REPORT NO. 2014-017
OCTOBER 2013

VALENCIA COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

	County
Maria C. Grulich, Vice Chair to 5-3-13, Chair from 5-4-13	Osceola
Lewis M. Oliver, III, Interim Vice Chair from 5-21-13 (1)	Orange
Bertica M. Cabrera Morris, Chair to 5-3-13 (2)	Orange
Jerry D. Buchanan	Orange
Guillermo Hansen	Osceola
Lori Kifer Johnson	Orange
Fernando J. Perez	Orange
Jo Quittschreiber (3)	Osceola

Dr. Sanford C. Shugart, President

Notes: (1) Vice Chair position was vacant from May 4, 2013, through May 20, 2013.
(2) Position remained vacant from May 4, 2013, through June 30, 2013.
(3) Board member served beyond the end of term May 31, 2012.

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

The audit team leader was James H. Cole, CPA, and the audit was supervised by Brenda C. Racis, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

VALENCIA COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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AUDITOR GENERAL

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FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Valencia College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit column. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valencia College and of its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
October 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2013, and June 30, 2012, and its component unit, Valencia College Foundation, Inc., for the fiscal years ended March 31, 2013, and March 31, 2012.

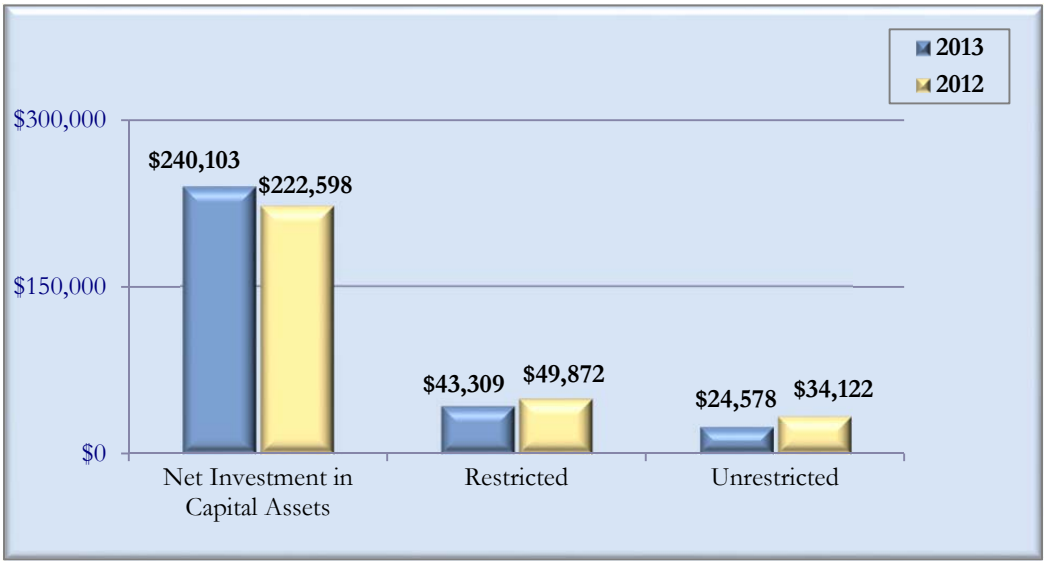
FINANCIAL HIGHLIGHTS

The College's assets totaled $336.5 million at June 30, 2013. This balance reflects a $3 million, or 0.9 percent, decrease as compared to the 2011-12 fiscal year, primarily resulting from the decrease in Public Education and Capital Outlay (PECO) receivables for new construction and physical plant maintenance. While assets decreased, liabilities decreased by a greater amount of $4.4 million, or 13.5 percent, totaling $28.6 million at June 30, 2013, compared to $33 million at June 30, 2012. Liabilities decreased primarily due to reductions in accounts payable and retainage payable. As a result, the College's net position increased by $1.4 million, resulting in a year-end balance of $308 million.

The College's operating revenues totaled $68.3 million for the 2012-13 fiscal year, representing a 3 percent increase as compared to the 2011-12 fiscal year, due mainly to a decrease in tuition scholarship allowances. Operating expenses totaled $238.8 million for the 2012-13 fiscal year, representing an increase of 3.3 percent as compared to the 2011-12 fiscal year, due mainly to a decrease in Pell scholarships offset by a reduction in scholarship allowances. Pell awards declined mainly due to the discontinuance of year-round Pell aid, beginning in the 2011-12 award year. However, the full effects of this programmatic change were not reflected until the 2012-13 fiscal year because expenses for the end of the 2010-11 award year, in which students were still eligible for year-round Pell, were recorded in the beginning of the 2011-12 fiscal year.

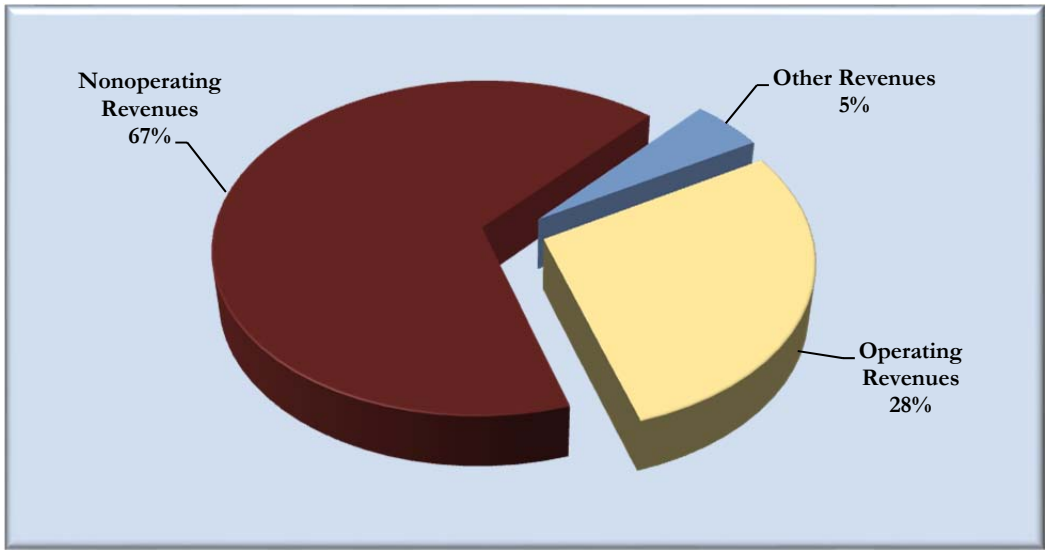
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

Net Position: College
(In Thousands)



The following chart provides a graphical presentation of College revenues by category for the 2012-13 fiscal year:

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

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

the State of Florida. The Foundation's fiscal year differs from the College and covers the period April through March.

THE STATEMENT OF NET POSITION

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

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

Condensed Statement of Net Position at
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	3-31-13	3-31-12
Assets				
Current Assets	$ 68,857	$ 81,320	$ 4,219	$ 5,427
Capital Assets, Net	245,153	228,118	6,274	3,137
Other Noncurrent Assets	22,538	30,150	57,843	55,559
Total Assets	336,548	339,588	68,336	64,123
Liabilities				
Current Liabilities	16,398	20,573	376	708
Noncurrent Liabilities	12,160	12,423		
Total Liabilities	28,558	32,996	376	708
Net Position				
Net Investment in Capital Assets	240,103	222,598	6,273	3,132
Restricted	43,309	49,872	60,432	56,759
Unrestricted	24,578	34,122	1,255	3,524
Total Net Position	$ 307,990	$ 306,592	$ 67,960	$ 63,415

Current assets decreased by $12.5 million and other noncurrent assets decreased by $8 million because of the cash invested toward the construction of Lake Nona Campus Building 1, Osceola Campus Building 4, and West Campus Building 10 during the 2012-13 fiscal year, which resulted in a corresponding increase in net capital assets. In addition, current liabilities decreased by $4.2 million primarily due to the reduction of retainage payable for these completed buildings.

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

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

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

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

	College		Component Unit	
	6-30-13	6-30-12	3-31-13	3-31-12
Operating Revenues	$ 68,261	$ 66,281	$ 3,065	$ 3,990
Less, Operating Expenses	238,805	231,138	3,700	3,131
Operating Income (Loss)	(170,544)	(164,857)	(635)	859
Net Nonoperating Revenues (Expenses)	160,137	161,319	5,180	(3,741)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(10,407)	(3,538)	4,545	(2,882)
Other Revenues	11,805	15,868		
Net Increase (Decrease) In Net Position	1,398	12,330	4,545	(2,882)
Net Position, Beginning of Year	306,592	294,262	63,415	66,297
Net Position, End of Year	$ 307,990	$ 306,592	$ 67,960	$ 63,415

Operating Revenues

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

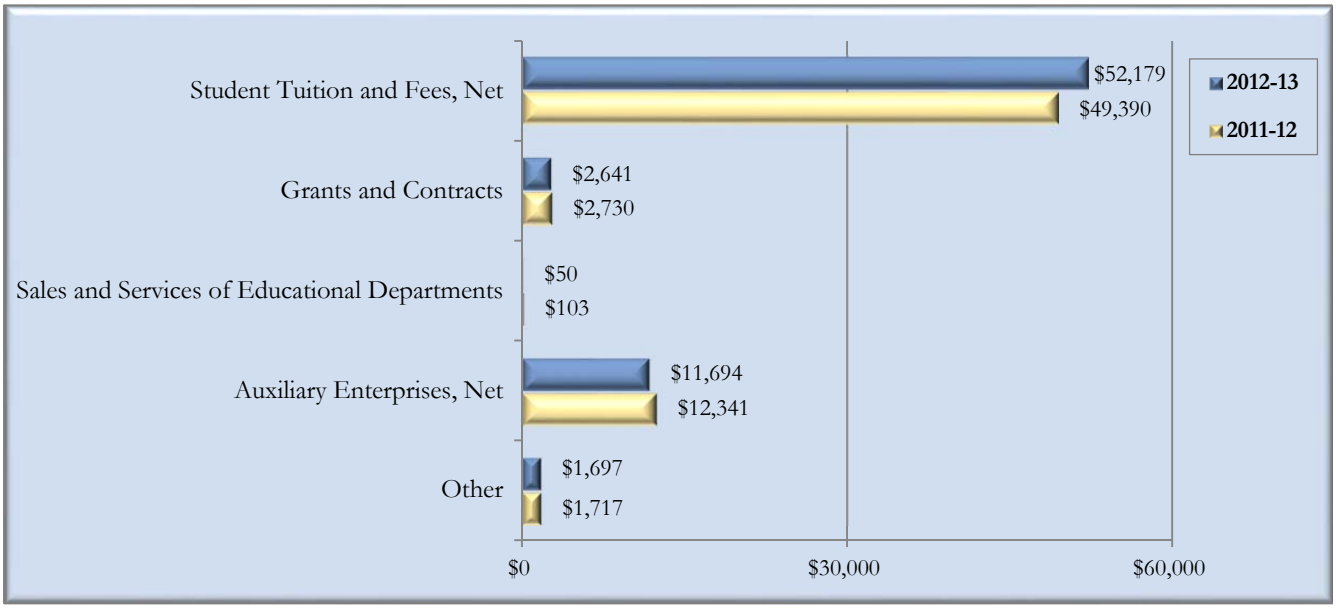
The following summarizes the operating revenues for the College and its component unit by the sources that were used to fund operating activities for the respective fiscal years ended:

Operating Revenues
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	3-31-13	3-31-12
Net Tuition and Fees	$ 52,179	$ 49,390	$	$
Grants and Contracts	2,641	2,730	2,214	3,103
Sales and Services of Educational Departments	50	103		
Auxiliary Enterprises (Net)	11,694	12,341		
Other	1,697	1,717	851	887
Total Operating Revenues	$ 68,261	$ 66,281	$ 3,065	$ 3,990

The following chart presents the College's operating revenues for the 2012-13 and 2011-12 fiscal years ended:

Operating Revenues: College
(In Thousands)



Total operating revenues increased by $2 million, or 3 percent, primarily due to an increase in student tuition as a result of a decrease in the amount of student tuition scholarship allowances. A decrease in the allowance amount indicates a greater proportion of tuition was paid by the student, or a third party on behalf of the student, instead of a scholarship award.

Operating Expenses

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

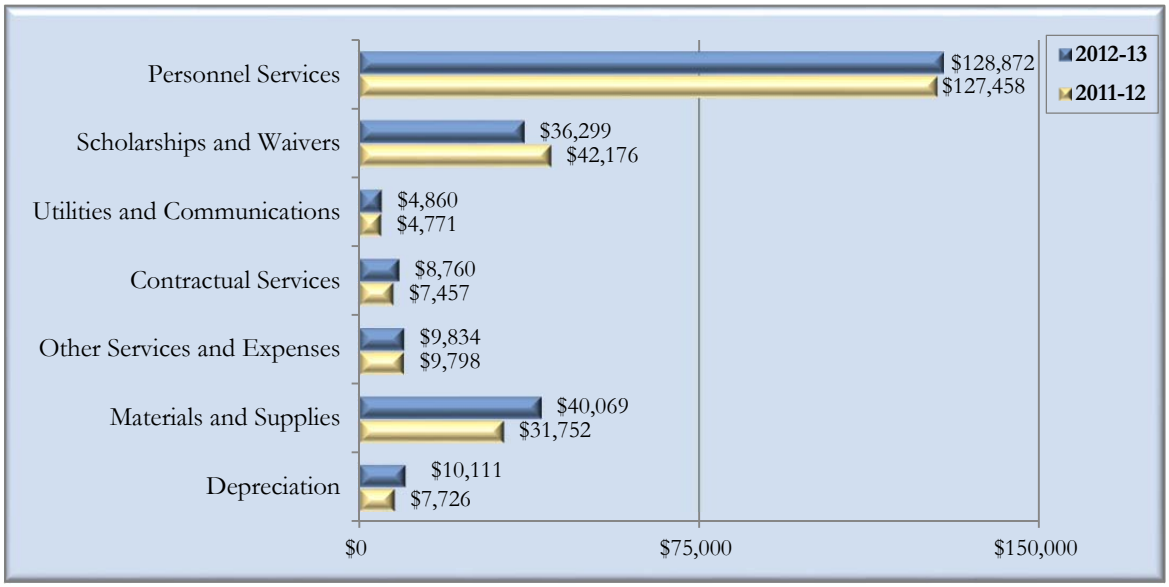
The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended:

Operating Expenses
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	3-31-13	3-31-12
Personnel Services	$ 128,872	$ 127,458	$ 867	$ 804
Scholarships and Waivers	36,299	42,176	2,054	1,746
Utilities and Communications	4,860	4,771		
Contractual Services	8,760	7,457	33	32
Other Services and Expenses	9,834	9,798	626	476
Materials and Supplies	40,069	31,752	28	27
Depreciation	10,111	7,726	92	46
Total Operating Expenses	$ 238,805	$ 231,138	$ 3,700	$ 3,131

The following chart presents the College's operating expenses for the 2012-13 and 2011-12 fiscal years:

Operating Expenses: College
(In Thousands)



College operating expense changes were the result of the following factors:

- Scholarships and waivers expense declined by $5.9 million primarily because of a $9.1 million dollar decrease in Federal Pell Grant awards offset by a reduction of $4.2 million in tuition and auxiliary enterprises scholarship allowances.
- Material and supplies expense increased by $8.3 million due to the purchase of noncapitalized equipment for the Lake Nona Campus Building 1, Osceola Campus Building 4, and West Campus Building 10, all of which were opened for operations during the 2012-13 fiscal year.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

Nonoperating Revenues (Expenses): College
For the Fiscal Years Ended
(In Thousands)

	6-30-13	6-30-12
State Noncapital Appropriations	$ 69,296	$ 60,773
Federal and State Student Financial Aid	87,123	97,023
Gifts and Grants	3,481	2,823
Investment Income	83	324
Other Nonoperating Revenues	411	654
Interest on Capital Asset-Related Debt	(257)	(278)
Net Nonoperating Revenues	$ 160,137	$ 161,319

Net nonoperating revenues decreased by $1.2 million, or 0.7 percent, primarily due to the following:

- State Noncapital Appropriations increased by $8.5 million as a result of a nonrecurring general revenue appropriation of $6 million from State College Program Funds.
- Federal and State Student Financial Aid decreased by $9.9 million mainly due to a reduction in Pell Grant revenue, the direct result of fewer Pell scholarship awards.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College
For the Fiscal Years Ended
(In Thousands)

	6-30-13	6-30-12
State Capital Appropriations	$ 6,230	$ 2,606
Capital Grants, Contracts, Gifts, and Fees	5,575	13,262
Total Other Revenues	$ 11,805	$ 15,868

Total other revenues decreased by $4.1 million, or 25.6 percent, primarily due to declines in capital gifts and capital improvement fees, which had been reduced by $2 per credit hour for the 2012-13 fiscal year.

THE STATEMENT OF CASH FLOWS

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

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

The following summarizes the College's cash flows for the 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows: College
(In Thousands)

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	$ (156,116)	$ (153,214)
Noncapital Financing Activities	160,138	160,768
Capital and Related Financing Activities	(20,225)	(9,739)
Investing Activities	92	334
Net Decrease in Cash and Cash Equivalents	(16,111)	(1,851)
Cash and Cash Equivalents, Beginning of Year	87,715	89,566
Cash and Cash Equivalents, End of Year	$ 71,604	$ 87,715

Major sources of funds came from net student tuition and fees ($53.1 million) and bookstore receipts ($12.1 million). State noncapital appropriations ($69.3 million), Federal and State student financial aid ($87.1 million), and Federal Direct Student Loan program receipts ($73.8 million) were the primary sources of funds for noncapital financing activities. Prior and current year capital appropriations primarily received from the State's Public Education Capital Outlay ($8.4 million) and student capital improvement fees ($5.6 million) account for most of the cash provided for capital and related financing activities.

Major uses of cash in operating activities were for the payment of employee salaries and benefits ($126.4 million); payments to suppliers ($58.8 million), which includes purchases of noncapitalized equipment for the College's new buildings (Lake Nona Campus Building 1, Osceola Building 4, and West Campus Building 10); and payments for scholarships ($36.3 million). Federal direct loan disbursements ($72.8 million) account for cash used for noncapital financing activities. Purchases of capital assets ($33.6 million) were primarily comprised of disbursements for the final construction phase for Lake Nona Campus Building 1, Osceola Building 4, and West Campus Building 10.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had $348.5 million in capital assets, less accumulated depreciation of $103.3 million, for net capital assets of $245.2 million. Depreciation charges for the current fiscal year totaled $10.1 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

Capital Assets	2013	2012
Land	$ 31,590	$ 29,154
Construction in Progress		55,245
Buildings	202,307	132,542
Other Structures and Improvements	7,650	8,975
Furniture, Machinery, and Equipment	3,606	2,202
Capital Assets, Net	$245,153	$228,118

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2013, were incurred as a result of completing the construction of Lake Nona Campus Building 1, Osceola Building 4, and West Campus Building 10. These newly constructed buildings were placed into service during the 2012-13 fiscal year.

DEBT ADMINISTRATION

At June 30, 2013, the College had $5.1 million in outstanding State Board of Education (SBE) capital outlay bonds versus $5.5 million at June 30, 2012, a decrease of 7.3 percent.

During the 2012-13 fiscal year, the SBE did not issue or refinance capital outlay bonds on behalf of the College. Debt repayments totaled $470,000. Additional information about the College's long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a modest increase in State funding was anticipated for the 2013-14 fiscal year. In the 2013-14 fiscal year legislative appropriations, the College received a $4.3 million, or 6.8 percent, increase from recurring State general revenue and lottery funding. In an effort to hold down the cost of tuition to the students, the Board of Trustees elected to maintain the same tuition rate charged for the 2012-13 fiscal year in the 2013-14 fiscal year. The College's current operational and capital plans indicate that the infusion of additional financial resources from an increase in State appropriations will be adequate to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, or other required supplementary information, and the financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Operations and Finance, Valencia College, Post Office Box 3028, Orlando, Florida 32802.

BASIC FINANCIAL STATEMENTS

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION
June 30, 2013

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 31,350,543	$ 802,027
Restricted Cash and Cash Equivalents	17,832,169	
Accounts Receivable, Net	6,537,708	1,028,276
Due from Other Governmental Agencies	9,454,032	
Due from Component Unit/College	317,434	7,519
Inventories	2,542,308	
Prepaid Expenses	813,336	5,057
Deposits	9,885	
Other Assets		2,376,015
Total Current Assets	68,857,415	4,218,894
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	22,421,339	167,896
Restricted Investments	116,697	57,675,554
Depreciable Capital Assets, Net	213,562,920	3,485,404
Nondepreciable Capital Assets	31,590,486	2,788,246
Total Noncurrent Assets	267,691,442	64,117,100
TOTAL ASSETS	336,548,857	68,335,994
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,756,673	105,936
Salary and Payroll Taxes Payable	5,458,273	
Retainage Payable	561,581	
Due to Other Governmental Agencies	863,425	
Due to Component Unit/College	8,638	169,773
Unearned Revenue	203,305	100,100
Estimated Insurance Claims Payable	4,828,536	
Deposits Held for Others	277,649	
Long-Term Liabilities - Current Portion:		
Bonds Payable	490,000	
Special Termination Benefits Payable	30,189	
Compensated Absences Payable	920,109	
Total Current Liabilities	16,398,378	375,809
Noncurrent Liabilities:		
Bonds Payable	4,560,000	
Special Termination Benefits Payable	251,481	
Compensated Absences Payable	6,676,301	
Other Postemployment Benefits Payable	672,271	
Total Noncurrent Liabilities	12,160,053	
TOTAL LIABILITIES	28,558,431	375,809

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	College	Component Unit
NET POSITION		
Net Investment in Capital Assets	$ 240,103,406	$ 6,273,650
Restricted:		
Nonexpendable:		
Endowment		32,081,932
Expendable:		
Endowment		28,350,098
Grants and Loans	16,257,994	
Scholarships	1,147,987	
Capital Projects	25,786,236	
Debt Service	116,697	
Unrestricted	24,578,106	1,254,505
TOTAL NET POSITION	$ 307,990,426	$ 67,960,185

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

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $48,107,011	$ 52,178,779	$
Federal Grants and Contracts	886,738	
State and Local Grants and Contracts		124,082
Nongovernmental Grants and Contracts	1,754,471	2,089,974
Sales and Services of Educational Departments	49,949	
Auxiliary Enterprises, Net of Scholarship Allowances of $7,986,169	11,693,714	
Other Operating Revenues	1,697,637	850,962
Total Operating Revenues	68,261,288	3,065,018
EXPENSES		
Operating Expenses:		
Personnel Services	128,871,973	866,335
Scholarships and Waivers	36,298,680	2,053,913
Utilities and Communications	4,859,531	
Contractual Services	8,760,096	33,194
Other Services and Expenses	9,834,014	626,317
Materials and Supplies	40,069,531	27,528
Depreciation	10,110,883	92,253
Total Operating Expenses	238,804,708	3,699,540
Operating Loss	(170,543,420)	(634,522)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	69,296,186	
Federal and State Student Financial Aid	87,122,871	
Gifts and Grants	3,481,439	
Investment Income	83,129	1,852,772
Net Gain on Investments		3,327,247
Other Nonoperating Revenues	411,335	
Interest on Capital Asset-Related Debt	(257,525)	
Net Nonoperating Revenues	160,137,435	5,180,019
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(10,405,985)	4,545,497
State Capital Appropriations	6,229,934	
Capital Grants, Contracts, Gifts, and Fees	5,574,722	
Total Other Revenues	11,804,656	
Increase in Net Position	1,398,671	4,545,497
Net Position, Beginning of Year	306,591,755	63,414,688
Net Position, End of Year	$ 307,990,426	$ 67,960,185

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

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 53,120,980
Grants and Contracts	2,897,724
Payments to Suppliers	(58,800,802)
Payments for Utilities and Communications	(4,719,513)
Payments to Employees	(107,001,560)
Payments for Employee Benefits	(19,376,017)
Payments for Scholarships	(36,298,680)
Auxiliary Enterprises, Net	12,065,241
Sales and Service of Educational Departments	49,949
Other Receipts	1,947,132
Net Cash Used by Operating Activities	(156,115,546)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	69,296,186
Federal and State Student Financial Aid	87,122,871
Federal Direct Loan Program Receipts	73,867,093
Federal Direct Loan Program Disbursements	(72,836,868)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,831,070
Other Nonoperating Disbursements	(1,142,681)
Net Cash Provided by Noncapital Financing Activities	160,137,671
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	8,470,706
Capital Grants and Gifts	5,574,722
Proceeds from Sale of Capital Assets	61,704
Purchases of Capital Assets	(33,604,584)
Principal Paid on Capital Debt and Leases	(470,000)
Interest Paid on Capital Debt and Leases	(257,525)
Net Cash Used by Capital and Related Financing Activities	(20,224,977)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	8,758
Investment Income	83,129
Net Cash Provided by Investing Activities	91,887
Net Decrease in Cash and Cash Equivalents	(16,110,965)
Cash and Cash Equivalents, Beginning of Year	87,715,016
Cash and Cash Equivalents, End of Year	$ 71,604,051

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (170,543,420)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,110,883
Changes in Assets and Liabilities:	
Receivables, Net	633,794
Due from Other Governmental Agencies	830,294
Inventories	145,455
Prepaid Expenses	(152,779)
Deposits	257,093
Accounts Payable	147,936
Salaries and Payroll Taxes Payable	(2,790)
Unearned Revenue	(12,450)
Estimated Insurance Claims Payable	2,096,187
Special Termination Benefits Payable	35,682
Compensated Absences	143,514
Other Postemployment Benefits Payable	195,055
NET CASH USED BY OPERATING ACTIVITIES	$ (156,115,546)

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

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, Valencia College Foundation, Inc. (Foundation), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board. This organization provides funding and services to support and foster the pursuit of higher education at the College.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2013.

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

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options.

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

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

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the

third party making payment on behalf of the student. The College calculated its scholarship allowance by identifying within its student accounts receivable system amounts paid by student aid for tuition and books. The amounts are deducted from student tuition and fees, and auxiliary enterprise, respectively.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts and money market accounts, and cash placed with the State Board of Administration (SBA) Florida PRIME investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SBA Florida PRIME investment pool and in money market accounts to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2013, the College reported as cash equivalents $18,855,634 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2013, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 40 days as of June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- Computer Equipment – 3 years
- Vehicles, Office Machines, and Educational Equipment – 5 years
- Furniture – 7 years

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

2. INVESTMENTS

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

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

State Board of Administration Debt Service Accounts

The College reported investments totaling $116,697 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the College's component unit at March 31, 2013, are reported as follows:

Investment Type	Amount
Hedge Funds	$ 8,030,290
Mutual Funds	49,645,264
Total Component Unit Investments	$ 57,675,554

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a $2,149,851 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of $3,926,478 of Public Education Capital Outlay allocations due from the State and a $3,750,000 capital contribution due from the University of Central Florida. Both are for the construction of Osceola Campus Building 4.

5. DUE FROM AND TO COMPONENT UNIT

The $317,434 reported as due from the component unit mainly consists of amounts owed to the College by the Foundation for grant expenditure program reimbursements and scholarship costs. The $8,638 reported as due to the component unit primarily consists of amounts owed to the Foundation for donations.

The College's financial statements are reported for the fiscal year ended June 30, 2013. The College's component unit's financial statements are reported for the fiscal year ended March 31, 2013. Accordingly, amounts reported by the College as due from and to component unit on the statement of net position do not agree with amounts reported by the component unit as due from and to the College.

6. INVENTORIES

Inventories consist of items for resale by the campus bookstore, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 29,154,247	$ 2,436,239	$	$ 31,590,486
Construction in Progress	55,245,592		55,245,592	
Total Nondepreciable Capital Assets	$ 84,399,839	$ 2,436,239	$ 55,245,592	$ 31,590,486
Depreciable Capital Assets:				
Buildings	$ 202,048,662	$ 76,624,323	$	$ 278,672,985
Other Structures and Improvements	19,763,653	108,261		19,871,914
Furniture, Machinery, and Equipment	15,860,683	3,246,888	778,048	18,329,523
Total Depreciable Capital Assets	237,672,998	79,979,472	778,048	316,874,422
Less, Accumulated Depreciation:				
Buildings	69,506,644	6,858,926		76,365,570
Other Structures and Improvements	10,789,188	1,433,157		12,222,345
Furniture, Machinery, and Equipment	13,659,075	1,818,800	754,288	14,723,587
Total Accumulated Depreciation	93,954,907	10,110,883	754,288	103,311,502
Total Depreciable Capital Assets, Net	$ 143,718,091	$ 69,868,589	$ 23,760	$ 213,562,920

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, include bonds payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 5,520,000	$	$ 470,000	$ 5,050,000	$ 490,000
Special Termination Benefits Payable	245,988	40,783	5,101	281,670	30,189
Compensated Absences Payable	7,452,896	920,055	776,541	7,596,410	920,109
Other Postemployment Benefits Payable	477,216	376,490	181,435	672,271	
Total Long-Term Liabilities	$ 13,696,100	$ 1,337,328	$ 1,433,077	$ 13,600,351	$ 1,440,298

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2013:

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2005B	$ 1,840,000	5.0	2018
Series 2009A, Refunding	380,000	4.0 - 5.0	2019
Series 2010A	2,830,000	3.5 - 5.0	2030
Total	$ 5,050,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2014	$ 490,000	$ 234,525	$ 724,525
2015	520,000	210,025	730,025
2016	555,000	184,025	739,025
2017	585,000	156,275	741,275
2018	630,000	127,025	757,025
2019-2023	890,000	390,925	1,280,925
2024-2028	950,000	198,300	1,148,300
2029-2030	430,000	26,000	456,000
Total	$ 5,050,000	$ 1,527,100	$ 6,577,100

Special Termination Benefits Payable. Executive management employees are provided seven days of administrative incentive leave credit each year. Such credit is prorated for each month worked to a maximum of 35 days. Payment of such credited service is made at the time of termination from full-time executive management for any reason other than cause. Accrued benefits for the 16 participants at June 30, 2013 totaled $281,670, of which $30,189 represents the current portion.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2013, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $7,596,410. The current portion of the compensated absences liability, $920,109, is the amount expected to be paid in the coming fiscal year based on a historically determined average of the current portion in prior years.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits administered by the College and life insurance benefits through purchased commercial insurance.

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer, defined-benefit plan administered by the College. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. The College does not issue a stand-alone annual report, and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay as you go basis. For the 2012-13 fiscal year, 155 retirees received postemployment healthcare benefits, and 19 retirees received postemployment life insurance benefits. The College provided required contributions of $181,435 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled $1,082,408, which represents 1.5 percent of covered payroll.

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

Description	Amount
Normal Cost (Service Cost for One Year)	$ 258,259
Amortization of Unfunded Actuarial Accrued Liability	100,466
Interest on Normal Cost and Amortization	14,583
Annual Required Contribution	373,308
Interest on Net OPEB Obligation	19,089
Adjustment to Annual Required Contribution	(15,907)
Annual OPEB Cost (Expense)	376,490
Contribution Toward the OPEB Cost	(181,435)
Increase in Net OPEB Obligation	195,055
Net OPEB Obligation, Beginning of Year	477,216
Net OPEB Obligation, End of Year	$ 672,271

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, and for the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	$ 310,130	89.3%	$ 292,024
2011-12	357,937	48.3%	477,216
2012-13	376,490	48.2%	672,271

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was $2,931,917, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $2,931,917, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $74,193,765 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method, and was used to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 10.5 percent pre-Medicare and 8.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years for pre-Medicare and 5 years for Medicare. The unfunded actuarial accrued liability is being amortized as a

level percentage of projected payroll amortized over 30 years on open basis. The remaining amortization period at June 30, 2013, was 24 years.

9. RETIREMENT PROGRAMS

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

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

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled $5,570,169, $4,097,530, and $4,522,692, respectively, which were equal to the required contributions for each fiscal year.

There were 381 College participants in the Investment Plan during the 2012-13 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled $1,168,066, which was equal to the required contribution for the 2012-13 fiscal year.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 5.64 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity

VALENCIA COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 116 College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled $448,743 and employee contributions totaled $261,405 for the 2012-13 fiscal year.

10. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to $90 million to February 28, 2013, and up to $125 million from March 1, 2013. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Life, dental, and vision coverage are provided through purchased commercial insurance with minimum deductibles for each line of coverage.

Self-Insured Program. The Board has established an individual self-insured program to provide group health insurance for its employees, retirees, former employees, and their dependents. The College's liability was limited by excess reinsurance to $150,000 per insured person for the 2012-13 fiscal year. The plan is provided by an insurance company licensed by the Florida Department of Financial Services, Office of Insurance Regulation. The College contributes employee premiums as a fringe benefit. Employee dependent coverage is by payroll deduction and coverage for retirees, former employees, and their dependents is by prepaid premium.

The College reports a liability when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The liability includes an amount for claims that have been incurred, but not reported, and an amount for claims administration expense. Because the actual claims liability depends on such complex factors as inflation, change in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. The College reevaluates the claims liability periodically and the claims liability totaled $4,828,536 as of June 30, 2013. Amounts held by the College in excess of the estimated insurance claims liability at June 30, 2013, totaled $4,064,492 and are classified as insurance claim deposits. The College will use these amounts to pay claims incurred in future fiscal years.

The following schedule represents the changes in claims liability for the past two fiscal years for the College's self-insured program:

VALENCIA COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Fiscal Year	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	End of Fiscal Year
2011-12	$	$ 6,045,538	$ (3,313,189)	$ 2,732,349
2012-13	2,732,349	11,533,934	(9,437,747)	4,828,536

11. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

Functional Classification	Amount
Instruction	$ 69,316,512
Academic Support	13,959,087
Student Services	22,772,086
Institutional Support	33,970,482
Operation and Maintenance of Plant	34,332,878
Scholarships and Waivers	36,298,680
Auxiliary Enterprises	18,044,100
Depreciation	10,110,883
Total Operating Expenses	$ 238,804,708

12. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net position, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net position. To meet this requirement, statements of net position and revenues, expenses, and changes in net position for the current unrestricted funds are presented, as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Statement of Current Unrestricted Funds Net Position

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	31,350,543
Accounts Receivable, Net		6,537,708
Due from Other Governmental Agencies		5,262,970
Due from Component Unit		10,403
Inventories		2,542,308
Prepaid Expenses		813,336
Deposits		7,008
TOTAL ASSETS		46,524,276
LIABILITIES		
Current Liabilities:		
Accounts Payable		2,034,617
Salary and Payroll Taxes Payable		5,451,859
Due to Other Governmental Agencies		847,947
Due to Component Unit		8,448
Unearned Revenue		203,305
Estimated Insurance Claims Payable		4,824,749
Deposits Held for Others		24,894
Special Termination Benefits Payable		30,189
Compensated Absences Payable		920,109
Total Current Liabilities		14,346,117
Noncurrent Liabilities:		
Special Termination Benefits Payable		251,481
Compensated Absences Payable		6,676,301
Other Postemployment Benefits Payable		672,271
TOTAL LIABILITIES		21,946,170
TOTAL NET POSITION	$	24,578,106

VALENCIA COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Statement of Current Unrestricted Funds Revenues, Expenses, and Changes in Net Position

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net of Scholarship Allowances of $48,107,011	$ 42,482,333
Grants and Contracts	461,149
Sales and Services of Educational Departments	49,949
Auxiliary Enterprises, Net of Scholarship Allowances of $7,986,169	11,693,714
Other Operating Revenues	1,534,602
Total Operating Revenues	56,221,747
EXPENSES	
Operating Expenses:	
Personnel Services	123,702,459
Scholarships and Waivers	145,972
Utilities and Communications	4,858,851
Contractual Services	7,675,273
Other Services and Expenses	8,666,765
Materials and Supplies	26,664,837
Total Operating Expenses	171,714,157
Operating Loss	(115,492,410)
NONOPERATING REVENUES	
State Noncapital Appropriations	69,296,186
Gifts and Grants	223,832
Other Nonoperating Revenues	61,704
Net Nonoperating Revenues	69,581,722
Loss Before Other Revenues, Expenses, Gains, or Losses	(45,910,688)
Capital Appropriations	16,266
Transfers from Other Funds	36,350,485
Decrease in Net Position	(9,543,937)
Net Position, Beginning of Year	34,122,043
Net Position, End of Year	$ 24,578,106

13. SUBSEQUENT EVENT

On July 26, 2013, the College signed an agreement with the College Foundation whereby the College would lease 57,680 square feet of space to house the new Valencia College District Office, in west Orange County. Under the agreement, the lease amount would be calculated on a 6.75 percent capitalization rate as applied to the amount of funds expended by the Foundation in connection with the acquisition and overhead of the property (including the purchase price, due diligence, legal fees and costs, and closing costs), renovation costs incurred, and any costs

VALENCIA COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

incurred by the Foundation to complete additional improvements to the property during the lease term. Annual rentals are anticipated to be approximately $460,000. The potential lease payments over the life of the 60-year lease term total approximately $27,600,000.

On July 16, 2013, the College Foundation's board of directors approved the sale of the downtown center land and building for $4.75 million. The sale closing is to occur on or before August 31, 2014.

VALENCIA COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
$	$ 2,334,741	$ 2,334,741	0%	$ 67,481,224	3.50%
	3,322,639	3,322,639	0%	69,802,412	4.80%
	2,931,917	2,931,917	0%	69,025,900	4.25%

The actuarial cost method used to estimate the actuarial liability is the projected unit credit method.

VALENCIA COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of $2,931,917 was approximately $391,000 lower than the July 1, 2009, liability of $3,322,639 primarily due to:

- It has been determined the Plan has no liability under GASB Statement Nos. 43 and 45 for the life insurance benefit provided to retirees with the exception of 19 grandfathered retirees eligible for subsidized contribution rates.
- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate healthcare cost between ages.
- The assumed rates of healthcare inflation used to project the per capita health care costs were revised.
- The payroll growth rate assumption was increased from 3 percent to 4 percent.
- The assumed rates of participation in the Plan were adjusted to reflect current experience.
- The July 1, 2007, and July 1, 2009, valuations assumed a 3 percent discount rate while the July 1, 2011, valuation assumes a discount rate of 4 percent.

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

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

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valencia College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 1, 2013, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free 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*.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
October 1, 2013