips	5,514,332
Index linked government bonds	135,091
U.S. government guaranteed asset backed	14,470
Ginnie Mae (GNMA) mortgage-backed pass-throughs	129,803
GNMA commitments to purchase (TBAs)	63,492
Federal agencies:	
Unsecured bonds & notes	33,697
Agency strips	652,084
Mortgage-backed pass-throughs (FNMA, FHLMC)	763,706
Mortgage-backed commitments to purchase (TBAs)	139,201
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBSs)	30,527
Domestic bonds & notes:	
Corporate	1,558,318
Asset-backed and mortgage-backed securities	207,795
Municipal/provincial	1,880
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBSs)	221,505
International bonds & notes (\$ denom)	
Government and agency	21,383
Corporate	218,208
Asset-backed and mortgage-backed securities	28,473
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBSs)	1,324
Domestic stocks	1,713,190
International stocks	478,399
Futures contracts (equity)	16
Total investments excluding lending collateral	12,886,403
Invested security lending collateral:	
Certificates of deposit	1,073,086
Commercial paper	434,745
Repurchase agreements	593,000
International corporate bonds and notes (\$ denom)	20,049
Total invested security lending collateral	2,120,880
Total investments - Prepaid Plan	\$ 15,007,283

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

Investments of the Savings Plan at June 30, 2019 were as follows:

(\$ in thousands)

Asset Category	Fair Value June 30, 2019
Money market funds	\$ 92,639
U.S. guaranteed obligations:	
U.S. Treasury bonds and notes	19,929
U.S. Treasury strips	6,294
Indexed linked government bonds	6,314
U.S. government guaranteed asset backed	375
Ginnie Mae (GNMA) mortgage-backed pass-throughs	5,863
GNMA commitments to purchase (TBAs)	15,150
Federal agencies:	
Agency strips	5,493
Mortgage-backed pass-throughs (FNMA, FHLMC)	35,862
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBs)	6,630
Mortgage-backed commitments to purchase (TBAs)	26,641
Domestic bonds & notes:	
Corporate	69,672
Asset backed and mortgage backed	17,033
Municipal/provincial	447
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBs)	16,552
International bonds & notes (\$ denom):	
Government and agency	1,108
Corporate	7,351
Asset-backed and mortgage-backed	15,350
Domestic stocks	304,202
International stocks	63,219
<b>Total investments - Savings Plan</b>	<b>\$ 716,124</b>

Investments of Florida ABLE, Inc. at June 30, 2019 were as follows:

(\$ in thousands)

Asset Category	Fair Value June 30, 2019
Money market fund	\$ 6,505
Commingled fixed income fund	4,308
Commingled domestic equity fund	6,059
Commingled international equity fund	2,037
<b>Total investments - Florida ABLE, Inc.</b>	<b>\$ 18,909</b>

The Foundation held \$21,805,141 in money market funds at June 30, 2019.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

#### *Credit Risk*

The Board's policy is that investments in debt obligations and preferred stock may not be rated less than Baa3/BBB– as established by Moody's, Standard & Poor's or Fitch. Any exceptions to the policy will be noted and a statement provided indicating the steps to be taken to bring the portfolio back into compliance with the policy. Securities rated below Baa are being actively managed with the intention of selling when value is deemed to be maximized. All investments are included in this schedule, including security lending collateral investments.

Ratings for investments are presented using primarily S&P credit ratings. If S&P did not provide a rating, or did not provide a rating with the greatest degree of risk, then Moody's ratings are presented, if available. If neither rating agency issued a rating, the security's rating is listed as "none." Long-term ratings are presented, except for "AAAm" and "A-1." The "AAAm" rating is the top S&P rating for money market funds. The "A-1" rating is a short-term rating by S&P. U.S. obligations and collateral for repurchase agreements which are explicitly guaranteed by the U.S. government do not require disclosure of credit quality.

The credit quality ratings of the Prepaid Plan investments are presented below:

(\$ in thousands)									Credit Rating	
Certificates of deposit	Commercial paper	Money market funds	Repurchase agreements	Federal agencies	Domestic bonds & notes	bonds & notes (\$ denom)	Total <sup>1</sup>		S&P <sup>1</sup>	Moody <sup>1</sup>
\$ -	\$ 434,745	\$ 431,302	\$ -	\$ -	\$ -	\$ -	\$ 866,047		A-1/AAAm	
-	-	-	875	6,331	229,405	16,878	253,489		AAA	
-	-	-	69,569	59,727	68,092	13,569	210,957		AA	
-	-	-	23,285	-	440,034	83,933	547,252		A	
-	-	-	75,622	-	782,618	123,757	981,997		BBB	
-	-	-	-	-	9,548	1,589	11,137		BB	
-	-	-	-	25,503	225,564	15,932	266,999			Aaa
-	-	-	-	321	14,710	-	15,031			Aa
-	-	-	1,262	-	24,301	1,954	27,517			A
-	-	-	6,808	-	129,004	5,073	140,885			Baa
-	-	-	-	-	45,601	5,528	51,129			Ba
1,073,086	-	-	176,731	1,527,333	20,621	21,224	2,818,995		None	None
<u>\$ 1,073,086</u>	<u>\$ 434,745</u>	<u>\$ 431,302</u>	<u>\$ 354,152</u>	<u>\$ 1,619,215</u>	<u>\$ 1,989,498</u>	<u>\$ 289,437</u>	<u>6,191,435</u>			
Repurchase agreements (collateralized by U.S. guaranteed obligations) <sup>2</sup>							238,848			
U.S. guaranteed obligations <sup>2</sup>							6,385,395			
Domestic stocks							1,713,190			
International stocks							478,399			
Futures contracts							16			
Total investments							<u>\$ 15,007,283</u>			

<sup>1</sup> S&P or Moody's ratings indicative of the greatest amount of credit risk are presented. If both ratings are the same, S&P ratings are reported. If only one of the two rating agencies provided a rating, that rating is reported. "None" is reported if neither rating agency provided a rating.

<sup>2</sup> U.S. obligations and collateral for repurchase agreements which are explicitly guaranteed by the U.S. government do not require disclosure of credit quality.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

#### *Credit Risk (Continued)*

The credit quality ratings of the Savings Plan investments are presented below:

(\$ in thousands)						Credit Rating	
Money market funds	Federal agencies	Domestic bonds & notes	International bonds & notes (\$ denom)	Total		S&P <sup>1</sup>	Moody's <sup>1</sup>
\$ 92,639	\$ -	\$ -	\$ -	\$ 92,639		AAAm	
-	-	18,135	5,463	23,598		AAA	
-	-	2,280	745	3,025		AA	
-	-	16,371	3,800	20,171		A	
-	-	35,881	3,520	39,401		BBB	
-	-	1,350	-	1,350		BB	
-	-	12,977	9,267	22,244			Aaa
-	176	-	-	176			Aa
-	-	1,460	201	1,661			A
-	-	8,811	193	9,004			Baa
-	-	2,781	-	2,781			Ba
-	74,450	3,658	620	78,728		None	None
<u>\$ 92,639</u>	<u>\$ 74,626</u>	<u>\$ 103,704</u>	<u>\$ 23,809</u>	<u>294,778</u>			
		U.S. guaranteed obligations <sup>2</sup>		53,925			
		Domestic stocks		304,202			
		International stocks		63,219			
		Total investments		<u>\$ 716,124</u>			

<sup>1</sup> S&P or Moody's ratings indicative of the greatest amount of credit risk are presented. If both ratings are the same, S&P ratings are reported. If only one of the two rating agencies provided a rating, that rating is reported. "None" is reported if neither rating agency provided a rating.

<sup>2</sup> U.S. obligations and collateral for repurchase agreements which are explicitly guaranteed by the U.S. government do not require disclosure of credit quality.



**NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)**

***Credit Risk (Continued)***

The credit quality ratings of Florida ABLE, Inc.'s investments are presented below:

(\$ in thousands)			Credit Rating	
Money market funds	Commingled fixed income fund	Total	S&P <sup>1</sup>	Moody's <sup>1</sup>
\$ 6,505	\$ -	\$ 6,505	AAAm	
-	4,308	4,308	None	None
<u>\$ 6,505</u>	<u>\$ 4,308</u>	<u>10,813</u>		
Commingled domestic equity fund		6,059		
Commingled international equity fund		2,037		
Total investments		<u>\$ 18,909</u>		

<sup>1</sup> S&P or Moody's ratings indicative of the greatest amount of credit risk are presented. If both ratings are the same, S&P ratings are reported. If only one of the two rating agencies provided a rating, that rating is reported. "None" is reported if neither rating agency provided a rating.

The Foundation held \$21,805,141 in money market funds at June 30, 2019 with an S&P rating of AAAM.

***Interest Rate Risk***

Through the Board's Comprehensive Investment Plan (CIP), the Board controls exposure to fair value losses arising from increasing interest rates by using an enhanced immunization style of management. This style of investment management means the liabilities of the Prepaid Plan will be immunized by structuring the assets in such a way that the value of the Prepaid Plan's assets increase (decrease) in conjunction with increases (decreases) in the value of its liabilities due to changes in interest rates. Certain investment types are managed using different techniques, such as effective duration method and the weighted average maturity method.

Certain investments are more sensitive to interest rate changes than others. These investments include collateralized mortgage obligations (CMOs) and commercial mortgage-backed securities (CMBs).

Examples of CMO securities that qualify as "highly interest rate sensitive" include interest-only (IO) and principal-only (PO) CMOs. IO and PO securities are transactions that involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by the mortgagors, which increase the value of a PO, while decreasing the value of an IO.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

#### *Interest Rate Risk (Continued)*

The Prepaid Plan's investments in IOs totaled \$14,094,868 at June 30, 2019. The Savings Plan's investments in IOs totaled \$113,743. These are included in the interest rate risk tables below in the CMOs & CMBSSs line in the Domestic Bonds & Notes section. Investment types related to debt portfolios are presented using the effective duration method. Investment types related to security lending transactions and money market funds are presented using the weighted average maturity.

The total duration of the Prepaid Plan fixed income portfolio should not differ from the total duration of the benchmark by more than 9 months for the active fixed income securities, and 3 months for the passive fixed income securities. The total duration of the Prepaid Plan fixed income portfolio, including cash, was 8.2 at June 30, 2019. The customized benchmark's duration for the Prepaid Plan was 8.1 at June 30, 2019.

As of June 30, 2019, the Prepaid Plan had the following debt securities subject to interest rate risk:

(\$ in thousands)				
Asset Category	Fair value (duration)	Effective weighted duration (in years)	Fair value (weighted average maturity)	Weighted average maturity (in days)
Certificates of deposit	\$ -	Not applicable	\$ 1,073,086	51
Commercial paper	-	Not applicable	434,745	38
Money market funds	-	Not applicable	431,302	1
Repurchase agreements	-	Not applicable	593,000	5
U.S. government guaranteed:				
U.S. Treasury bills	7,680	0.03	-	Not applicable
U.S. Treasury bonds & notes	520,527	5.55	-	Not applicable
U.S. Treasury strips	5,514,332	10.32	-	Not applicable
Index linked government bonds	135,091	9.15	-	Not applicable
U.S. government guaranteed asset-backed	14,470	6.50	-	Not applicable
Ginnie Mae (GNMA) mortgage-backed pass-throughs	129,803	3.83	-	Not applicable
GNMA commitments to purchase (TBA's)	63,492	3.73	-	Not applicable
Federal agencies:				
Unsecured bonds & notes	33,697	11.62	-	Not applicable
Agency strips	652,084	7.72	-	Not applicable
Mortgage-backed pass-throughs (FNMA, FHLMC)	763,706	3.92	-	Not applicable
Mortgage-backed commitments to purchase (TBAs)	139,201	4.28	-	Not applicable
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBSSs)	30,527	2.98	-	Not applicable
Domestic bonds & notes:				
Corporate	1,558,318	6.80	-	Not applicable
Municipal/provincial	1,880	13.86	-	Not applicable
Asset-backed and mortgage-backed securities	207,795	1.36	-	Not applicable
Collateralized mortgage obligations (CMOs) & Commercial mortgage-backed securities (CMBSSs)	221,505	5.62	-	Not applicable
International bonds & notes (\$ denom):				
Government and agency	21,383	5.80	-	Not applicable
Corporate	218,208	5.42	20,049	43
Asset-backed and mortgage-backed securities	28,473	(0.21)	-	Not applicable
Collateralized mortgage obligations (CMOs) & Commercial mortgage-backed securities (CMBSSs)	1,324	0.07	-	Not applicable
Total debt investments - Prepaid Plan	\$ 10,263,496		\$ 2,552,182	

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

As of June 30, 2019, the Savings Plan had the following debt securities subject to interest rate risk:

Asset Category	(\$ in thousands)			
	Fair value (duration)	Effective weighted duration (in years)	Fair value (weighted average maturity)	Weighted average maturity (in days)
Money market funds	\$ -	Not applicable	\$ 92,639	1
U.S. guaranteed obligations:				
U.S. Treasury bonds & notes	19,929	12.62	-	Not applicable
U.S. Treasury strips	6,294	25.37	-	Not applicable
Index linked government bonds	6,314	7.65	-	Not applicable
U.S. government asset backed	375	6.58	-	Not applicable
Ginnie Mae (GNMA) mortgage-backed pass-throughs	5,863	3.80	-	Not applicable
GNMA commitments to purchase (TBAs)	15,150	3.52	-	Not applicable
Federal agencies:				
Agency strips	5,493	10.73	-	Not applicable
Mortgage-backed pass-throughs (FNMA, FHLMC)	35,862	3.23	-	Not applicable
Mortgage-backed CMOs & CMBSs	6,630	4.94	-	Not applicable
Mortgage-backed commitments to purchase (TBAs)	26,641	4.84	-	Not applicable
Domestic bonds & notes:				
Corporate	69,672	7.33	-	Not applicable
Municipal/provincial	447	12.72	-	Not applicable
Asset backed and mortgage backed securities	17,033	1.88	-	Not applicable
Collateralized mortgage obligations (CMOs) & Commercial mortgage-backed securities (CMBSs)	16,552	3.17	-	Not applicable
International bonds & notes (\$ denom):				
Government and agency	1,108	11.61	-	Not applicable
Corporate	7,351	6.98	-	Not applicable
Asset-backed and mortgage-backed	15,350	(0.41)	-	Not applicable
Total debt investments - Savings Plan	\$ 256,064		\$ 92,639	

As of June 30, 2019, Florida ABLE, Inc. had the following debt securities subject to interest rate risk:

Asset Category	(\$ in thousands)			
	Fair value (duration)	Effective weighted duration (in years)	Fair value (weighted average maturity)	Weighted average maturity (in days)
Money market funds	\$ -	Not applicable	\$ 6,505	1
Commingled fixed income fund	4,308	6.00	-	Not applicable
Total investments - Florida ABLE, Inc.	\$ 4,308		\$ 6,505	

The Foundation held \$21,805,141 in money market funds at June 30, 2019 with daily liquidity.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

#### *Foreign Currency Risk*

Through the CIP, the Board hopes to reduce total portfolio volatility while enhancing total return through international diversification of the equity class. The Florida Prepaid Program's comprehensive investment plan limits investment in foreign equities to 25% of total equities, with the target for total equities to be 70% of the actuarial reserve. The Board seeks companies that are domiciled outside of the US equity market for inclusion in the international equity portfolio. The international equity portfolio will be measured against the MSCI EAFE (Europe, Australia, Far East) Index which is designed to measure the equity market performance of developed markets excluding US and Canada.

As of June 30, 2019, the Prepaid Plan held securities in the following currencies:

<b>Prepaid Plan</b> <b>(\$ in thousands)</b>		<b>Fair Value (in US \$)</b> <b>June 30, 2019</b>
<b>Foreign currency</b>		
Australian dollar	\$	38,730
British pound sterling		64,894
Danish krone		12,485
Euro currency unit		144,773
Hong Kong dollar		8,456
Japanese yen		96,986
New Zealand dollar		854
Norwegian krone		1,893
Singapore dollar		6,366
Swedish krona		9,370
Swiss franc		36,259
Total securities held in foreign currencies (US \$)	\$	421,066

As of June 30, 2019, the Savings Plan held securities in the following currencies:

<b>Savings Plan</b> <b>(\$ in thousands)</b>		<b>Fair Value (in US \$)</b> <b>June 30, 2019</b>
<b>Foreign currency</b>		
Australian dollar	\$	5,040
British pound sterling		8,402
Danish krone		1,622
Euro currency unit		18,754
Hong Kong dollar		1,100
Japanese yen		12,615
New Zealand dollar		111
Norwegian krone		249
Singapore dollar		819
Swedish krona		1,205
Swiss franc		4,695
Total securities held in foreign currencies (US \$)	\$	54,612

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)

A schedule of the Florida Prepaid Program's foreign currency exchange contracts at June 30, 2019, is presented below, by currency (in thousands):

Currency	Receivables	Payables	Net Receivables/ Payables	Net Unrealized Gain/(Loss)
Euro currency unit	\$ 147	\$ (203)	\$ (56)	\$ -
Hong Kong dollar	50	-	50	-
Japanese yen	-	(272)	(272)	
Norwegian krone	-	(202)	(202)	
U.S. dollar	677	(197)	480	-
Total	\$ 874	\$ (874)	\$ -	\$ -

A schedule of the Investment Plan's foreign currency exchange contracts at June 30, 2019, is presented below, by currency (in thousands):

Currency	Receivables	Payables	Net Receivables/ Payables	Net Unrealized Gain/(Loss)
Euro currency unit	\$ 19	\$ (27)	\$ (8)	\$ -
Hong Kong dollar	7	-	7	-
Japanese yen	-	(33)	(33)	
Norwegian krone	-	(26)	(26)	
U.S. dollar	86	(26)	60	-
Total	\$ 112	\$ (112)	\$ -	\$ -

### ***Securities Lending***

Under the provisions of the Securities Lending Authorization Agreement, the Board lends securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The types of securities lent include U.S. government agency bonds, U.S. government bonds, U.S. common stock, international common stock and U.S. corporate bonds. The Board's investment trustee manages the securities lending program and receives cash, certain governmental securities or irrevocable bank letters of credit as collateral from the borrower. The non-cash collateral cannot be pledged or sold by the Board unless the borrower defaults, so the non-cash collateral is not reported on the statement of net position.

**NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)**

***Securities Lending (Continued)***

U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value plus any accrued interest.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the Florida Prepaid College Board's loans was approximately 149 days as of June 30, 2019. Cash collateral is invested in a short-term investment pool, the Florida Prepaid Custom Fund, which had an interest rate sensitivity of 38 days as of June 30, 2019.

For the Florida Prepaid Plan, securities lent to others under security lending agreements with cash collateral had a fair value of \$2,085,925,708 and with securities collateral had a fair value of \$269,572,383 as of June 30, 2019. The Florida Prepaid Plan held \$2,127,637,152 in cash and \$274,861,065 in securities as collateral for the loans outstanding at June 30, 2019.

The Florida Prepaid College Board received cash as collateral for the securities lent to other borrowers. The cash collateral is invested in a short-term investment pool including asset backed securities, corporate bonds, certificates of deposit and repurchase agreements.

***Derivatives***

In the fiscal year ended June 30, 2019, the Florida Prepaid College Board began trading domestic stock futures to efficiently manage large cash flows and equitize residual cash flow resulting from corporate actions, dividends and interest, and changes made to the underlying index.

A futures contract is an agreement between a buyer and a seller to exchange a particular good for a particular price at a particular date in the future, all of which are specified in a contract common to all members in a market on an organized futures exchange. Upon entering into a futures contract, collateral (cash and/or securities) is deposited with the counterparty, in the Board's name, in accordance with the initial margin requirements of the counterparty. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. The frequency of cash flows depends on specified collateral and margin limits mutually agreed upon by the Board and third-party counterparty. Future contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Fiduciary Net Position. Losses may arise from future changes in the value of the underlying instrument.

**NOTE 4 – DEPOSITS AND RISK INVESTMENT DISCLOSURES (CONTINUED)**

***Derivatives (Continued)***

A summary of investment derivative contracts (in thousands) traded in the Prepaid Plan and the Investment Plan during the fiscal year is presented below. As of June 30, 2019, all of the derivatives were reported at fair value. Please note the Investment Plan did not carry any open futures contract positions at June 30, 2019, but traded equity futures during the fiscal year.

	Notional (in U.S. \$)	Increase/(Decrease) in Fair Value		Fair Value at June 30, 2019	
		Classification	Amount (in U.S. \$)	Classification	Amount (in U.S. \$)
Equity futures contracts:					
Prepaid Plan	\$ 1,030	Investment income	\$ 103	Investment	\$ 16
Investment Plan	\$ -	Investment income	\$ (13)	Investment	\$ -

***Risks and Uncertainties***

The Board's Comprehensive Investment Plan allows a maximum allocation of 50% to securitized debt obligations, including, but not limited to, mortgage pass-throughs and asset-backed securities within the Prepaid Plan's fixed income portfolio. As of June 30, 2019, the fixed income segment of the Prepaid Plan portfolio had an allocation of 14.37% for mortgage/asset backed securities. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

**NOTE 5 – FAIR VALUE MEASUREMENTS**

GASB 72, *Fair Value Measurement and Application*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for an asset or liability.

**NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)**

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using quoted prices at June 30 (or the most recent market close date if the markets are closed on June 30) in active markets from the custodian bank's primary external pricing vendors.

Debt securities classified as Level 2 are evaluated prices from the custodian bank's external pricing vendors. The pricing methodology involves the use of evaluation models such as matrix pricing, which is based on the securities' relationship to benchmark quoted prices. Other evaluation models use actual trade data, collateral attributes, broker bids, new issue pricings and other observable market information.

Equity securities classified as Level 2 are evaluated prices provided by the custodial bank's external pricing vendors, or alternative pricing source, such as investment managers, if information is not available from the primary vendors.

Debt and equity securities classified as Level 3 are prices from the custodial bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, broker bids, or cost. Cost or book value may be used as an estimate of fair value when there is a lack of an independent pricing source.

Certain investments, such as money market funds and repurchase agreements are not included in the tables below because they are carried at cost or amortized cost and not priced at fair value.



# Florida Prepaid College Board Notes to Financial Statements

## NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of investments at June 30, 2019 are as follows:

	Prepaid Plan (\$ in thousands)			
		Fair Value Measurements Using		
June 30, 2019	Fair Value	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities				
U.S. government guaranteed:				
U.S. Treasury bills	\$ 7,680	\$ -	7,680	\$ -
U.S. Treasury bonds and notes	520,527	-	520,527	-
U.S. Treasury strips	5,514,332	-	5,514,332	-
Index linked government bonds	135,091	-	135,091	-
Ginnie Mae (GNMA) mortgage backed pass throughs	129,803	-	129,803	-
GNMA mortgage backed commit to purchase (TBAs)	63,492	-	63,492	-
U.S. government guaranteed asset backed	14,470	-	14,470	-
Federal agencies:				
Unsecured bonds and notes	33,697	-	33,697	-
Agency strips	652,084	-	652,084	-
Mortgage-backed pass throughs (FNMA, FHLMC)	763,706	-	763,706	-
Mortgage-backed commit to purchase (TBAs)	139,201	-	139,201	-
Collateralized mortgage obligations (CMOs) and commercial mortgage-backed securities (CMBs)	30,527	-	30,527	-
Domestic bonds and notes:				
Corporate	1,558,318	-	1,558,318	-
Municipal/provincial	1,880	-	1,880	-
Asset backed and mortgage backed	207,795	-	207,795	-
Non-governmental CMO's and CMBs	221,505	-	221,505	-
International bonds and notes:				
Government and agency	21,383	-	21,383	-
Corporate	218,208	-	218,208	-
Asset-backed and mortgage-backed securities	28,473	-	28,473	-
Collateralized mortgage obligations (CMOs) & commercial mortgage-backed securities (CMBs)	1,324	-	1,324	-
Total debt securities	10,263,496	-	10,263,496	-
Equity securities				
Domestic stocks	1,713,190	1,713,190	-	-
International stocks	478,399	478,399	-	-
Futures contracts (equity)	16	16	-	-
Total equity securities	2,191,605	2,191,605	-	-
Securities lending collateral investments				
Certificates of deposit	1,073,086	-	1,073,086	-
Commercial paper	434,745	-	434,745	-
International corporate bonds and notes (\$ denom)	20,049	-	20,049	-
Total securities lending collateral investments	1,527,880	-	1,527,880	-
Total investments measured by fair value level	\$ 13,982,981	\$ 2,191,605	\$ 11,791,376	\$ -

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of investments at June 30, 2019 are as follows:

	Savings Plan (\$ in thousands)				
		Fair Value Measurements Using			
June 30, 2019	Fair Value	Level 1	Level 2	Level 3	
Investments by fair value level					
Debt Securities					
U.S. government guaranteed:					
U.S. Treasury bonds and notes	\$ 19,929	\$ -	\$ 19,929	\$ -	
U.S. Treasury strips	6,294	-	6,294	-	
Indexed linked government bonds	6,314	-	6,314	-	
U.S. government guaranteed asset backed	375	-	375	-	
GNMA mortgage backed pass throughs	5,863	-	5,863	-	
GNMA mortgage backed commit to purchase (TBAs)	15,150	-	15,150	-	
Federal agencies:					
Agency strips	5,493	-	5,493	-	
Mortgage-backed pass throughs	35,862	-	35,862	-	
Mortgage-backed CMOs & CMBSs	6,630	-	6,630	-	
Mortgage-backed commit to purchase (TBAs)	26,641	-	26,641	-	
Domestic bonds and notes:					
Corporate	69,672	-	69,672	-	
Municipal/provincial	447	-	447	-	
Asset backed and mortgage backed	17,033	-	17,033	-	
Non-governmental CMOs and CMBSs	16,552	-	16,552	-	
International bonds and notes:					
Government	1,108	-	1,108	-	
Corporate	7,351	-	7,351	-	
Asset-backed and mortgage-backed	15,350	-	15,350	-	
Total debt securities	256,064	-	256,064	-	
Equity securities					
Domestic stocks	304,202	304,202	-	-	
International stocks	63,219	63,219	-	-	
Total equity securities	367,421	367,421	-	-	
Total	\$ 623,485	\$ 367,421	\$ 256,064	\$ -	

Fair values of investments at June 30, 2019 are as follows:

		Florida ABLE, Inc. (\$ in thousands)			
June 30, 2019	Fair Value	Fair Value Measurements Using			
		Level 1	Level 2	Level 3	
Investments by fair value level					
Commingled fixed income fund	\$ 4,308	\$ 4,308	\$ -	\$ -	
Commingled domestic equity fund	6,059	6,059	-	-	
Commingled international equity fund	2,037	2,037	-	-	
Total	\$ 12,404	\$ 12,404	\$ -	\$ -	

**NOTE 6 – FUTURE CONTRACT BENEFITS AND EXPENSES PAYABLE**

The Prepaid Plan's future contract benefits and expenses payable represent the actuarially determined present value of future Prepaid Plan obligations. The following is a summary of the net assets and future contract benefits payable:

APV of future contract benefits and expenses payable	\$ 11,292,893,208
Net assets available (net of outstanding refund payments and unrealized gain/loss on securities lending portfolio)	\$ 14,990,000,000
Net assets as a percentage of future contract benefits and expense obligation	132.7%

The standard measurement is the actuarial present value (APV) of the future contract benefits and expenses obligation. The valuation method reflects the present value of estimated contract benefits and expenses that will be paid in future years and is adjusted for the effects of projected tuition and fees and dormitory housing fees increases and termination of contracts.

The net assets available represent assets in trust at market value and the future discounted contract payments adjusted for estimated cancellations. The following is a summary of changes in future contract benefits and expenses payable:

Net present value of future contract benefits and expenses payable at June 30, 2018	\$ 10,732,595,356
Payments for contract benefits including refunds	(528,694,270)
Increase in future contract benefits and expenses payable	1,088,992,122
Net present value of future contract benefits and expenses payable at June 30, 2019	11,292,893,208
Current portion	644,981,156
Long-term future contract benefits and expenses payable	\$ 10,647,912,052

**NOTE 6 – FUTURE CONTRACT BENEFITS AND EXPENSES PAYABLE (CONTINUED)**

House Bill 851 (HB 851) was passed during the 2014 Legislative Session and became law on July 1, 2014. The law reduces future costs at Florida Universities, allowing the Board to better predict Florida University tuition and fee costs covered by the Prepaid Plan. The law reduces the maximum annual increase of Tuition Differential Fees (TDF). The law also extends the applicability period of Section 1009.98(10), F.S., and limits the amount payable by the Board under the statute.

During the year ended June 30, 2015, the Board implemented a catch-up provision to supplement current inflation assumptions. The catch-up provision recognizes that recent lower-than-expected higher education costs may be partially or fully offset by future higher-than-expected higher education costs. The Board believes the use of a catch-up provision provides the following three benefits. First, a catch-up provision may reduce fluctuation in the actuarial adequacy as future estimates of higher education costs will be more stable. Second, the use of a catch-up provision separates the analyses of long-term inflation assumptions from shorter-term inflation policy. Third, a catch-up provision permits more frequent adjustments in response to changes in the shorter-term inflation policy.

The following assumptions were used in the actuarial evaluations:

- Weighted average rate of return: All funds accepted by the Program are assumed to be invested for an appropriate duration based on their expected payment timing. The investment rate reflects the expected rate of return on investments, including an estimated incremental return generated by fixed income funds management. The weighted average yield rate is calculated as 2.45% based on the June 30, 2019 U.S. Treasury Spot Rate Curve and adjusted by a 29.5 basis point incremental return assumption provided to the Board by Aon Hewitt Investment Consulting.

In computing investment earnings, all plan payments are assumed to occur at the end of the month and tuition and dormitory benefit payments are assumed to occur when due. Day-to-day Board expense payments are assumed to occur on a monthly basis.

- Tuition rates: For Florida University tuition plans and Florida University combined fee plans, the future projected cost of university tuition is equal to: 1) the sum of three components: matriculation, financial aid and Capital Improvement Trust Fund fees; and 2) a catch-up provision. The current year's matriculation fee is \$116.67 and is assumed to increase at an annual rate of 6.00% throughout the whole projection. Financial aid is calculated as 5.00% of the matriculation fee in all years. The current year's building and capital fee is \$5.23. The tuition rates used for academic year 2019/2020 are based on actual tuition rates as provided to the Board by the Board of Governors plus the catch-up provision (16.00%).

**NOTE 6 – FUTURE CONTRACT BENEFITS AND EXPENSES PAYABLE (CONTINUED)**

For Florida College tuition plans and Florida College combined fee plans, the future projected cost of tuition is equal to: 1) the sum of three components: tuition, financial aid and capital improvement fees; and 2) a catch-up provision. With respect to upper division (baccalaureate program) coursework at Florida Colleges, the current year's tuition fee is \$109.10 and is scheduled to increase at an annual rate of 6.75% limited to 95.00% of university tuition. With respect to lower division coursework at Florida Colleges, the current year's tuition fee is \$95.27 and is assumed to increase at an annual rate of 6.75% limited to 85.00% of university tuition. The tuition rates used for academic year 2019/2020 are based on actual tuition rates provided to the Board by the Department of Education plus the catch-up provision (14.50%).

- **Dormitory rates:** The 2019/2020 dormitory fees are \$3,229.63 per semester and are assumed to increase at 6.00% per annum. The dormitory rates used for academic year 2019/2020 are based on a weighted average of actual Florida University dormitory rates as provided to the Board by each Florida University plus the catch-up provision (6.00%).
- **Local fee rates:** For Florida University local fee plans, the projected rates are determined by assuming an annual inflation rate of 6.00% throughout the whole projection. The local fee rates used for the academic year are based on a weighted average of actual Florida University local fee rates as provided to the Board by the Board of Governors plus the catch-up provision (16.00%). For Florida College local fee plans, the annual local fee rates are set by each Florida College. The projected rates are based on an inflation rate of 6.75%. The local fee rates are based on a weighted average of actual local fee rates as provided to the Board by the Department of Education plus the catch-up provision (14.50%).
- **Tuition Differential Fees:** For Florida University TDF plans, the Board assumes that the inflation rate for preeminent Florida Universities will be 3.00% and the inflation rate for all other Florida Universities will be 0.00%. The annual rate of increase for TDF plans is calculated based on a pro-rata headcount methodology assuming three pre-eminent State Universities (FSU, UF, and USF). Based on this methodology, the calculated TDF inflation rate is 3.00% annually.

The sum of Florida University tuition, TDF and local fees will be capped on an absolute dollar basis at the national average as determined by the Education Estimating Conference.

The current exemption from any TDF, which exists for beneficiaries having prepaid tuition plans pursuant to 1009.98(2)(b), F.S., that were in effect on July 1, 2007 and remain in effect, is unchanged.

The TDF rate used for academic year 2019/2020 is based on a weighted average of actual TDF rates as provided to the Board by the Board of Governors.

**Florida Prepaid College Board**  
**Notes to Financial Statements**

**NOTE 7 – CHANGES IN LONG-TERM LIABILITIES**

The following table provides the long-term liability activity for the year ended June 30, 2019 (\$ in thousands):

<b>Long-term liabilities as of June 30, 2019</b>	<b>Beginning balance*</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance*</b>	<b>Amount due within 1 year</b>
Future contracts benefits and expenses payable	\$ 10,732,596	\$ 1,088,992	\$ (528,695)	\$ 11,292,893	\$ 644,981
Compensated absences	329	221	(149)	401	92
Net pension liability	1,832	477	(286)	2,023	13
Other post-employment benefits payable	493	25	(45)	473	8
<b>Total</b>	<b>\$ 10,735,250</b>	<b>\$ 1,089,715</b>	<b>\$ (529,175)</b>	<b>\$ 11,295,790</b>	<b>\$ 645,094</b>

\*Long-term liabilities include any related current liability balance. Amounts due in one year are classified as current liabilities on the Statement of Net Position.

**NOTE 8 – DUE TO BENEFICIARIES**

The Foundation receives donations from donors and purchases contracts for the donors' designated beneficiaries. The unexpended funds from these donors are classified as due to beneficiaries. The receipts and disbursements of the funds received are as follows:

Balance, June 30, 2018	\$ 19,046,593
Donations	18,961,707
Payments on behalf of donors	(14,052,937)
<b>Balance, June 30, 2019</b>	<b>\$ 23,955,363</b>

**NOTE 9 – CAPITAL ASSETS**

A summary of the changes in capital assets and related accumulated depreciation for the year ended June 30, 2019 is as follows:

	<b>Equipment</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Balance as of June 30, 2018	\$ 121,582	\$ (47,860)	\$ 73,722
Disposals	(9,004)	9,003	(1)
Purchases and depreciation expense	19,736	(21,975)	(2,239)
<b>Balance as of June 30, 2019</b>	<b>\$ 132,314</b>	<b>\$ (60,832)</b>	<b>\$ 71,482</b>

**NOTE 9 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense for the Prepaid Plan totaled \$21,975 for the year ended June 30, 2019 and is included in administration expenses on the Statement of Revenues, Expenses and Changes in Net Position.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS**

***Pension Plans***

All permanent Board employees are eligible to participate in the following cost-sharing multiple-employer defined benefit pension plans (Plans):

- Florida Retirement System Pension Plan
- Retiree Health Insurance Subsidy Program Pension Plan

As an alternative to the Florida Retirement System Pension Plan, employees may elect to participate in the Florida Retirement System Investment Plan (a defined contribution plan).

The Florida Department of Management Services (Department) is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems. For the fiscal year ended June 30, 2018, the Department issued a publicly-available, audited comprehensive annual financial report (CAFR) that includes financial statements, notes and required supplementary information for each of the pension plans which it administers. Detailed information about the plans is provided in the CAFR which is available online or by contacting the Department.

Copies of this report, as well as the plans' actuarial valuations, can be obtained from the Department of Management Services, Division of Retirement (Division), Bureau of Research and Member Communications, P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at 877-377-1737 or 850-488-5706; by email at [rep@dms.myflorida.com](mailto:rep@dms.myflorida.com); or at the Division's website ([www.frs.myflorida.com](http://www.frs.myflorida.com)).

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the Florida Department of Management Services. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***Defined Benefit Plans***

**The Florida Retirement System Pension Plan**

The Florida Retirement System (FRS) is a cost-sharing, multiple-employer public-employee retirement system with two primary plans – the FRS Defined Benefit Pension Plan (Pension Plan) and the FRS Investment Plan. The Florida Retirement System Pension Plan was created in Chapter 121, Florida Statutes (F.S.), effective December 1, 1970, by consolidating and closing these existing plans to new members: the Teachers' Retirement System (Chapter 238, F.S.), the State and County Officers and Employees' Retirement System (Chapter 122, F.S.), and the Highway Patrol Pension Trust Fund (Chapter 321, F.S.). In 1972, the Judicial Retirement System (Chapter 123, F.S.) was closed and consolidated into the FRS. The FRS was created to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide the Investment Plan as a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. The FRS Investment Plan is an integrated defined contribution plan administered by the State Board of Administration. Effective July 1, 2007, the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Program, established under Section 121.40, F.S., was consolidated under the FRS Pension Plan as a closed retirement plan. Participation in the IFAS Supplemental Retirement Program does not constitute membership in the FRS.

Chapter 121, F.S., also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class (SMSC) employed by the state, state elected officials who chose SMSC membership in lieu of Elected Officers' Class membership (EOC), and faculty and specified employees in the State University System and Florida College System institutions. Provisions relating to the FRS are also contained in Chapter 112, F.S.

***Membership***

FRS membership is compulsory for employees filling a regularly established position in a state agency, county agency, state university, state college, or district school board, unless restricted from FRS membership under Section 121.053 or Section 121.122, F.S., or allowed to participate in a non-integrated defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools, and metropolitan planning organizations, although optional, is generally irrevocable after election to participate is made. Members hired into certain positions may be eligible to withdraw from the FRS altogether or elect to participate in the non-integrated retirement programs in lieu of the FRS except faculty of a medical college in a state university who must participate in the State University Optional Retirement Program (SUSORP). Retirees initially reemployed in regularly established positions on or after July 1, 2010, may not participate in the FRS except for defined contribution plan retirees employed in a regularly established position on or after July 1, 2017. FRS Pension Plan retirees remain ineligible for renewed membership.



**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

Retirees of the FRS Investment Plan, the SUSORP, the State Community College System Option Retirement Program (SCCSORP), and the Senior Management Service Optional Annuity Program who are initially reemployed on or after July 1, 2010, and who are employed in a regularly established position on or after July 1, 2017, will be enrolled in the FRS Investment Plan, SUSORP, or SCCSORP based upon the position held as renewed members on or after July 1, 2017.

Retirees initially reemployed in regularly established positions on or after July 1, 2010, may not participate in the FRS except for defined contribution plan retirees employed in a regularly established position on or after July 1, 2017. FRS Pension Plan retirees remain ineligible for renewed membership.

There are five general classes of membership, as follows. The Board's employees are all included in one of the first two classes:

- *Regular Class* - Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* - Members in senior management level positions in state and local governments as well as assistant state attorneys, assistant statewide prosecutors, assistant public defenders, assistant attorneys general, deputy court administrators, and assistant capital collateral representatives. Members of the Elected Officers' Class (EOC) may elect to withdraw from the FRS or participate in the SMSC in lieu of the EOC.
- *Special Risk Class* - Members who are employed as law enforcement officers, firefighters, firefighter trainers, fire prevention officers, state fixed-wing pilots for aerial firefighting surveillance, correctional officers, emergency medical technicians, paramedics, community-based correctional probation officers, youth custody officers (from July 1, 2001 through June 30, 2014), certain health-care related positions within state forensic or correctional facilities, or specified forensic employees of a medical examiner's office or a law enforcement agency, and meet the criteria to qualify for this class.
- *Special Risk Administrative Support Class* - Former Special Risk Class members who are transferred or reassigned to nonspecial risk law enforcement, firefighting, emergency medical care, or correctional administrative support positions within an FRS special risk-employing agency.
- *Elected Officers' Class* - Members who are elected state and county officers and the elected officers of cities and special districts that choose to place their elected officials in this class.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

Beginning July 1, 2001, through June 30, 2011, the FRS Pension Plan provided for vesting of benefits after six years of creditable service for members working on or after July 1, 2001, and initially enrolled before July 1, 2011. Members not actively working in a position covered by the FRS Pension Plan on July 1, 2001, must return to covered employment for up to one work year to be eligible to vest with less service than was required under the law in effect before July 1, 2001. Members initially enrolled on or after July 1, 2011, vest after eight years of creditable service. Members are eligible for normal retirement when they have met the requirements listed below. Early retirement may be taken any time after vesting within 20 years of normal retirement age; however, there is a 5% benefit reduction for each year prior to the normal retirement age.

Regular Class, Senior Management Service Class, and Elected Officers' Class eligibility requirements for normal retirement are:

- For members initially enrolled in the FRS Pension Plan before July 1, 2011, six or more years of creditable service and age 62, or the age after completing six years of creditable service if after age 62. Thirty years of creditable service regardless of age before age 62.
- For members initially enrolled in the FRS Pension Plan on or after July 1, 2011, eight or more years of creditable service and age 65, or the age after completing eight years of creditable service if after age 65. Thirty-three years of creditable service regardless of age before age 65.

***Benefits***

The Florida Legislature establishes and amends the benefit terms of the FRS Pension Plan. Benefits under the FRS Pension Plan are computed based on age, average final compensation, creditable years of service, and accrual value per year by membership class. Members are also provided in-line-of-duty or regular disability and survivors' benefits. Pension benefits of eligible retirees and annuitants are increased each July 1 by a cost-of-living adjustment. If the member is initially enrolled in the FRS Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. This individually calculated annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. FRS Pension Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

The DROP became effective July 1, 1998, subject to provisions of Section 121.091(13), F.S. FRS Pension Plan members who reach normal retirement are eligible to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a maximum of 60 months. Authorized instructional personnel may participate in the DROP for up to 36 additional months beyond their initial 60-month participation period. Monthly retirement benefits remain in the FRS Trust Fund during DROP participation and accrue interest until the member terminates to finalize retirement. As of June 30, 2018, the FRS Trust Fund held in trust \$2,432,971,600 in accumulated benefits for interest for 36,001 current and prior participants in the DROP.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***Administration***

The Department of Management Services, Division of Retirement administers the FRS Pension Plan. The State Board of Administration invests the assets of the Pension Plan held in the FRS Trust Fund. Costs of administering the FRS Pension Plan are funded from earnings on investments of the FRS Trust Fund. Reporting of the FRS Pension Plan is on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

***Contributions***

All participating employers must comply with statutory contribution requirements. Section 121.031(3), F.S., requires an annual actuarial valuation of the FRS Pension Plan, which is provided to the Legislature as guidance for funding decisions. Employer and employee contribution rates are established in Section 121.71, F.S. Employer contribution rates under the uniform rate structure (a blending of both the FRS Pension Plan and Investment Plan rates) are recommended by the actuary but set by the Legislature. Statutes require that any unfunded actuarial liability (UAL) be amortized within 30 plan years. Pursuant to Section 121.031(3) (f), F.S., any surplus amounts available to offset total retirement system costs are to be amortized over a 10-year rolling period on a level-dollar basis. The balance of legally required reserves for the FRS Pension Plan at June 30, 2018 was \$161,196,880,609. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

The table below presents FRS retirement employer contribution rates. Rates indicated are uniform rates for all FRS members and include UAL contribution rates. These rates do not include a 1.66% contribution rate for the Retiree Health Insurance Subsidy (HIS) Program and a 0.06% assessment for the administration of the FRS Investment Plan and the educational program available to all FRS members. In addition, the July 1, 2018, statutory employer rates do not include the 3.00% mandatory employee contribution for all membership classes except for members in the DROP.

<b>Membership Class</b>	<b>Uniform Employer Rates Recommended by Actuarial Valuation for</b>	
	<b>Fiscal Year 2018- 2019</b>	<b>July 1, 2018 Statutory Rates (Ch. 121, F.S.)</b>
Regular	6.54%	6.54%
Senior Management Service	22.34%	22.34%
Special Risk	22.78%	22.78%
Special Risk Administrative Support	33.26%	33.26%
Elected Officers - Judges	39.05%	39.05%
Elected Officers - Legislators/Attorneys/Cabinet	55.03%	55.03%
Elected Officers - County	46.98%	46.98%
Deferred Retirement Option Program - applicable to members from all of the above classes or plans	12.37%	12.37%

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

Employee eligibility, benefits, and contributions by class are as previously described. Employees not filling regular established positions and working under the other personal services (OPS) or temporary status are not covered by the FRS.

The Board contributed \$175,443, \$144,033 and \$119,046 to the FRS Pension Plan during the years ended June 30, 2019, 2018, and 2017, respectively.

**Retiree Health Insurance Subsidy Program**

The HIS Program is a non-qualified cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. The Florida Legislature establishes and amends the benefit terms of the HIS program. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Department of Management Services, Division of Retirement. For the fiscal year ended June 30, 2019, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, F.S. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2019, the contribution rate was 1.66% of payroll pursuant to Section 112.363, F.S. The Board contributed \$28,281, \$25,661 and \$23,735 to the Plan during the years ended June 30, 2019, 2018 and 2017, respectively. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

**Pension Amounts for Defined Benefit Pension Plans**

***Net Pension Liability***

At June 30, 2019, the Board reported a total liability of \$2,023,086 for its proportionate share of the net pension liabilities of the defined benefit, multiple employer cost sharing pension plans.

The table below presents the fiduciary net position for each plan as well as the Board's proportion and proportionate share as of the Plan's measurement date of June 30, 2018:

	FRS Pension Plan	HIS	Total
Plan total pension liability (A)	\$ 191,317,399,000	\$ 10,816,575,623	
Plan fiduciary net position (B)	(161,196,880,609)	(232,463,369)	
Plan net pension liability (A-B)	\$ 30,120,518,391	\$ 10,584,112,254	
Fund's proportion	0.005053923%	0.004731790%	
Fund's proportionate share	\$ 1,522,268	\$ 500,818	\$ 2,023,086

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Pension Amounts for Defined Benefit Pension Plans (Continued)**

***Net Pension Liability (Continued)***

The Board's proportion of the net pension liability was based on contributions paid to the plans by the Board relative to the contributions paid by all participating employers. The table below shows the change in proportion since the prior measurement date:

	FRS Pension Plan	HIS
Board's proportion at prior measurement date, June 30, 2017	0.004573000%	0.004484873%
Board's proportion at measurement date, June 30, 2018	0.005053923%	0.004731790%
Increase/(decrease) in proportion	0.000480923%	0.000246917%

There is a known increase in the Board's permanent employee payroll covered by pension benefits as of June 30, 2019, as compared to the measurement date of June 30, 2018 that is projected to cause a significant increase of approximately 11% in the Board's proportionate share of the collective pension liability of both defined benefit pension plans. The resulting increase in employer pension contributions is projected to increase the Board's proportionate share of the FRS Pension Plan and HIS Pension Plan net pension liabilities by approximately \$182,000 and \$38,000, respectively, by June 30, 2019.

***Actuarial Methods and Assumptions***

The FRS Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The FRS Pension Plan's GASB Statement No. 67 valuation is performed annually. The HIS program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study of the FRS Pension Plan.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of the measurement date, of June 30, 2018, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***Actuarial Methods and Assumptions (Continued)***

Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at the statutorily required rates. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return and was applied to all periods of projected benefit payments to determine the total pension liability. The 7.00% rate of return assumption used in the June 30, 2018, calculations was determined by the consulting actuary, Milliman, to be reasonable and appropriate per Actuarial Standard of Practice Number 27 (ASOP 27). The 7.00% reported investment return assumption differs from the 7.40% investment return assumption chosen by the 2018 FRS Actuarial Assumption Conference for funding policy purposes, as allowable under governmental accounting and reporting standards.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.87% for the measurement date of June 30, 2018 was used to determine the total pension liability for the program. The source of the municipal bond rate is the Bond Buyer General Obligation 20-Bond Municipal Bond Index. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

There were no changes in benefit terms for either the FRS Pension Plan or HIS that affected the total pension liability since the prior measurement date. One change in benefit terms for the FRS Investment Plan in fiscal year 2017-2018 that affects the total FRS Pension Plan liability was the addition of in-line-of-duty death benefits for surviving spouses or dependent children of members in classes other than the Special Risk Class if the members' death occurred on or after July 1, 2002, for benefit payable on or after July 1, 2017. Also, eligibility was extended retroactively for the existing in-line-of-duty death benefits for Special Risk Class members from July 1, 2013 to July 1, 2002, for eligible survivors of FRS Pension Plan or Investment Plan members. There were no benefit changes between the measurement date and the reporting date which significantly impact the Fund's proportionate share of the net pension liability, deferred outflows, deferred inflows and pension expense for either the FRS Pension Plan or HIS.

The following changes in actuarial assumptions occurred in the year ended June 30, 2018:

- FRS Pension Plan: The long-term expected rate of return decreased from 7.10% to 7.00%. As of June 30, 2018, the inflation rate assumption remained at 2.60%, the real wage growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%.
- HIS: The municipal rate used to determine total pension liability increased from 3.58% to 3.87%.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***Actuarial Methods and Assumptions (Continued)***

The long-term expected rate of return of 7.00% on FRS Pension Plan investments was determined using a forward-looking capital market economic model, which includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	1.0%	2.9%
Fixed income	18.0%	4.4%
Global equity	54.0%	7.6%
Real estate (property)	11.0%	6.6%
Private equity	10.0%	10.7%
Strategic investments	6.0%	6.0%
	<u>100.0%</u>	

***Sensitivity Analysis***

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Board's proportionate share of each plan's net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at June 30, 2018.

<b><i>FRS Pension Plan</i></b>			<b><i>Health Insurance Subsidy</i></b>		
<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
<b>6.00%</b>	<b>Discount Rate</b>	<b>8.00%</b>	<b>2.87%</b>	<b>Discount Rate</b>	<b>4.87%</b>
<b>7.00%</b>			<b>3.87%</b>		
\$ 2,778,202	\$ 1,522,268	\$ 479,140	\$ 570,402	\$ 500,818	\$ 442,815



**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***Pension Expense and Deferred Outflows / (Inflows) of Resources***

In accordance with GASB Statement No. 68, paragraphs 54 and 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Changes in proportion and differences between contributions and proportionate share of contributions – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Differences between expected and actual earnings on pension plan investments – amortized over five years

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2018, was 6.4 years for FRS Pension Plan and 7.2 years for HIS. The Board's proportionate share of the components of collective pension expense and deferred outflows and inflows of resources reported in the pension allocation schedules for the fiscal year ended June 30, 2019, (measurement date of June 30, 2018) are presented on the next page for each plan.



**Florida Prepaid College Board**  
**Notes to Financial Statements**

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

<b>FRS Pension Plan</b>				
	<b>Recognized in expense reporting period ended June 30, 2019</b>	<b>Recognition Period</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Service cost	\$ 122,506	Current	\$ -	\$ -
Interest cost	649,324	Current	-	-
Effect of plan changes	-	Current	-	-
Effect of economic/demographic gains or losses (difference between expected and actual experience)	32,678	6.3 - 6.4 years	128,959	(4,680)
Effect of assumptions changes or inputs	(37,721)	6.3 - 6.4 years	497,403	-
Member contributions	(540,757)	Current	-	-
Projected investment earnings	117,983	Current	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	90,580	6.3 - 6.4 years	259,288	-
Net difference between projected and actual investment earnings	(83,964)	5 years	-	(117,614)
Contributions subsequent to the measurement date	-	1 year	175,443	-
Administrative expenses	1,020	Current	-	-
Immaterial adjustment to beginning balance due to OPEB implementation	464	Current	-	-
<b>Total</b>	<b>\$ 352,113</b>		<b>\$ 1,061,093</b>	<b>\$ (122,294)</b>

**Florida Prepaid College Board**  
**Notes to Financial Statements**

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

Health Insurance Subsidy				
	Recognized in expense reporting period ended June 30, 2019	Recognition Period	Deferred Outflows of Resources	Deferred Inflows of Resources
Service cost	\$ 12,230	Current	\$ -	\$ -
Interest cost	18,440	Current	-	-
Effect of plan changes	-	Current	-	-
Effect of economic/demographic gains or losses (difference between expected and actual experience)	1,034	7.2 years	7,667	(851)
Effect of assumptions changes or inputs	5,743	7.2 years	55,697	(52,951)
Member contributions	(11)	Current	-	-
Projected investment earnings	(345)	Current	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	28,990	7.2 years	127,362	-
Net difference between projected and actual investment earnings	166	5 years	302	-
Contributions subsequent to the measurement date	-	1 year	28,281	-
Administrative expenses	8	Current	-	-
<b>Total</b>	<b>\$ 66,255</b>		<b>\$ 219,309</b>	<b>\$ (53,802)</b>
<b>Total for all defined benefit pension plans</b>	<b>\$ 418,368</b>		<b>\$ 1,280,402</b>	<b>\$ (176,096)</b>

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Deferred outflows of resources related to contributions paid subsequent to the measurement date as shown in the tables above will be recognized as a reduction of the net pension liability in the reporting period ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

<i>Years ending June 30,</i>	<b>FRS Pension Plan Expense</b>	<b>HIS Expense</b>
2020	\$ 285,878	\$ 35,933
2021	203,025	35,880
2022	63,554	35,855
2023	119,215	30,354
2024	77,512	22,959
Thereafter	14,174	11,761
<b>Total</b>	<b>\$ 763,358</b>	<b>\$ 172,742</b>

#### ***Payables to the Pension Plans***

The Board reported payables of \$14,953 to the FRS and \$2,346 to the HIS Program as of June 30, 2019, for legally required contributions to the plans. The payables are included in accrued expenses as a current liability in the Statement of Net Position.

<i>Payable at June 30, 2019</i>	<b>FRS Pension Plan</b>	<b>HIS Pension Plan</b>
Employer pension contribution payable for defined benefit plan participants	\$ 10,855	\$ 1,616
Employer UAL and HIS pension contribution payables for FRS Investment Plan participants	4,098	730
<b>Total payables to defined benefit pension plans</b>	<b>\$ 14,953</b>	<b>\$ 2,346</b>

#### **Defined Contribution Programs**

##### **FRS Investment Plan**

The State Board of Administration administers the defined contribution plan officially titled the FRS Investment Plan. The Florida Legislature establishes and amends the benefit terms of the plan. Retirement benefits are based upon the value of the member's account upon retirement. The FRS Investment Plan provides vesting after one year of service regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the years of service required for vesting under the Pension Plan (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**FRS Investment Plan (Continued)**

The employer pays a contribution as a percentage of salary that is deposited into the individual member's account. Effective July 1, 2011, there is a mandatory employee contribution of 3.00%. The FRS Investment Plan member directs the investment from the options offered under the plan. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer assessment of 0.06% of payroll and by forfeited benefits of plan members. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the FRS Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Upon receiving a distribution, other than a de minimis distribution or required minimum distribution, the member is a retiree. Disability coverage is provided for total and permanent disability (non-duty or line of duty); the employer pays an employer contribution to fund the disability benefit which is deposited in the FRS Trust Fund. The member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the FRS Investment Plan and rely upon that account balance for retirement income. Survivor benefit coverage is provided to the surviving spouse or dependent children of members who die in line of duty; the employer pays an employer contribution to fund the survivor benefit which is deposited in the FRS Trust Fund. The member's account balance must be transferred to the FRS Pension Plan when approved for survivor benefits to receive guaranteed lifetime monthly benefits under the FRS Pension Plan for the surviving spouse or on behalf of the dependent children until the youngest unmarried dependent child reaches age 18, or up to age 25 if unmarried and enrolled as a fulltime student.

Effective July 1, 2017, Section 121.735, F.S. provides that allocations for in-line-of-duty death benefit coverage for members in the FRS Investment Plan be transferred monthly by the Department of Management Services, Division of Retirement from the FRS Contributions Clearing Trust Fund to the survivor benefit account of the Florida Retirement System Trust Fund. Contribution percentages, calculated as a percentage of each FRS Investment Plan member's gross compensation, during the fiscal year ended June 30, 2019, ranged from 0.05% for the Regular Class to 1.15% for the Special Risk Class. These contributions are paid by the employer and included in the gross pension contribution percentages for FRS Investment Plan members.

**Pension Amounts for the FRS Investment Plan**

During the fiscal year ended June 30, 2019, the Board recognized \$20,543 in pension expense related to the FRS Investment Plan, and employee contributions totaled \$15,941. As of June 30, 2019, the Board reported a current liability of \$1,706 for the June 2019 employer contributions to be paid to employee accounts in the following month, as per statutory contribution requirements. This liability is included in accrued expenses as a current liability on the Statement of Net Position.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Pension Amounts for the FRS Investment Plan (Continued)**

Blended rates paid by the Board for employees participating in the FRS Investment Plan include required contributions paid to the Health Insurance Subsidy (HIS) Program Pension Plan, the unfunded actuarial liability (UAL) contributions to the FRS Pension Plan, disability fees (also paid into the FRS Pension Plan), contributions to defined contribution participant accounts, and administrative fees. Amounts paid into the two defined benefit pension plans are already included in the net pension liability for those plans. Forfeiture amounts for the Board are not available, as forfeitures are used only to offset the overall administrative cost of the defined contribution plan and the amount attributable to reducing the Board's administrative expenses is unknown.

A schedule of employer contributions in the FRS Investment Plan is presented below:

<b>FRS Investment Plan expenses</b>	<b>Year Ended June 30, 2019</b>	<b>Payable at June 30, 2019</b>
Gross pension employer contribution	\$ 78,575	\$ 6,560
Less contributions to HIS Pension Plan	(8,821)	(730)
Less UAL contributions to FRS Pension Plan	(47,276)	(3,964)
Less disability fees and in-line-of duty fees	(1,616)	(134)
Less administrative fees	(319)	(26)
<b>Totals</b>	<b>\$ 20,543</b>	<b>\$ 1,706</b>

**Other Postemployment Benefits (OPEB)**

The Board follows GASB Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

**General Information about the OPEB Plan**

*Plan Description.* The Board participates in the State Employees' Health Insurance Program, a multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, which provides healthcare benefits to retired state and university employees in accordance with Section 110.123, Florida Statutes (F.S.). Pursuant to the provisions of Section 112.0801, F.S., all public employers (including the Board) that offer benefits through a group insurance plan shall allow their retirees and their eligible dependents the option to continue participation in the plan during retirement. As a part of normal retirement, a retiree has 60 days after separation to elect post-retirement health coverage. After 60 days, they are no longer entitled to benefits to provide group health benefits. A retiree is defined as any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a "retiree" if he or she meets the age and service requirements to qualify for normal retirement or

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**General Information about the OPEB Plan (Continued)**

has attained the age of 59.5 years and has the years of service required for vesting. The law also requires the claims experience of the retirees under 65 age group to be combined with the claims experience of active employees for premium determination and the premium offered to retired employees to be no more than the premium applicable to active employees. As a result, the Board subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Florida Legislature. The Board's benefit payments are approved in the Board's budget each fiscal year as adopted by Board Trustees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

**Benefits Provided**

The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are also eligible for medical coverage. All non-OPS employees of the Fund are eligible to receive postemployment health care benefits. Four types of health plans are offered to eligible participants:

- Standard statewide Preferred Provider Organization (PPO).
- High Deductible PPO Plan
- Standard Health Maintenance Organization (HMO) Plan
- High Deductible HMO Plan

HMO coverage is available only to those retirees who live or work in the HMO's service area. The four PPO and HMO options are considered managed-care plans and have specific provider networks.

**Employees Covered by Benefit Terms**

At July 1, 2017, the total number of OPEB Plan employees covered by the benefit terms were as follows:

Active Plan Members	137,962
No Coverage Active Plan Members	15,658
Retired and Inactive Plan Members	37,046
<b>Total eligible members</b>	<b>190,666</b>

There are currently zero inactive plan members entitled to but not yet receiving benefits because the Sponsor does not provide a vested termination benefit.

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Contributions**

Retirees participating in the group insurance plans offered by the Fund are required to contribute 100% of the premiums. The Fund implicitly subsidizes the healthcare premium rates paid by the retirees by allowing them to participate in the same health plan offered to active employees. Retirees under age 65 pay the same premium amounts as applicable to active employees. Retirees over age 65 are included in the overall risk pool but pay a lesser premium amount than is applicable to active employees because Medicare is the primary payer. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

Note that the projected post-65 employee contributions for the fully-insured HMO plan are assumed to cover the entire cost of the program.

**Total OPEB Liability**

As of June 30, 2019, the State reported a total OPEB liability of \$10,551,552,000 of which the Board reported \$473,462 for its proportionate share of the total OPEB liability measured as of June 30, 2018. The table below presents the Fund's proportion and change in proportion since the prior measurement date:

	<b>Board</b>
Proportion at prior measurement date, June 30, 2017	0.00456%
Proportion at measurement date, June 30, 2018	0.00449%
Increase / (Decrease) in proportion	-0.00007%

**Actuarial Assumptions and Other Inputs**

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2017 (valuation updated)
Measurement date	June 30, 2018
Actuarial cost method	Entry age normal
Amortization method	The recognition period for the changes in assumption and proportionate share is 8 years
Actuarial value of assets	N/A
Inflation	2.60%
Salary increases	Varies by FRS Class
Discount rate	3.87%

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Total OPEB Liability (Continued)**

Healthcare cost trend rates	7.8% and 5.2% for PPO and HMO, respectively for FY17 to FY18, increasing to 10.6% and 8.0% by 2022, then decreasing by 0.9% and 0.5% each year until 2027, then decreasing gradually for both plans by up to 0.1% per year to an ultimate rate of 3.8% for 2076 and later years.
Retirees' share of benefit- related costs	100% of projected health insurance premiums for retirees
Medical aging factors	4% per year prior to age 65 3% per year between ages 65 and 75 2% per year between ages 75 and 85 0% per year thereafter
Marital status	80% assumed married, with male spouses 3 years older than female spouses
Health care participation (HMO)	50% participation assumed, with 25% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.
Health care participation (PPO)	50% participation assumed, with 35% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index as published by the Federal Reserve.

Mortality rates were based on the Generational RP-2000 with Projected Scale BB. Disabled mortality has not been adjusted for mortality improvements.



**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Total OPEB Liability (Continued)**

The demographic actuarial assumptions for retirement, disability, withdrawal and salary merit scales used in the June 30, 2017 OPEB valuation were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2014, adopted by the Florida Retirement System July 1, 2016 Actuarial Valuation. Comparing with the previous valuation as of July 1, 2015, all the demographic assumptions remain unchanged except active mortality which was based on the Generational RP-2000 with Projected Improvement Scale BB and updated using the rates mandated by Chapter 2015-157, Laws of Florida, which amended Chapter 112.63, Florida Statutes for pension plans. The overall effect of the mortality change was an increase in the actuarial liability and normal cost.

The healthcare trend rates for the first five years used in the valuations were consistent with the Report on the Financial Outlook for the Fiscal Years Ending June 30, 2017 through June 30, 2023 as presented on August 3, 2017 at the Self-Insurance Estimating Conference. The long-term healthcare trends were generated by the Getzen Model, but no longer reflect the potential impact of the excise tax due to its uncertainty. The actuarial liability increased, and normal cost decreased slightly due to the changes in healthcare trend rate assumptions.

Retirees participating in the group insurance plans offered by the State of Florida (and the Fund) are required to contribute 100% of the premiums. Retiree contributions were not as high as expected based on the expected increases from July 1, 2015 to July 1, 2017. As such, the net implicit subsidy gap further widened and costs increased during this time.

**Changes in the Board's Total OPEB Liability**

The Board's changes in total OPEB liability for the fiscal year are presented below.

	Total OPEB Liability
<b>Balance at June 30, 2018</b>	<b>\$ 492,624</b>
Changes:	
Service cost	20,191
Interest	17,949
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(38,151)
Employer benefit payments	(10,512)
Changes in proportional share	(8,639)
Net changes	(19,162)
<b>Balance at June 30, 2019</b>	<b>\$ 473,462</b>

**NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following table demonstrates the sensitivity of the Board's proportionate share of the total OPEB liability to changes in the discount rate. The sensitivity analysis shows the impact to the Board's proportionate share of the total OPEB liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate:

	1% decrease (2.87%)	Current discount rate (3.87%)	1% Increase (4.87%)
Board's proportionate share of the total OPEB liability	\$ 575,834	\$ 473,462	\$ 393,782

**Sensitivity of the Board's Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.**

The following table presents the Board's proportionate share of the total OPEB liability to changes in the healthcare cost trend rates. The sensitivity analysis shows the impact to the Board's proportionate share of the total OPEB liability if the healthcare cost trend rates were 1.00% higher or 1.00% lower than the current healthcare cost trend rates:

	1% decrease	Current healthcare cost trend rates *	1% Increase
Board's proportionate share of the total OPEB liability	\$ 383,013	\$ 473,462	\$ 594,872

\* Please refer to the Healthcare Cost Trend Rates information presented above in the *Actuarial and Other Input Assumptions*.

## Florida Prepaid College Board Notes to Financial Statements

### NOTE 10 – PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

#### OPEB Expense and Deferred Outflows/(Inflows) of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the Board recognized OPEB expense of \$26,093. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions or other inputs	\$ -	\$ (95,321)
Changes in proportions and differences between Board benefit payments and proportionate share of benefits payments	23,137	(7,560)
Transactions subsequent to the measurement date	8,182	-
Total	\$ 31,319	\$ (102,881)

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date as shown in the table above will be recognized as a reduction of the total OPEB liability in the reporting period ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal years ending June 30,	Amount
2020	\$ (12,240)
2021	(12,240)
2022	(12,240)
2023	(12,240)
2024	(12,240)
Thereafter	(18,544)
Total	\$ (79,744)

### NOTE 11 – RELATED-PARTY TRANSACTIONS

The Foundation purchases Florida Prepaid College Plans from the Prepaid Plan on behalf of selected scholarship recipients. Florida Prepaid College Plans at a cost of \$14,052,937 were purchased during the year ended June 30, 2019.

**NOTE 11 – RELATED-PARTY TRANSACTIONS (CONTINUED)**

In accordance with 1009.986, Florida Statutes, the chair of the Florida Prepaid College Board serves on the Board of Directors of ABLE along with another appointee made by the Florida Prepaid College Board.

For the year ended June 30, 2019 the Florida Prepaid College Board provided certain administrative expenses to ABLE under a contractual agreement with no date of expiration or termination. Under this agreement, ABLE paid administration fees totaling \$225,000 to the Board for the year ended June 30, 2019.

**NOTE 12 – RISK MANAGEMENT**

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Board participates in the State Risk Management Trust Fund which provides property insurance coverage, casualty coverage for the risks of loss related to Federal civil rights and employment actions, workers' compensation, court-awarded attorney fees, automobile liability, and general liability insurance coverage.



## **REQUIRED SUPPLEMENTARY INFORMATION**



**Florida Prepaid College Board**  
**Cost-Sharing Multiple Employer Defined Benefit Pension Plans -**  
**Schedule of Board's Proportionate Share of Net Pension**  
**Liability and Related Ratios**  
**Last 10 Fiscal Years\***

	<b>Florida Retirement System Pension Plan<sup>1</sup></b>				
<b>Reporting period ended June 30,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Board's proportion of the net pension liability	0.005053923%	0.004573000%	0.004080519%	0.003496462%	0.002582428%
Board's proportionate share of the net pension liability	\$ 1,522,268	\$ 1,352,663	\$ 1,030,334	\$ 451,615	\$ 157,566
Board's covered payroll	\$ 1,545,491	\$ 1,429,562	\$ 1,141,348	\$ 960,352	\$ 857,376
Board's proportionate share of the net pension liability as a percentage of its covered payroll	98.50%	94.62%	90.27%	47.03%	18.38%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%	96.09%

<sup>1</sup>Changes in actuarial assumptions: The inflation rate assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return decreased from 7.10% to 7.00% effective for the reporting period ended June 30, 2019. The long-term expected rate of return decreased from 7.60% to 7.10% effective for the reporting period ended June 30, 2018.

	<b>Retiree Health Insurance Subsidy Program<sup>2</sup></b>				
<b>Reporting period ended June 30,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Board's proportion of the net pension liability	0.004731790%	0.004484873%	0.003697148%	0.003165491%	0.002885679%
Board's proportionate share of the net pension liability	\$ 500,818	\$ 479,543	\$ 430,887	\$ 322,830	\$ 269,818
Board's covered payroll	\$ 1,545,491	\$ 1,429,562	\$ 1,141,348	\$ 960,352	\$ 857,376
Board's proportionate share of the net pension liability as a percentage of its covered payroll	32.41%	33.54%	37.75%	33.62%	31.47%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	99.00%

<sup>2</sup>Changes in actuarial assumptions: The municipal rate used to determine total pension liability increased from 3.58% to 3.87% effective for the reporting period ended June 30, 2019. The municipal rate used to determine total pension liability increased from 2.85% to 3.58% effective for the reporting period ended June 30, 2018.

\* These schedules are intended to present information for 10 years. However, until a full 10-year trend is compiled, the Board is presenting information for those years for which information is available.

*See Independent Auditors' Report.*

**Florida Prepaid College Board**  
**Cost-Sharing Multiple Employer Defined Benefit Pension Plans**  
**Schedule of Board's Contributions**  
**Last 10 Fiscal Years\***

The tables below present the Board's contribution requirements as of the Plan's fiscal years:

<b>FRS Pension Plan</b>						
<b>Reporting period ended June 30,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Statutorily required contribution	\$ 175,443	\$ 144,033	\$ 119,046	\$ 99,511	\$ 85,247	\$ 58,115
Board's contributions in relation to the statutorily required contributions	(175,443)	(144,033)	(119,046)	(99,511)	(85,247)	(58,115)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered payroll	\$ 1,703,295	\$ 1,545,491	\$ 1,429,562	\$ 1,141,348	\$ 960,352	\$ 857,376
Contributions as a percentage of covered payroll	10.30%	9.32%	8.33%	8.72%	8.88%	6.78%

<b>Health Insurance Subsidy Pension Plan</b>						
<b>Reporting period ended June 30,</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Statutorily required contribution	\$ 28,281	\$ 25,661	\$ 23,735	\$ 18,949	\$ 12,100	\$ 10,289
Board's contributions in relation to the statutorily required contributions	(28,281)	(25,661)	(23,735)	(18,949)	(12,100)	(10,289)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered payroll	\$ 1,703,295	\$ 1,545,491	\$ 1,429,562	\$ 1,141,348	\$ 960,352	\$ 857,376
Contributions as a percentage of covered payroll	1.66%	1.66%	1.66%	1.66%	1.26%	1.20%

\* These schedules are intended to present information for 10 years. However, until a full 10-year trend is compiled, the Board is presenting information for those years for which information is available.

*See Independent Auditors' Report.*

**Florida Prepaid College Board**  
**Schedule of Board's Proportionate Share of the Total Other**  
**Postemployment Benefits Liability**  
**Last 10 Fiscal Years\***

<b>Reporting Period Ending June 30,</b>	<b>2019</b>	<b>2018</b>
Total OPEB Liability *	\$ 10,551,552,000	\$ 10,811,085,000
Board's proportion of the total OPEB liability	0.00449%	0.00456%
Board's proportionate share of the total OPEB liability	\$ 473,462	\$ 492,624
Board's covered-employee payroll	\$ 1,561,101	\$ 1,431,041
Board's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	30.33%	34.42%

This schedule is intended to present information for 10 years. However, until a full 10-year trend is compiled, the Board is presenting information for those years for which information is available.

\* The Total OPEB Liability amounts presented include only the OPEB liabilities of Employer 1, as reported in the actuary report, since the Board is considered to be part of Employer 1. The total OPEB liabilities of all employers were \$10,560,332,000 and \$10,820,060,000, for 2019 and 2018, respectively.

*See Independent Auditors' Report.*



**Florida Prepaid College Board**  
**Schedule of Changes in the Board's Total**  
**OPEB Liability and Related Ratios**  
**Last 10 Fiscal Years\***

<i>Reporting Period Ending June 30,</i>	<b>2019</b>	<b>2018</b>
<b>Changes for the year:</b>		
Service cost	\$ 20,191	\$ 26,396
Interest	17,949	16,540
Changes in benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions or other inputs	(38,151)	(82,498)
Benefit payments	(10,512)	(12,557)
Change in proportional share	(8,639)	30,849
<b>Net change in total OPEB liability</b>	<b>(19,162)</b>	<b>(21,270)</b>
<b>Total OPEB liability-beginning</b>	<b>492,624</b>	<b>513,894</b>
<b>Total OPEB liability-ending</b>	<b>\$ 473,462</b>	<b>\$ 492,624</b>
 <b>Covered-employee payroll</b>	 \$ 1,561,101	 \$ 1,431,041
 <b>Total OPEB liability as a percentage of covered-employee payroll</b>	 30.33%	 34.42%

**Notes to Schedule:**

The Division of State Group Insurance's Other Postemployment Benefits Plan (OPEB) does not have assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Potential factors that may significantly decrease/increase the Fund's total OPEB liability reported as of June 30, 2018 include discount rate, inflation rate, salary increases, payroll growth, healthcare inflation, retiree contribution increase rate, medical aging factors, healthcare participation, healthcare cost trends, mortality rates, and other demographic assumptions.

*Changes of benefit terms* : There have been no changes in benefit terms.

*Changes in discount rate:*

- Reporting period ended June 30, 2019: The discount rate changed from 3.58% as of the measurement date (MD) of June 30, 2018, to 3.87% as of June 30, 2019 (MD).

- Reporting period ended June 30, 2018: The discount rate changed from 2.85% for the opening balance as of June 30, 2017 (MD) to 3.58% as of June 30, 2018 (MD).

This schedule is intended to present information for 10 years. However, until a full 10-year trend is compiled, the Fund is presenting information for those years for which information is available.

*See Independent Auditors' Report.*



## OTHER REPORTS



**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**

Florida Prepaid College Board Members  
Tallahassee, Florida

We have audited the financial statements of the business-type activities, the fiduciary fund type and the discretely presented component unit of the Florida Prepaid College Board (the Board) as of and for the year ended June 30, 2019, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 9, 2019. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the Stanley G. Tate Florida Prepaid College Foundation, Inc. were not audited in accordance with the *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Board.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Board'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Florida Prepaid College Board'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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those in charge of governance.

Our consideration of the 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 have noted other matters pursuant to the Rules of the Auditor General, Chapter 10.550 that we have reported to the management of the Board in a separate letter dated December 9, 2019.

## **Purpose of this Report**

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

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Tallahassee, Florida

December 9, 2019

**MANAGEMENT LETTER PURSUANT TO CHAPTER 10.550,  
RULES OF THE AUDITOR GENERAL FOR LOCAL  
GOVERNMENTAL ENTITY AUDITS**

Florida Prepaid College Board Members  
Tallahassee, Florida

**Report on the Financial Statements**

We have audited the financial statements of the Florida Prepaid College Board, as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated December 9, 2019.

**Auditors' Responsibility**

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 and Chapter 10.550, Rules of the Auditor General.

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**Other Reports**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in the report, which is dated December 4, 2017, should be considered in conjunction with this management letter. Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

**Prior Audit Findings**

Section 10.554(1)(i)l., Rules of the Auditor, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. No findings and recommendations were made in the preceding annual financial audit report.

**Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is included in Note 1 of Notes to the Financial Statements.

### **Financial Condition**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether or not the Florida Prepaid College Board has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Florida Prepaid College Board did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Florida Prepaid College Board's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

### **Annual Financial Report**

Sections 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for the Florida Prepaid College Board for the fiscal year ended June 30, 2018, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2018. In connection with our audit, we determined the Florida Prepaid College Board does not file an annual financial report with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes. The Board's financial information is included in the report filed by the State Board of Administration for these purposes.

### **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies the Board of Directors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Tallahassee, Florida

December 9, 2019



## **REQUIRED COMMUNICATIONS**



As discussed with the Board of Directors and management during our planning process, our audit plan represented an approach responsive to the assessment of risk for the Board. Specifically, we planned and performed our audit to:

- Perform audit services, as requested by the Board of Directors, in accordance with Governmental Auditing Standards generally accepted in the United States of America, in order to express an opinion on the Board's financial statements for the year ended June 30, 2019;
- Communicate directly with the Board of Directors and management regarding the results of our procedures;
- Address with the Board of Directors and management any accounting and financial reporting issues;
- Anticipate and respond to concerns of the Board of Directors and management; and
- Other audit-related projects as they arise and upon request.



## Required Communications

We have audited the financial statements of Florida Prepaid College Board for the year ended June 30, 2019, and have issued our report thereon dated December 9, 2019. Professional standards require that we provide you with the following information related to our audit:

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<b>Auditors' responsibility under Government Auditing Standards</b>	<p>As stated in our engagement letter dated <b>September 11, 2019</b>, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.</p> <p>As part of our audit, we considered the internal control of the Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.</p>
<b>Client's responsibility</b>	<p>Management, with oversight from those charged with governance, is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with the applicable framework. Management is responsible for the design and implementation of programs and controls to prevent and detect fraud.</p>
<b>Planned scope and timing of the audit</b>	<p>Our initial audit plan was not significantly altered during our fieldwork.</p>
<b>Management judgments and accounting estimates</b> <i>The process used by management in forming particularly sensitive accounting estimates and the basis for the auditors' conclusion regarding the reasonableness of those estimates.</i>	<p>Please see the following section titled "Accounting Policies, Judgments and Sensitive Estimates &amp; CRI Comments on Quality."</p>
<b>Potential effect on the financial statements of any significant risks and exposures</b> <i>Major risks and exposures facing the Board and how they are disclosed.</i>	<p>No such risks or exposures were noted.</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Significant accounting policies, including critical accounting policies and alternative treatments within generally accepted accounting principles and the auditors' judgment about the quality of accounting principles</b></p> <ul style="list-style-type: none"> <li><i>The initial selection of and changes in significant accounting policies or their application; methods used to account for significant unusual transactions; and effect of significant policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</i></li> <li><i>The auditor should also discuss the auditors' judgment about the quality, not just the acceptability, of the Board's accounting policies as applied in its financial reporting. The discussion should include such matters as consistency of accounting policies and their application, and clarity and completeness of the financial statements, including disclosures. Critical accounting policies and practices applied by the Board in its financial statements and our assessment of management's disclosures regarding such policies and practices (including any significant modifications to such disclosures proposed by us but rejected by management), the reasons why certain policies and practices are or are not considered critical, and how current and anticipated future events impact those determinations;</i></li> <li><i>Alternative treatments within GAAP for accounting policies and practices related to material items, including recognition, measurement, presentation and disclosure alternatives, that have been discussed with client management during the current audit period, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; furthermore, if the accounting policy selected by management is not the policy preferred by us, discuss the reasons why management selected that policy, the policy preferred by us, and the reason we preferred the other policy.</i></li> </ul>	<p>See notes 2 and 3 of the notes to financial statements and the section entitled "Accounting Policies, Judgments and Sensitive Estimates &amp; CRI Comments on Quality."</p>

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Significant difficulties encountered in the audit</b>  <i>Any significant difficulties, for example, unreasonable logistical constraints or lack of cooperation by management.</i></p>	None.
<p><b>Disagreements with management</b>  <i>Disagreements, whether or not subsequently resolved, about matters significant to the financial statements or auditors' report. This does not include those that came about based on incomplete facts or preliminary information.</i></p>	None.
<p><b>Other findings or issues</b>  <i>Matters significant to oversight of the financial reporting practices by those charged with governance. For example, an entity's failure to obtain the necessary type of audit, such as one under Government Auditing Standards, in addition to GAAS.</i></p>	None.
<p><b>Matters arising from the audit that were discussed with, or the subject of correspondence with, management</b>  <i>Business conditions that might affect risk or discussions regarding accounting practices or application of auditing standards.</i></p>	None.
<p><b>Corrected and uncorrected misstatements</b>  <i>All significant audit adjustments arising from the audit, whether or not recorded by the Board, that could individually or in the aggregate have a significant effect on the financial statements. We should also inform the Board about uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Any internal control deficiencies that could have prevented the misstatements.</i></p>	Please see the following section titled "Summary of Audit Adjustments."

## Required Communications

MATTER TO BE COMMUNICATED	AUDITORS' RESPONSE
<p><b>Major issues discussed with management prior to retention</b></p> <p><i>Any major accounting, auditing or reporting issues discussed with management in connection with our initial or recurring retention.</i></p>	None.
<p><b>Consultations with other accountants</b></p> <p><i>When management has consulted with other accountants about significant accounting or auditing matters.</i></p>	None of which we are aware.
<p><b>Written representations</b></p> <p><i>A description of the written representations the auditor requested (or a copy of the representation letter).</i></p>	See "Management Representation Letter" section.
<p><b>Internal control deficiencies</b></p> <p><i>Any significant deficiencies or material weaknesses in the design or operation of internal control that came to the auditors' attention during the audit.</i></p>	See "Internal Control Findings" section.
<p><b>Fraud and illegal acts</b></p> <p><i>Fraud involving the Board's management, or those responsible for internal controls, or causing a material misstatement of the financial statements, where the auditor determines there is evidence that such fraud may exist. Any illegal acts coming to the auditors' attention involving the Board's management and any other illegal acts, unless clearly inconsequential.</i></p>	We are unaware of any fraud or illegal acts involving management or causing material misstatement of the financial statements.
<p><b>Other information in documents containing audited financial statements</b></p> <p><i>The external auditors' responsibility for information in a document containing audited financial statements, as well as any procedures performed and the results.</i></p>	<p>Our responsibility related to documents (including annual reports, websites, etc.) containing the financial statements is to read the other information to consider whether:</p> <ul style="list-style-type: none"> <li>• Such information is materially inconsistent with the financial statements; and</li> <li>• We believe such information represents a material misstatement of fact.</li> </ul> <p>We have not been provided any such items to date and are unaware of any other documents that contain the audited financial statements.</p>

## Accounting Policies, Judgments and Sensitive Estimates & CRI Comments on Quality

We are required to communicate our judgments about the quality, not just the acceptability, of the Board's accounting principles as applied in its financial reporting. We are also required to communicate critical accounting policies and sensitive accounting estimates. The Board may wish to monitor throughout the year the process used to compute and record these accounting estimates. The table below summarizes our communications regarding these matters.

AREA	ACCOUNTING POLICY	CRITICAL POLICY?	JUDGMENTS & SENSITIVE ESTIMATES	COMMENTS ON QUALITY OF ACCOUNTING POLICY & APPLICATION
Investments	<p>The Board follows the provisions of GASB 40, <i>Deposit and Investment Risk Disclosures</i>, when reporting investments.</p> <p>The Board's investment committee approves and maintains a comprehensive investment plan with established benchmarks, allowable investments, and other segment allocations to ensure a conservative investment strategy that maximizes earnings.</p>	X	<p>The Board relies on information from its investment custodian and managers for the asset values, credit ratings, investment earnings, and foreign currency translation.</p> <p>Compliance with the comprehensive investment plan is monitored by the Board's management, third-party investment managers, as well as, the overall investment advisor.</p>	The Board's policies are in accordance with all applicable accounting guidelines.
Future contract premiums and benefits	At June 30, 2018, the Board adjusted future contract premiums receivable and future contract benefits payable based on a report provided by a third-party actuary.	X	The Board relies on a third-party actuarial opinion for determining its estimates of the future contract premiums receivable and the future contract benefits payable at year end.	The Board's policies are in accordance with all applicable accounting guidelines.

## Summary of Audit Adjustments

During the course of our audit, we accumulate differences between amounts recorded by the Board and amounts that we believe are required to be recorded under GAAP. Those adjustments are either recorded (corrected) by the Board or passed (uncorrected).

There were no adjustments, either corrected or uncorrected, as a result of our audit procedures.

### QUALITATIVE MATERIALITY CONSIDERATIONS

In evaluating the materiality of audit differences when they do arise, we consider both quantitative and qualitative factors, for example:

- Whether the difference arises from an item capable of precise measurement or whether it arises from an estimate, and, if so, the degree of imprecision inherent in the estimate.
- Whether the difference masks a change in earnings or other trends.
- Whether the difference changes a net decrease in assets to addition, or vice versa.
- Whether the difference concerns an area of the Board's operating environment that has been identified as playing a significant role in the Board's operations or viability.
- Whether the difference affects compliance with regulatory requirements.
- Whether the difference has the effect of increasing management's compensation – for example, by satisfying requirements for the award of bonuses or other forms of incentive compensation.
- Whether the difference involves concealment of an unlawful transaction.





The Honorable John D. Rood  
Chairman

Chi's Kinsley  
Vice Chairman  
Chancellor Designee  
State University  
System of Florida

Kathy Hebda  
Chancellor  
Florida College System

W. Radford Lovett II  
Lovett Miller & Co.

Jimmy Patronis  
Chief Financial Officer  
State of Florida

James W. Rasmussen  
Banker (Ret.)

Adria D. Starkey  
FineMark National  
Bank & Trust

Kevin Thompson  
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December 9, 2019

Carr, Riggs & Ingram, LLC  
2633 Centennial Boulevard  
Suite 200  
Tallahassee, Florida 32308

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, business-type activities, and the discretely presented component units of the Florida Prepaid College Board, a component unit of the State of Florida, administratively housed under the State Board of Administration, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 9, 2019, the following representations made to you during your audit.

#### Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 11, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees,



and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 9) Guarantees, whether written or oral, under which the Florida Prepaid College Board is contingently liable, if any, have been properly recorded or disclosed.

### Information Provided

- 10) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the Florida Prepaid College Board from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Florida Prepaid College Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the Florida Prepaid College Board and involves—
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the Florida Prepaid College Board's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 17) We have disclosed to you the identity of the Florida Prepaid College Board's related parties and all the related party relationships and transactions of which we are aware.

### Government-specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.





- 20) The Florida Prepaid College Board has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 22) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 26) As part of your audit, you assisted with the preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 27) The Florida Prepaid College Board has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The Florida Prepaid College Board has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 30) The financial statements properly classify all funds and activities in accordance with [GASB Statement No. 34](#).
- 31) All funds that meet the quantitative criteria in [GASBS Nos. 34](#) and [37](#) for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 32) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 33) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 34) Provisions for uncollectible receivables have been properly identified and recorded.
- 35) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.



- 36) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 37) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 38) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 39) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 40) We have appropriately disclosed the Florida Prepaid College Board's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 41) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 42) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 43) With respect to the Schedule of Board's Proportionate Share of Net Pension Liability and Related Ratios as of Measurement Date, the Schedule of Board's Contributions, the Schedule of Board's Proportionate Share of the Total Other Postemployment Benefits Liability, and the Schedule of Changes in the Board's Total OPEB Liability and Related Ratios (collectively referred to as "the Schedules"):
  - a) We acknowledge our responsibility for presenting the Schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the Schedules, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Schedules have not changed from those used in the prior period where applicable, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b) If the Schedules are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

Signature: [Signature]

Title: Exec Dir

Signature: [Signature]

Title: DIRECTOR OF FINANCE AND INVESTMENTS



## **INTERNAL CONTROL RECOMMENDATIONS**

### The Board of Directors and Management of Florida Prepaid College Board

In planning and performing our audit of the financial statements of the business-type activities, the discretely presented component unit and fund information of Florida Prepaid College Board as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Florida Prepaid College Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Florida Prepaid College Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Florida Prepaid College Board's internal control.

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

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

This communication is intended solely for the information and use of management, Board of Directors, others within Florida Prepaid College Board, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

CARR, RIGGS & INGRAM, LLC

Tallahassee, Florida

December 9, 2019