STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2017-160
March 2017

VALENCIA COLLEGE

For the Fiscal Year Ended
June 30, 2016



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2015-16 fiscal year, Dr. Sanford C. Shugart served as President of Valencia College and the following individuals served as Members of the Board of Trustees:

	County
Lewis M. Oliver, III, Chair from 9-23-15, Vice Chair to 9-22-15	Orange
Dr. Bruce A. Carlson, Vice Chair from 9-23-15	Osceola
Maria C. Grulich, Chair to 9-22-15	Osceola
John M. Crossman	Orange
Guillermo Hansen	Osceola
Daisy Lopez-Cid	Osceola
Raymer F. Maguire, III	Orange
Vacancies [a]	Orange

[a] Two positions were vacant through 6-30-16.

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

The team leader was James H. Cole, CPA, and the audit was supervised by Brenda C. Racis, CPA.

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

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VALENCIA COLLEGE

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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

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

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

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

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

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether 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, 2016. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

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

AUDITOR GENERAL
STATE OF FLORIDA

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Auditor General

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of 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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valencia College and of its discretely presented component unit as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

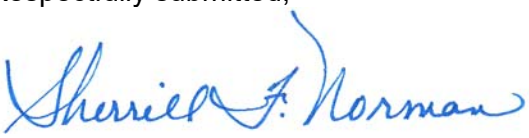
Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2017, on our consideration of the 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 9, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

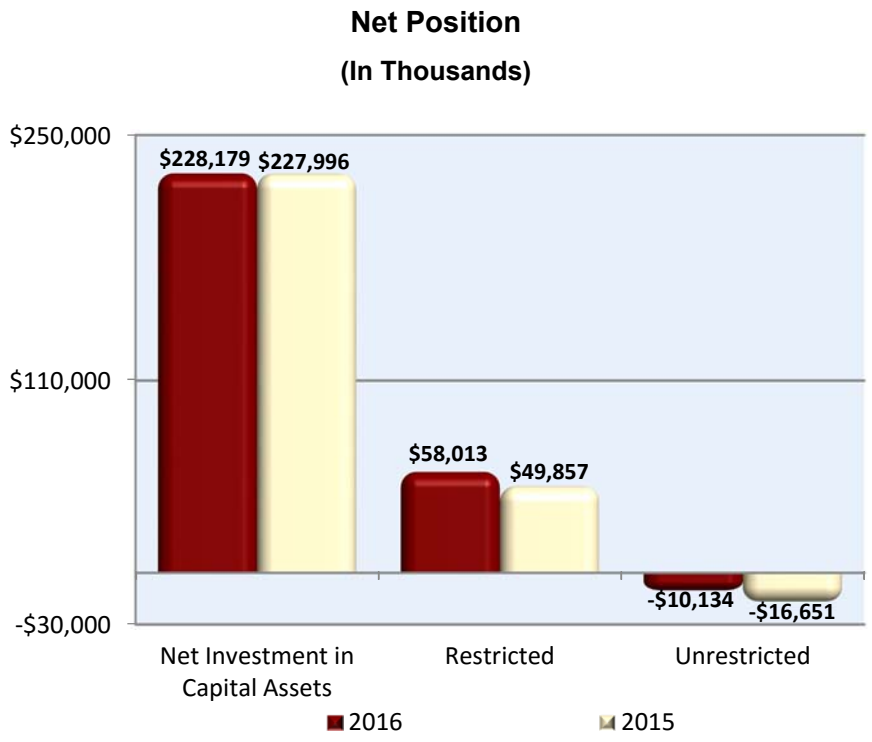
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2016, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2016, and June 30, 2015.

FINANCIAL HIGHLIGHTS

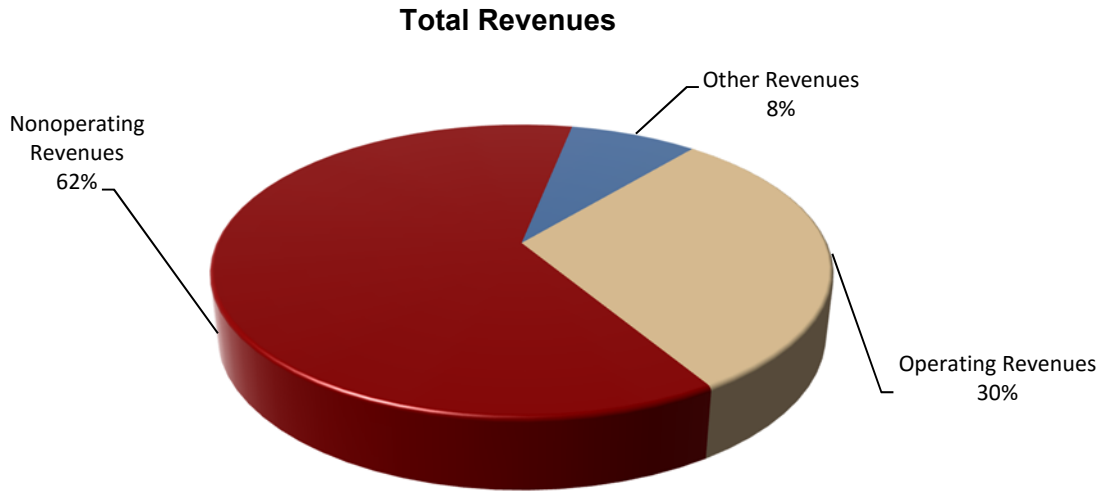
The College's assets totaled $358.6 million at June 30, 2016. This balance reflects an $11.2 million, or 3.2 percent, increase as compared to the 2014-15 fiscal year, primarily due to a Public Education Capital Outlay (PECO) receivable for the construction of Poinciana Campus Building 1. While assets grew by $11.2 million, liabilities increased by $14.7 million, or 18.6 percent, totaling $93.7 million at June 30, 2016, compared to $79 million at June 30, 2015. The increase in liabilities was primarily due to a growth in the unfunded portion of the Florida Retirement System (FRS) defined pension plan administered by the Florida Division of Retirement which the College is required to recognize as a participating member under Governmental Accounting Standards Board (GASB) Statement No. 68. After factoring in a net deferred outflows increase of $18.4 million from deferred outflows and inflows changes related to the defined pension plans, the College's net position increased by $14.9 million, resulting in a year-end balance of $276.1 million.

The College's operating revenues totaled $80 million for the 2015-16 fiscal year, representing an 8.7 percent increase compared to the 2014-15 fiscal year, was primarily due to a decline in scholarship allowances, resulting in a greater proportion of tuition paid by the student, or third party on behalf of the student instead of non-operating Gifts and Grants – Student Aid revenues. Operating expenses totaled $250.1 million for the 2015-16 fiscal year, representing an increase of 4.8 percent as compared to the 2014-15 fiscal year.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:



The following chart provides a graphical presentation of College revenues by category for the 2015-16 fiscal year:



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. The financial statements, and notes thereto, encompass the College and its component unit, the Valencia College Foundation, Inc. (Foundation). Based on the

application of the criteria for determining component units, the Foundation is included within the College reporting entity as a discretely presented component unit.

This MD&A focuses on the College, excluding the discretely presented component unit.

The Statement of Net Position

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

The following summarizes the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	2016	2015
Assets		
Current Assets	$ 75,306	$ 78,206
Capital Assets, Net	238,234	238,557
Other Noncurrent Assets	45,103	30,721
Total Assets	358,643	347,484
Deferred Outflows of Resources	17,798	12,572
Liabilities		
Current Liabilities	24,205	25,682
Noncurrent Liabilities	69,523	53,354
Total Liabilities	93,728	79,036
Deferred Inflows of Resources	6,655	19,818
Net Position		
Net Investment in Capital Assets	228,179	227,996
Restricted	58,013	49,857
Unrestricted	(10,134)	(16,651)
Total Net Position	$ 276,058	$ 261,202

Total assets increased primarily from the purchase of $15.7 million of noncurrent investments using cash from current assets, partially offset by an increase in amounts reported as due from other governmental agencies of $11.8 million to fund construction of Building 1 at the Poinciana Campus.

Noncurrent liabilities increased primarily due to an increase in the net pension liability of $17.2 million. Deferred inflows of resources related to the College's proportionate share of the FRS defined pension

benefit plan decreased by $13.2 million due to differences between projected and actual investment earnings on pension plan investments which also contributed to the increase in net position.

Total net position increased primarily due to an increase in the restricted position related to funding for capital projects and operating surpluses in the Current Funds - Unrestricted and the Auxiliary fund.

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 College's activity for the 2015-16 and 2014-15 fiscal years:

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

(In Thousands)

	2015-16	2014-15
Operating Revenues	$ 79,973	$ 73,602
Less, Operating Expenses	250,085	238,587
Operating Loss	(170,112)	(164,985)
Net Nonoperating Revenues	163,892	158,533
Loss Before Other Revenues	(6,220)	(6,452)
Other Revenues	21,076	8,393
Net Increase In Net Position	14,856	1,941
Net Position, Beginning of Year	261,202	304,247
Adjustment to Beginning Net Position (1)	-	(44,986)
Net Position, Beginning of Year, as Restated	261,202	259,261
Net Position, End of Year	$ 276,058	$ 261,202

Note: (1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employer's proportionate share of the net pension liability of the defined benefit pension plans.

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 by source that were used to fund operating activities for the 2015-16 and 2014-15 fiscal years:

Operating Revenues
For the Fiscal Years

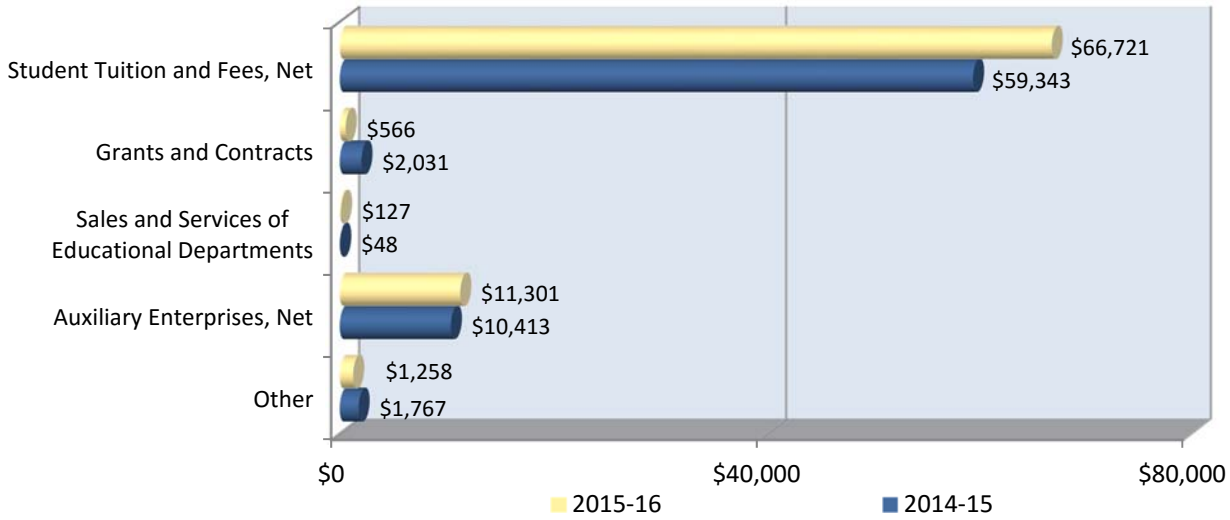
(In Thousands)

	2015-16	2014-15
Student Tuition and Fees, Net	$ 66,721	$ 59,343
Grants and Contracts	566	2,031
Sales and Services of Educational Departments	127	48
Auxiliary Enterprises, Net	11,301	10,413
Other	1,258	1,767
Total Operating Revenues	$ 79,973	$ 73,602

The following chart presents the College's operating revenues for the 2015-16 and 2014-15 fiscal years:

Operating Revenues

(In Thousands)



Total operating revenues increased by $6.4 million, or 8.7 percent, due to an increase in the number of students paying the nonresident tuition rate, additional revenue from noncredit courses, and a decrease in the amount of tuition scholarship allowances.

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 2015-16 and 2014-15 fiscal years:

Operating Expenses
For the Fiscal Years

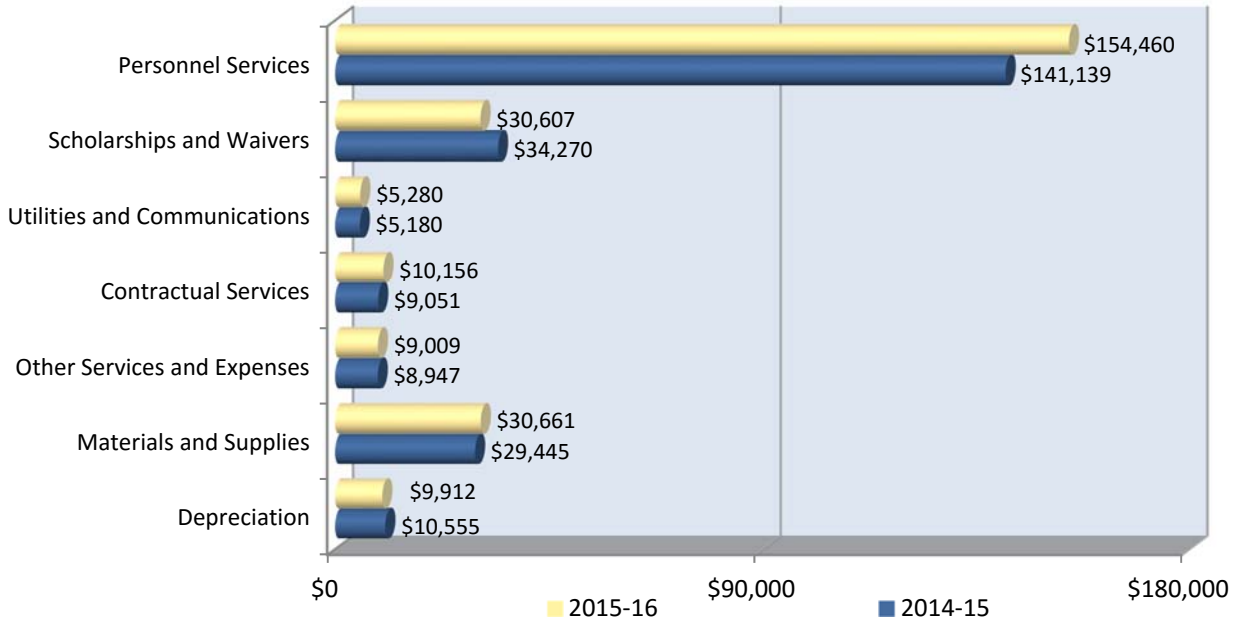
(In Thousands)

	2015-16	2014-15
Personnel Services	$ 154,460	$ 141,139
Scholarships and Waivers	30,607	34,270
Utilities and Communications	5,280	5,180
Contractual Services	10,156	9,051
Other Services and Expenses	9,009	8,947
Materials and Supplies	30,661	29,445
Depreciation	9,912	10,555
Total Operating Expenses	$ 250,085	$ 238,587

The following chart presents the College's operating expenses for the 2015-16 and 2014-15 fiscal years:

Operating Expenses

(In Thousands)



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

- Personnel services expense had an overall increase of $13.3 million, or 9.4 percent, due to a 3.75 percent salary increase for all full-time faculty, annually appointed faculty, and part-time faculty. Part-time staff received a 2 percent increase. In addition, there was an increase of $3.3 million, or 177.3 percent, in retirement incentive payouts due to the closure of the retirement incentive program in the 2015-16 fiscal year.
- Scholarships and waivers decreased by $3.7 million, or 10.7 percent, primarily due to a reduction in Federal Pell Grant disbursements which is attributable to a decrease in Federal financial aid applicants.

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 2015-16 and 2014-15 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2015-16	2014-15
State Noncapital Appropriations	$ 79,572	$ 68,573
Federal and State Student Financial Aid	74,778	82,968
Gifts and Grants	9,598	6,841
Investment Income	574	193
Other Nonoperating Revenues	-	586
Interest on Capital Asset-Related Debt	(630)	(628)
Net Nonoperating Revenues	$ 163,892	$ 158,533

Net nonoperating revenues increased by $5.4 million, or 3.4 percent, primarily due to an increase of $11 million, or 16 percent, in State general revenue and performance based incentive program appropriations for the 2015-16 fiscal year and an increase of $2.8 million, or 40.3 percent, in Gifts and Grants due to a reclassification of Foundation scholarships. This increase was offset by a reduction of $8.2 million, or 9.9 percent in financial aid revenue mainly due to a decrease of eligible students for the Federal Pell Grant program.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2015-16 and 2014-15 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2015-16	2014-15
State Capital Appropriations	$ 13,900	$ 2,795
Capital Grants, Contracts, Gifts, and Fees	7,176	5,598
Total	$ 21,076	$ 8,393

Total other revenues increased by $12.7 million, or 151.1 percent, primarily due to increases in State capital appropriations of $11.9 million for the construction of Building 1 and $1.34 million in donated land at the Poinciana Campus.

The Statement of Cash Flows

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

The following summarizes the College's cash flows for the 2015-16 and 2014-15 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2015-16	2014-15
Cash Provided (Used) by:		
Operating Activities	$ (164,525)	$ (152,499)
Noncapital Financing Activities	162,697	159,018
Capital and Related Financing Activities	(434)	6,378
Investing Activities	(24,640)	134
Net Increase (Decrease) in Cash and Cash Equivalents	(26,902)	13,031
Cash and Cash Equivalents, Beginning of Year	97,691	84,660
Cash and Cash Equivalents, End of Year	$ 70,789	$ 97,691

Major sources of funds came from State noncapital appropriations ($79.6 million), Federal and State student financial aid ($74.8 million), net student tuition and fees ($64.3 million), and Federal Direct Student Loan program receipts ($48.5 million). Major uses of funds were for payments to employees and for employee benefits ($155.4 million), payments to providers of goods and services ($51.6 million), disbursements to students for Federal Direct Student Loans ($49.4 million), and payments for scholarships ($30.6 million).

Cash used by operating activities increased by $12 million due to additional personnel positions and the closing of the retirement incentive program. Cash used by capital and related financing activities increased by $6.8 million due to the acceleration of capital project spending related to the planning of the Poinciana campus and construction of two buildings at East Campus nearing completion. The change in cash and cash equivalents was the result of a $25 million purchase of investments. Additional information about the College's investments is presented in the notes to the financial statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the College had $368.9 million in capital assets, less accumulated depreciation of $130.7 million, for net capital assets of $238.2 million. Depreciation charges for the current fiscal year

totaled $9.9 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2016	2015
Land	$ 32,988	$ 31,590
Construction in Progress	6,095	815
Buildings	182,484	188,670
Other Structures and Improvements	3,569	4,972
Furniture, Machinery, and Equipment	3,986	3,294
Leasehold Improvements	2,828	2,766
Assets Under Capital Lease	6,285	6,450
Capital Assets, Net	$ 238,235	$ 238,557

Construction in progress increased $5.3 million due to increases in expenditures for planning the Poinciana Campus ($1.8 million), continued construction of the East Maintenance Building ($2.4 million), and the East Campus Building 9 ($1 million). Buildings decreased by the $6.2 million in depreciation recorded. Additional information about the College's capital assets is presented in the notes to the financial statements.

Capital Expenses and Commitments

Capital expenses through June 30, 2016, were incurred on the following projects: East Campus Building 9, Poinciana Campus, and the East Maintenance Building. The College's construction commitments at June 30, 2016, are as follows:

	Amount (In Thousands)
Total Committed	$ 23,186
Completed to Date	(6,095)
Balance Committed	$ 17,091

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

Debt Administration

As of June 30, 2016, the College had $10.1 million in outstanding State Board of Education (SBE) capital outlay bonds and capital lease payable, representing a decrease of $0.5 million, or 4.8 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30

(In Thousands)

	2016	2015
SBE Capital Outlay Bonds	$ 3,458	$ 3,954
Capital Lease	6,598	6,607
Total	$ 10,056	$ 10,561

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2015-16 fiscal year, there were no bond sales and debt repayments totaled $0.5 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. In the 2016-17 fiscal year legislative appropriations, the College received a $4.7 million, or 6.2 percent, increase from the State general revenue and lottery funding. The College's current financial and capital plans indicate that the infusion of State appropriations will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

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

Valencia College
A Component Unit of the State of Florida
Statement of Net Position

June 30, 2016

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 24,839,110	$ 869,875
Restricted Cash and Cash Equivalents	16,660,125	-
Investments	9,567,605	-
Accounts Receivable, Net	5,216,043	321,683
Due from Other Governmental Agencies	15,268,201	-
Due from Component Unit/College	817,634	668
Inventories	1,795,910	-
Prepaid Expenses	1,134,773	-
Deposits	6,278	-
Other Assets	-	5,346,022
Total Current Assets	75,305,679	6,538,248
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	29,289,457	-
Investments	15,736,504	-
Restricted Investments	77,098	65,606,771
Depreciable Capital Assets, Net	199,151,873	5,836,507
Nondepreciable Capital Assets	39,082,884	3,084,064
Total Noncurrent Assets	283,337,816	74,527,342
TOTAL ASSETS	358,643,495	81,065,590
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	17,798,610	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,661,053	355,685
Salary and Payroll Taxes Payable	7,494,374	-
Retainage Payable	191,817	-
Due to Other Governmental Agencies	1,177,482	-
Due to Component Unit/College	28,452	201,239
Unearned Revenue	445,037	114,115
Estimated Insurance Claims Payable	9,465,465	-
Deposits Held for Others	688,216	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	535,000	-
Capital Lease Payable	9,747	-
Special Termination Benefits Payable	53,528	-
Compensated Absences Payable	1,455,687	-
Net Pension Liability	999,567	-
Total Current Liabilities	24,205,425	671,039

Valencia College
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2016

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	2,923,000	-
Capital Lease Payable	6,588,036	-
Special Termination Benefits Payable	287,758	-
Compensated Absences Payable	6,667,190	-
Other Postemployment Benefits Payable	1,468,235	-
Net Pension Liability	51,588,510	-
Total Noncurrent Liabilities	69,522,729	-
TOTAL LIABILITIES	93,728,154	671,039
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	6,655,445	-
NET POSITION		
Net Investment in Capital Assets	228,178,974	8,920,571
Restricted:		
Nonexpendable:		
Endowment	-	33,404,414
Expendable:		
Grants and Loans	15,178,708	31,564,143
Scholarships	1,852,804	-
Capital Projects	40,905,107	-
Debt Service	77,098	-
Unrestricted	(10,134,185)	6,505,423
TOTAL NET POSITION	$ 276,058,506	$ 80,394,551

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, 2016

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $44,383,574	$ 66,720,558	$ -
Federal Grants and Contracts	549,045	-
State and Local Grants and Contracts	-	119,552
Nongovernmental Grants and Contracts	17,500	1,920,159
Sales and Services of Educational Departments	127,147	-
Auxiliary Enterprises, Net of Scholarship Allowances of $5,740,796	11,301,234	-
Other Operating Revenues	1,257,742	832,074
Total Operating Revenues	79,973,226	2,871,785
EXPENSES		
Operating Expenses:		
Personnel Services	154,460,215	864,252
Scholarships and Waivers	30,607,272	2,584,585
Utilities and Communications	5,279,462	-
Contractual Services	10,156,351	79,685
Other Services and Expenses	9,008,993	1,860,640
Materials and Supplies	30,661,035	25,729
Depreciation	9,911,555	155,486
Total Operating Expenses	250,084,883	5,570,377
Operating Loss	(170,111,657)	(2,698,592)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	79,571,498	-
Federal and State Student Financial Aid	74,777,728	-
Gifts and Grants	9,597,878	-
Investment Income	574,529	3,704,562
Net Loss on Investments	-	(3,221,356)
Interest on Capital Asset-Related Debt	(630,042)	-
Net Nonoperating Revenues	163,891,591	483,206
Loss Before Other Revenues	(6,220,066)	(2,215,386)
State Capital Appropriations	13,900,039	-
Capital Grants, Contracts, Gifts, and Fees	7,176,246	-
Total Other Revenues	21,076,285	-
Increase (Decrease) in Net Position	14,856,219	(2,215,386)
Net Position, Beginning of Year	261,202,287	82,609,937
Net Position, End of Year	$ 276,058,506	$ 80,394,551

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

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Valencia College
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2016

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 64,275,327
Grants and Contracts	566,545
Payments to Suppliers	(51,638,486)
Payments for Utilities and Communications	(5,366,010)
Payments to Employees	(129,528,881)
Payments for Employee Benefits	(25,837,781)
Payments for Scholarships	(30,589,194)
Auxiliary Enterprises, Net	12,208,069
Sales and Services of Educational Departments	127,147
Other Receipts	1,257,742
Net Cash Used by Operating Activities	(164,525,522)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	79,571,498
Federal and State Student Financial Aid	74,777,728
Federal Direct Loan Program Receipts	48,487,591
Federal Direct Loan Program Disbursements	(49,361,762)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	9,327,862
Other Nonoperating Disbursements	(106,258)
Net Cash Provided by Noncapital Financing Activities	162,696,659
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	3,485,294
Capital Grants and Gifts	5,832,439
Purchases of Capital Assets	(8,616,799)
Principal Paid on Capital Debt and Leases	(505,119)
Interest Paid on Capital Debt and Leases	(630,042)
Net Cash Used by Capital and Related Financing Activities	(434,227)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	17,087
Purchases of Investments	(25,000,000)
Investment Income	343,320
Net Cash Used by Investing Activities	(24,639,593)
Net Decrease in Cash and Cash Equivalents	(26,902,683)
Cash and Cash Equivalents, Beginning of Year	97,691,375
Cash and Cash Equivalents, End of Year	$ 70,788,692

Valencia College
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2016

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (170,111,657)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	9,911,555
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(2,725,374)
Inventories	1,104,047
Prepaid Expenses	202,146
Deposits	5,435
Accounts Payable	(924,425)
Salary and Payroll Taxes Payable	404,906
Unearned Revenue	8,943
Estimated Insurance Claims Payable	(1,279,741)
Special Termination Benefits Payable	16,219
Compensated Absences Payable	(206,316)
Other Postemployment Benefits Payable	257,702
Net Pension Liability	17,200,149
Deferred Outflows of Resources Related to Pensions	(5,226,784)
Deferred Inflows of Resources Related to Pensions	(13,162,327)
NET CASH USED BY OPERATING ACTIVITIES	$ (164,525,522)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 230,044
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 1,343,807

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Valencia College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education (SBE) rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State law and SBE rules. Geographic boundaries of the College 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 Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based on the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the 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.

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the Vice President for Business Operations and Finance, Valencia College, Post Office Box 3028, Orlando, Florida 32802. 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, 2016.

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

business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

The College's component unit uses the economic resources measurement focus and 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 difference between the stated charge for goods and services provided by the College and the amount that is actually paid by

the student or the third party making payment on behalf of the student. The College calculated its scholarship 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, cash in 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 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SBA Florida PRIME investment pool and in the 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, 2016, the College reported as cash equivalents $39,137,068 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2016. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such

measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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.

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

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

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

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

2. Deficit Net Position in Individual Funds

The College reported an unrestricted net position which included a deficit in the current funds-unrestricted, as shown below. This deficit can be attributed to the full recognition of long-term liabilities (i.e., compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

Fund	Net Position
Current Funds - Unrestricted	$(27,377,632)
Auxiliary Funds	17,243,447
Total	$(10,134,185)

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law. 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.

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

The College's investments at June 30, 2016, are reported as follows:

Investments by fair value level	Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
SBA Debt Service Accounts	$ 77,098	$ 77,098	$ -	$ -
Mutual Funds:				
Fixed Income	25,304,109	25,304,109	-	-
Total investments by fair value level	$ 25,381,207	$ 25,381,207	$ -	$ -

State Board of Administration Debt Service Accounts

The College reported investments totaling $77,098 at June 30, 2016, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments

The College's other investments totaling $25,304,109 at June 30, 2016, consisted of fixed income mutual funds reported at fair value.

The following risks apply to these investments:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirement.

Investment Maturities	Percent of Portfolio
Less than 1 Year	38.0%
1 to 3 Years	62.0%
Total	100.0%

As a means of managing its exposure to fair-value losses arising from increasing interest rates, the College has established a target duration of its fixed-income portfolio of 1 to 3 years.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy provides for credit risk. The risk varies depending on the type of investment. The College's investments in mutual funds at June 30, 2016, were not rated.

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

possession of an outside party. The College's investment policy pursuant to Section 218.415(18), Florida Statutes, requires securities, with the exception of certificates of deposit, be held with a third party custodian; and all securities purchased by, and all collateral obtained by the College, should be properly designated as an asset of the College. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trust and is doing business in the State of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of deposit.

As of June 30, 2016, the College's mutual fund investments were held by a third party custodian as required by the College's investment policy.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the College's investments in a single issuer. The College's investment policy has established asset allocation and issuer limits which are designed to reduce concentration of credit risk of the College's investment portfolio. United States Treasury securities and obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not have purchase limitations. As of June 30, 2016, there were no concentrations of credit risk.

Component Unit Investments

Investments held by the College's component unit at March 31, 2016, are reported as follows:

Investment Type	Amount
Mutual Funds	$65,606,771
Total Component Unit Investments	$65,606,771

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments and unused credit memos. These receivables are reported net of a $2,336,367 allowance for doubtful accounts.

5. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of $11,800,000 of Public Education Capital Outlay allocations due from the State for construction of Building 1 at the Poinciana Campus.

6. Due From and To Component Unit/College

The $817,634 reported as due from component unit mainly consists of amounts owed to the College by the Foundation for grant expenditure program reimbursements and scholarship costs. The $28,452 reported as due to component unit consists of amounts owed by the College to the Foundation for theater production ticket sales and payment adjustment for a grant expenditure. The College's financial statements are reported for the fiscal year ended June 30, 2016. The College's component unit's financial statements are reported for the fiscal year ended March 31, 2016. 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.

7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 31,590,486	$ 1,397,212	$ -	$ 32,987,698
Construction in Progress	814,647	5,280,539	-	6,095,186
Total Nondepreciable Capital Assets	$ 32,405,133	$ 6,677,751	$ -	$ 39,082,884
Depreciable Capital Assets:				
Buildings	$ 278,672,985	$ -	$ -	$ 278,672,985
Other Structures and Improvements	20,060,970	29,588	-	20,090,558
Furniture, Machinery, and Equipment	20,708,686	2,745,219	1,930,484	21,523,421
Leasehold Improvements	2,836,679	137,090	-	2,973,769
Asset Under Capital Lease	6,615,433	-	-	6,615,433
Total Depreciable Capital Assets	328,894,753	2,911,897	1,930,484	329,876,166
Less, Accumulated Depreciation:				
Buildings	90,003,152	6,186,024	-	96,189,176
Other Structures and Improvements	15,088,587	1,433,121	-	16,521,708
Furniture, Machinery, and Equipment	17,415,180	2,052,680	1,930,484	17,537,376
Leashold Improvements	70,917	74,344	-	145,261
Asset Under Capital Lease	165,386	165,386	-	330,772
Total Accumulated Depreciation	122,743,222	9,911,555	1,930,484	130,724,293
Total Depreciable Capital Assets, Net	$ 206,151,531	$ (6,999,658)	$ -	$ 199,151,873

8. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 3,954,000	$ -	$ 496,000	$ 3,458,000	$ 535,000
Capital Lease Payable	6,606,902	-	9,119	6,597,783	9,747
Special Termination Benefits Payable	325,067	66,036	49,817	341,286	53,528
Compensated Absences Payable	8,329,193	939,464	1,145,780	8,122,877	1,455,687
Other Postemployment Benefits Payable	1,210,533	453,426	195,724	1,468,235	-
Net Pension Liability	35,387,928	23,006,771	5,806,622	52,588,077	999,567
Total Long-Term Liabilities	$ 55,813,623	$ 24,465,697	$ 7,703,062	$ 72,576,258	$ 3,053,529

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 SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2016:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2009A, Refunding	$ 210,000	5	2019
Series 2010A	2,475,000	3.5 - 5	2030
Series 2014B, Refundng	773,000	2 - 5	2020
Total	$ 3,458,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2017	$ 535,000	$ 153,635	$ 688,635
2018	569,000	126,885	695,885
2019	261,000	98,435	359,435
2020	198,000	86,835	284,835
2021	165,000	78,225	243,225
2022-2026	905,000	272,275	1,177,275
2027-2030	825,000	83,225	908,225
Total	$ 3,458,000	$ 899,515	$ 4,357,515

Capital Lease Payable. The College entered into a capital lease agreement in the amount of $6,615,433, at the stated interest rate of 6.77 percent to acquire an administrative office building. The lease agreement commenced on April 1, 2014, and expires 60 years from this date. The annual lease payment is $456,461, payable semi-annually on January 1 and July 1 of each year. The lease agreement contains a purchase option that may be exercised during the period commencing January 1, 2020, and expiring the earlier of May 31, 2073, or the sale of the property to a third party. Future minimum payments under the capital lease agreement and the required minimum payments as of June 30, 2016, are as follows:

Fiscal Year Ending June 30	Amount
2017	$ 456,461
2018	456,461
2019	456,461
2020	456,461
2021	456,461
2022-2026	2,282,305
2027-2031	2,282,305
2032-2036	2,282,305
2037-2041	2,282,305
2042-2046	2,282,305
2047-2051	2,282,305
2052-2056	2,282,305
2057-2061	2,282,305
2062-2066	2,282,305
2067-2071	2,282,305
2072-2074	1,369,382
Total Minimum Payments	26,474,737
Less, Amount Representing Interest	19,876,954
Present Value of Minimum Payments	$ 6,597,783

Special Termination Benefits Payable. Executive management employees are provided 7 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 other reason other than cause. Accrued benefits for 17 participants at June 30, 2016, totaled $341,286, of which $53,528 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, 2016, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $8,122,877. The current portion of the compensated absences liability, $1,455,687, 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 other postemployment healthcare benefits administered by the College and life insurance benefits through purchased commercial insurance.

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the College. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's

healthcare and life insurance coverage. The College subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible. The College does not issue a stand-alone report and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2015-16 fiscal year, 137 retirees received OPEB healthcare benefits, and 9 retirees received OPEB life insurance benefits. The College provided required contributions of $195,724 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled $1,022,683, which represents 1.2 percent of covered payroll.

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

Description	Amount
Normal Cost (Service Cost for One Year)	$ 289,899
Amortization of Unfunded Actuarial Accrued Liability	159,834
Annual Required Contribution	449,733
Interest on Net OPEB Obligation	48,421
Adjustment to Annual Required Contribution	(44,728)
Annual OPEB Cost (Expense)	453,426
Contribution Toward the OPEB Cost	(195,724)
Increase in Net OPEB Obligation	257,702
Net OPEB Obligation, Beginning of Year	1,210,533
Net OPEB Obligation, End of Year	$ 1,468,235

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2016, and for the 2 preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013-14	$ 506,979	47.5%	$ 938,519
2014-15	532,645	48.9%	1,210,533
2015-16	453,426	43.2%	1,468,235

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was $4,325,765, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $4,325,765 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $79,437,477 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.4 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the College's 2015-16 fiscal year ARC. This method was selected in anticipation of the change outlined in GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 5.5 percent Medicare for the 2015-16 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 5 years pre-Medicare and 2 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2016 was 21 years.

9. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the HIS Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees of State colleges.

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

The College's FRS and HIS pension expense totaled $4,902,476 for the fiscal year ended June 30, 2016.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class* (SMSC) – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

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

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

Class, Initial Enrollment, and Retirement Age/Years of Service	% Value
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Senior Management Service Class	2.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member 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. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2015-16 fiscal year were as follows:

Class	Percent of Gross Salary Employee	Employer (1)
FRS, Regular	3.00	7.26
FRS, Senior Management Service	3.00	21.43
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The College's contributions to the Plan totaled $4,650,143 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the College reported a liability of $25,354,054 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.196294399 percent, which was an increase of 0.0085522 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of $2,564,551. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,676,637	$ 601,321
Change of assumptions	1,682,834	-
Net difference between projected and actual earnings on FRS Plan investments	-	6,054,124
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	3,444,870	-
College FRS contributions subsequent to the measurement date	4,650,143	-
Total	$ 12,454,484	$ 6,655,445

The deferred outflows of resources related to pensions totaling $4,650,143, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2017	$ (1,201,481)
2018	(1,201,481)
2019	(1,201,481)
2020	3,575,743
2021	959,892
Thereafter	217,704
Total	$ 1,148,896

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.2%	3.1%	1.7%
Fixed Income	18%	4.8%	4.7%	4.7%
Global Equity	53%	8.5%	7.2%	17.7%
Real Estate (Property)	10%	6.8%	6.2%	12.0%
Private Equity	6%	11.9%	8.2%	30.0%
Strategic Investments	12%	6.7%	6.1%	11.4%
Total	100%			
Assumed inflation - Mean		2.6%		1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
College's proportionate share of the net pension liability	$ 65,698,089	$ 25,354,054	$ (8,218,809)

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

Payables to the Pension Plan. At June 30, 2016, the College reported a payable of $742,486 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2016.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled $1,441,293 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions. At June 30, 2016, the College reported a net pension liability of $27,234,023 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate

share of benefit payments expected to be paid within 1 year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.267041405 percent, which was an increase of 0.011081313 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of $2,337,925. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources
Change of assumptions	$ 2,142,607
Net difference between projected and actual earnings on HIS Plan investments	14,743
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	1,745,483
College contributions subsequent to the measurement date	1,441,293
Total	$ 5,344,126

The deferred outflows of resources totaling $1,441,293, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2017	$ 681,134
2018	681,134
2019	681,134
2020	678,261
2021	676,730
Thereafter	504,440
Total	$ 3,902,833

Actuarial Assumptions. The total pension liability at July 1, 2015, determined by applying update procedures to the actuarial valuation at July 1, 2014, used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	3.80 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 3.8 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
College's proportionate share of the net pension liability	$ 31,031,901	$ 27,234,023	$ 24,067,162

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

Payables to the Pension Plan. At June 30, 2016, the College reported a payable of $9,234 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2016.

10. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class

(Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2015-16 fiscal year were as follows:

Class	Percent of Gross Compensation
FRS, Regular	6.30
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The College's Investment Plan pension expense totaled $1,803,776 for the fiscal year ended June 30, 2016.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 2.65 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs,

for a total of 7.8 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled $448,301 and employee contributions totaled $261,146 for the 2015-16 fiscal year.

11. Operating Lease Commitments

The College leased a building under an operating lease, which expires in 2022. This leased asset and the related commitments are not reported on the College's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from this lease agreement are contingent upon future appropriations. Future minimum lease commitments for this noncancelable operating lease are as follows:

Fiscal Year Ending June 30	Amount
2017	$ 90,695
2018	90,695
2019	97,566
2020	107,185
2021	107,185
2022-2023	133,981
Total Minimum Payments Required	$ 627,307

12. Capital Expenses and Commitments

The College's construction commitments at June 30, 2016 is as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
East Campus, Building 9	$ 13,034,906	$ 1,873,224	$ 11,161,682
Poinciana Campus, Building 1	6,772,094	1,799,573	4,972,521
East Campus, Maintenance Building	3,379,035	2,422,389	956,646
Total	$ 23,186,035	$ 6,095,186	$ 17,090,849

13. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to $200 million for property insurance. Insurance

coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 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 $250,000 per insured person through December 2015, and $500,000 from January 2016. 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 $9,465,465 as of June 30, 2016. Amounts held by the College in excess of the estimated insurance claims liability at June 30, 2016, totaled $8,549,245 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 current and prior years for the College's self-insured program:

Fiscal Year	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	End of Fiscal Year
2014-15	$ 8,090,084	$ 12,684,665	$ (10,029,543)	$ 10,745,206
2015-16	10,745,206	10,473,468	(11,753,209)	9,465,465

14. Functional Distribution of Operating Expenses

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

Functional Classification	Amount
Instruction	$ 81,383,756
Academic Support	19,567,604
Student Services	28,042,050
Institutional Support	37,127,575
Operation and Maintenance of Plant	27,335,013
Scholarships and Waivers	30,607,272
Depreciation	9,911,555
Auxiliary Enterprises	16,110,058
Total Operating Expenses	$ 250,084,883

15. Related Party Transactions

The College's component unit, the Valencia College Foundation, Inc. (Foundation), purchased a 57,680 square foot building in MetroWest, near the West Campus, which it leases to the College as discussed in Note 8. The rent amount to be paid by the College reflects a 6.77 percent return on the Foundation's total cost basis for the amount expended on the acquisition of and structural improvements to the building. The lease commencement date was April 1, 2014, and expires 60 years from this date. The rental payment is $456,461 per year, payable semi-annually on January 1 and July 1 of each year. The lease contains a purchase option that may be exercised during the period commencing on January 1, 2020, and expiring on the earlier of May 31, 2073, or the sale of the property to a third party. The purchase price will be the Foundation's cost basis as of the date the College notifies the Foundation of its election to exercise the purchase option.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	$ -	$ 2,931,917	$ 2,931,917	0%	$ 69,025,900	4.3%
7/1/2013	-	4,711,673	4,711,673	0%	67,789,927	7.0%
7/1/2015	-	4,325,765	4,325,765	0%	79,437,477	5.4%

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

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

	2015 (1)	**2014** (1)	**2013** (1)
College's proportion of the FRS net pension liability	0.196294399%	0.187742199%	0.167975911%
College's proportionate share of the FRS net pension liability	$ 25,354,054	$ 11,455,035	$ 28,916,130
College's covered-employee payroll (2)	$ 90,177,274	$ 85,319,642	$ 78,946,546
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	28.12%	13.43%	36.63%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of College Contributions – Florida Retirement System Pension Plan

	2016 (1)	**2015** (1)	**2014** (1)
Contractually required FRS contribution	$ 4,650,143	$ 4,785,824	$ 4,112,351
FRS contributions in relation to the contractually required contribution	(4,650,143)	(4,785,824)	(4,112,351)
FRS contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll (2)	$ 96,187,891	$ 90,177,274	$ 85,319,642
FRS contributions as a percentage of covered-employee payroll	4.83%	5.31%	4.82%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

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

	2015 (1)	**2014** (1)	**2013** (1)
College's proportion of the HIS net pension liability	0.267041405%	0.255960092%	0.241878469%
College's proportionate share of the HIS net pension liability	$ 27,234,023	$ 23,932,893	$ 21,058,701
College's covered-employee payroll (2)	$ 90,177,274	$ 85,319,642	$ 78,946,546
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	30.20%	28.05%	26.67%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

Schedule of College Contributions – Health Insurance Subsidy Pension Plan

	2016 (1)	**2015** (1)	**2014** (1)
Contractually required HIS contribution	$ 1,441,293	$ 1,020,798	$ 876,833
HIS contributions in relation to the contractually required HIS contribution	(1,441,293)	(1,020,798)	(876,833)
HIS contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll (2)	$ 96,187,891	$ 90,177,274	$ 85,319,642
HIS contributions as a percentage of covered-employee payroll	1.50%	1.13%	1.03%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial liability of $4,325,765 was lower than the July 1, 2013, liability of $4,711,673 primarily due to:

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

2. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal rate used to determine the total pension liability decreased from 4.29 percent to 3.80 percent.

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The President of the Senate, the Speaker of the
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Legislative Auditing Committee

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 9, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

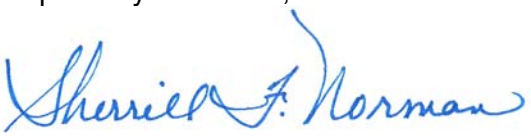
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 9, 2017