STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-178
March 2018

VALENCIA COLLEGE

For the Fiscal Year Ended
June 30, 2017

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. 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	Orange
Dr. Bruce A. Carlson, Vice Chair	Osceola
Maria C. Grulich	Osceola
John M. Crossman	Orange
Guillermo Hansen	Osceola
Daisy Lopez-Cid	Osceola
Raymer F. Maguire III	Orange

Note: Two Trustee positions were vacant through 6-30-17.

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 Gina M. Bailey, CPA, CFE, and the audit was supervised by Brenda C. Racis, CPA.

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

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

VALENCIA COLLEGE

TABLE OF CONTENTS

Page No.

SUMMARY i

INDEPENDENT AUDITOR'S REPORT 1

Report on the Financial Statements 1

Other Reporting Required by *Government Auditing Standards* 2

MANAGEMENT'S DISCUSSION AND ANALYSIS 4

BASIC FINANCIAL STATEMENTS

Statement of Net Position 14

Statement of Revenues, Expenses, and Changes in Net Position 16

Statement of Cash Flows 18

Notes to Financial Statements 20

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan 43

Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan 43

Schedule of College Contributions – Florida Retirement System Pension Plan 43

Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan 44

Schedule of College Contributions – Health Insurance Subsidy Pension Plan 44

Notes to Required Supplementary Information 45

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* 46

Internal Control Over Financial Reporting 46

Compliance and Other Matters 47

Purpose of this Report 47

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, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

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

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Valencia College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valencia College and of its discretely presented component unit as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

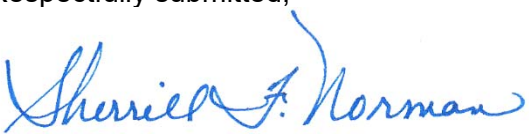
Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 28, 2018, 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 effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Valencia College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

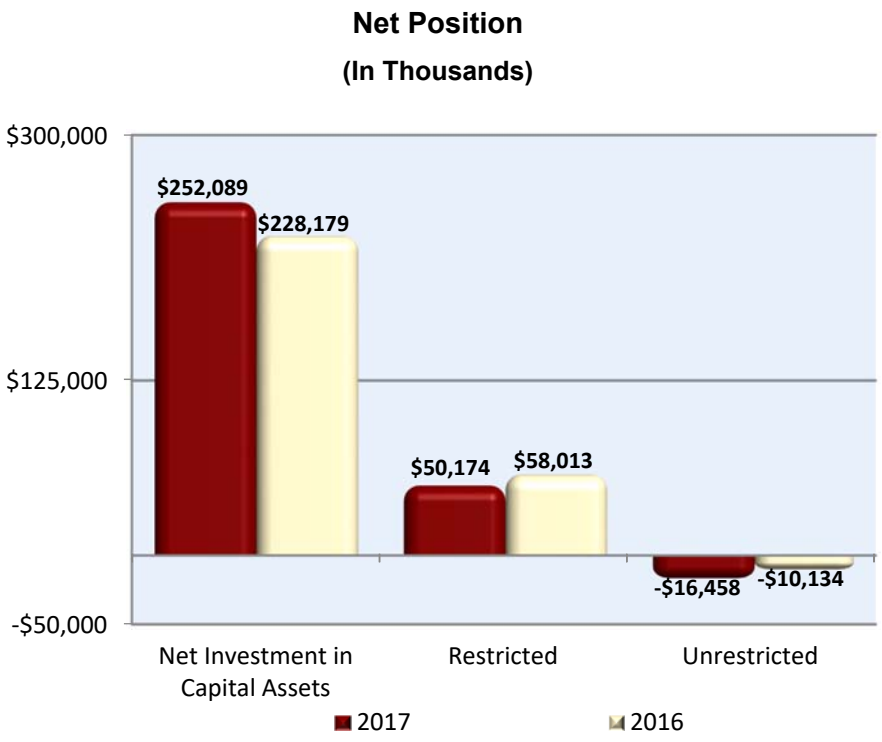
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2017, and June 30, 2016.

FINANCIAL HIGHLIGHTS

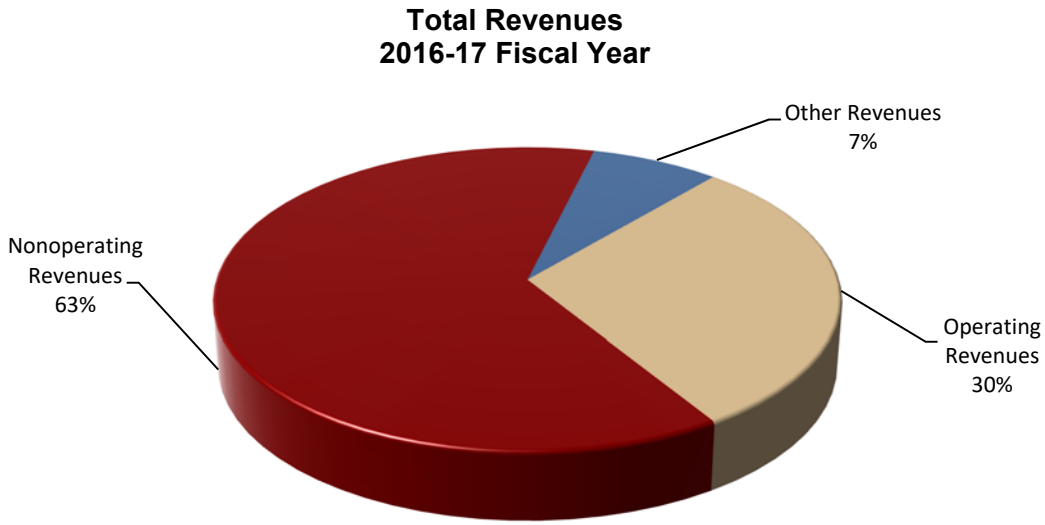
The College's assets totaled $375.7 million at June 30, 2017. This balance reflects a $17 million, or 4.7 percent, increase as compared to the 2015-16 fiscal year, primarily due to an increase in nondepreciable capital assets for the construction in progress of Poinciana Campus, Building 1. While assets grew by $17 million, liabilities increased by $31 million, or 33.1 percent, totaling $124.8 million at June 30, 2017, compared to $93.7 million at June 30, 2016. The increase in liabilities was primarily due to an increase in the net pension liability of the Florida Retirement System (FRS) defined benefit pension plans 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 the net changes in deferred outflows and inflows of resources related to pensions, the College's net position increased by $9.7 million, resulting in a year-end balance of $285.8 million.

The College's operating revenues totaled $81.5 million for the 2016-17 fiscal year, representing a 1.9 percent increase compared to the 2015-16 fiscal year due mainly to the 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 nonoperating gifts and grants – student aid revenues. Operating expenses totaled $265.6 million for the 2016-17 fiscal year, representing an increase of 6.2 percent as compared to the 2015-16 fiscal year due mainly to the creation of additional positions in the continuing education and student services divisions.

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



The following chart provides a graphical presentation of College revenues by category for the 2016-17 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)

	2017	2016
Assets		
Current Assets	$ 72,895	$ 75,306
Capital Assets, Net	261,600	238,234
Other Noncurrent Assets	41,157	45,103
Total Assets	375,652	358,643
Deferred Outflows of Resources	36,187	17,798
Liabilities		
Current Liabilities	26,639	24,205
Noncurrent Liabilities	98,132	69,523
Total Liabilities	124,771	93,728
Deferred Inflows of Resources	1,263	6,655
Net Position		
Net Investment in Capital Assets	252,089	228,179
Restricted	50,174	58,013
Unrestricted	(16,458)	(10,134)
Total Net Position	$ 285,805	$ 276,058

Total assets increased primarily from the capitalization of expenditures incurred during the 2016-17 fiscal year for two significant construction projects: Poinciana Campus Building 1 in the amount of $19.4 million and East Campus Building 9 in the amount of $8.8 million, offset by $10 million in additions to total accumulated depreciation.

In relation to the College's proportionate share of the FRS defined benefit pension plans, deferred outflows of resources increased by $18.4 million, and deferred inflows of resources decreased by

$5.4 million primarily related to the differences between projected and actual investment earnings on pension plan investments.

Total net position increased by $9.7 million, primarily due to the increase in net capital assets and deferred outflows of resources, offset by a rise in noncurrent liabilities, primarily due to growth in the net pension liability.

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 2016-17 and 2015-16 fiscal years:

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

(In Thousands)

	2016-17	2015-16
Operating Revenues	$ 81,519	$ 79,973
Less, Operating Expenses	265,554	250,085
Operating Loss	(184,035)	(170,112)
Net Nonoperating Revenues	173,103	163,892
Loss Before Other Revenues	(10,932)	(6,220)
Other Revenues	20,679	21,076
Net Increase In Net Position	9,747	14,856
Net Position, Beginning of Year	276,058	261,202
Net Position, End of Year	$ 285,805	$ 276,058

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 2016-17 and 2015-16 fiscal years:

Operating Revenues
For the Fiscal Years

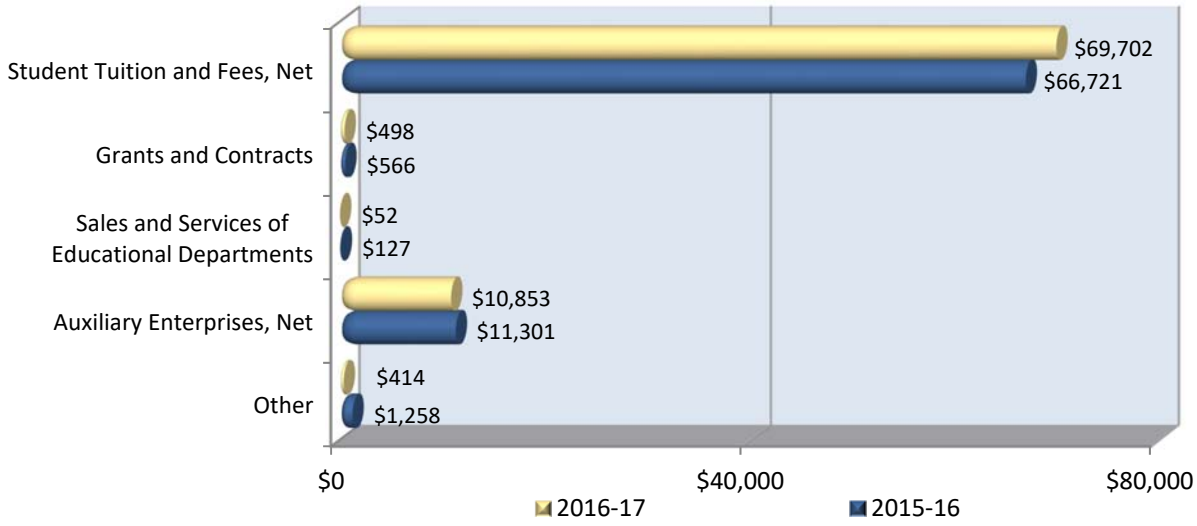
(In Thousands)

	2016-17	2015-16
Student Tuition and Fees, Net	$ 69,702	$ 66,721
Grants and Contracts	498	566
Sales and Services of Educational Departments	52	127
Auxiliary Enterprises, Net	10,853	11,301
Other	414	1,258
Total Operating Revenues	$ 81,519	$ 79,973

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

Operating Revenues

(In Thousands)



Total operating revenues increased by $1.5 million primarily due to an increase in the number of international students paying the nonresident tuition rate 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 2016-17 and 2015-16 fiscal years:

Operating Expenses
For the Fiscal Years

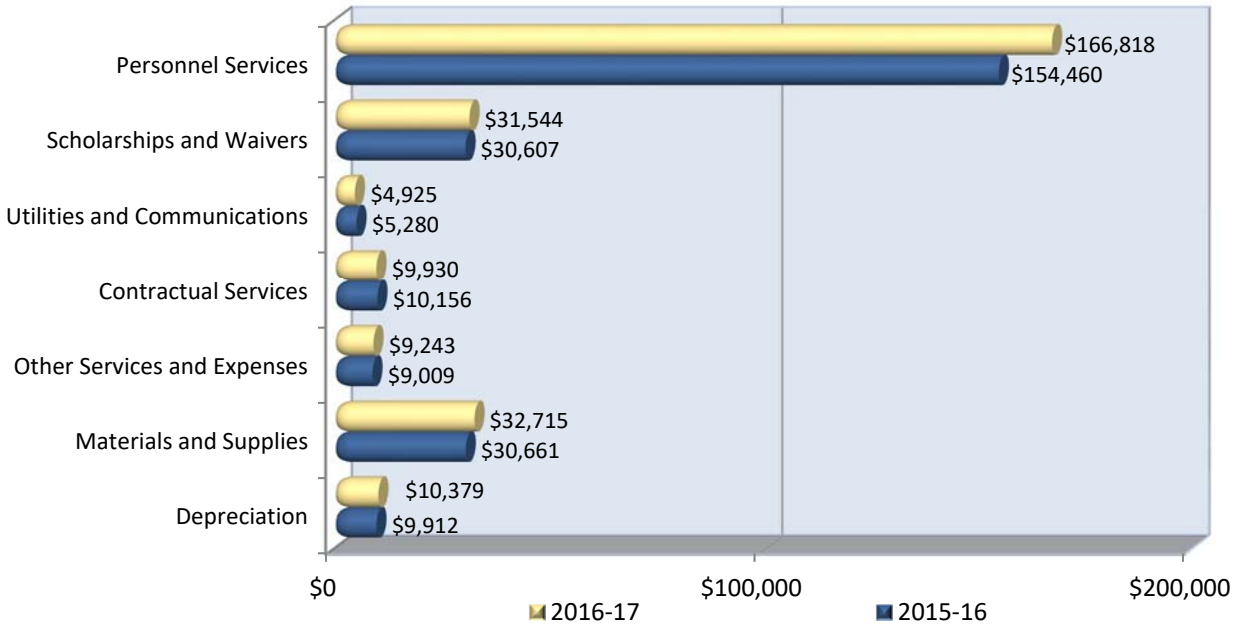
(In Thousands)

	2016-17	2015-16
Personnel Services	$ 166,818	$ 154,460
Scholarships and Waivers	31,544	30,607
Utilities and Communications	4,925	5,280
Contractual Services	9,930	10,156
Other Services and Expenses	9,243	9,009
Materials and Supplies	32,715	30,661
Depreciation	10,379	9,912
Total Operating Expenses	$ 265,554	$ 250,085

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

Operating Expenses

(In Thousands)



Total operating expenses increased by $15.5 million, mainly due to a $12.4 million, or 8 percent, increase in personnel service expense due to the following factors:

- All full-time and part-time faculty and staff received a 4 percent salary increase.
- Nine new continuing education instructional positions were added to support the growth in the intensive English and manufacturing programs.
- Nineteen new advisor positions were established to continue the comprehensive career and educational planning initiative developed as part of the College's Quality Enhancement Plan.
- Increase in health insurance expenditures of $4.1 million was due to a return of $4 million in nonrecurring contributions which decreased health insurance expense in the 2015-16 fiscal year in order to reduce the overfunded amount of the College's estimated insurance claims liability to

expected claims based on an actuarial study of the insurance plan. In the 2016-17 fiscal year, no adjustment was made to reduce the balance of insurance claim deposits. Further information about the College's self-insured health insurance program is presented in the notes to financial statements.

- Net pension expense increased by $6.2 million, or 127.5 percent, as a result of the rise in the College's share of net pension liability.

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 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2016-17	2015-16
State Noncapital Appropriations	$ 87,267	$ 79,572
Federal and State Student Financial Aid	74,060	74,778
Gifts and Grants	11,450	9,598
Investment Income	791	574
Other Nonoperating Revenues	135	-
Interest on Capital Asset-Related Debt	(600)	(630)
Net Nonoperating Revenues	$ 173,103	$ 163,892

Net nonoperating revenues increased by $9.2 million, or 5.6 percent, primarily due to an increase of $7.7 million, or 9.7 percent, in State general revenue, performance based incentive program, and lottery funds appropriations for the 2016-17 fiscal year. In addition, gifts and grants increased by $1.9 million mainly due to growth in Federal grant awards.

Other Revenues

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

Other Revenues
For the Fiscal Years

(In Thousands)

	2016-17	2015-16
State Capital Appropriations	$ 14,869	$ 13,900
Capital Grants, Contracts, Gifts, and Fees	5,810	7,176
Total	$ 20,679	$ 21,076

Total other revenues decreased by $0.4 million, or 1.9 percent, because a capital gift of donated land for the Poinciana Campus was recognized in the 2015-16 fiscal year.

The Statement of Cash Flows

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

The following summarizes the College's cash flows for the 2016-17 and 2015-16 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2016-17	2015-16
Cash Provided (Used) by:		
Operating Activities	$ (170,608)	$ (164,525)
Noncapital Financing Activities	173,771	162,697
Capital and Related Financing Activities	(6,802)	(434)
Investing Activities	572	(24,640)
Net Decrease in Cash and Cash Equivalents	(3,067)	(26,902)
Cash and Cash Equivalents, Beginning of Year	70,789	97,691
Cash and Cash Equivalents, End of Year	$ 67,722	$ 70,789

Major sources of funds came from State noncapital appropriations ($87.3 million), Federal and State student financial aid ($74 million), net student tuition and fees ($69.9 million), and Federal Direct Student Loan program receipts ($46.7 million). Major uses of funds were for payments to employees and for employee benefits ($162.5 million), payments to providers of goods and services ($52.4 million), disbursements to students for Federal Direct Student Loans ($45.6 million), and payments for scholarships ($31.5 million).

Cash used by operating activities increased by $6.1 million primarily due to additional personnel positions and a raise in salary for most positions. Cash used by noncapital financing activities increased by $11.1 million primarily due to an increase of $7.7 million in state noncapital appropriations and a reduction of approximately $3.4 million in Federal Direct Student Loan program disbursements. Cash used by capital and related financing activities increased by $6.4 million due to the acceleration of capital project spending for construction of the Poinciana Campus, Building 1 and the East Campus, Building 9. Both buildings opened in August 2017 for the upcoming Fall Semester.

Capital Assets

At June 30, 2017, the College had $400.4 million in capital assets, less accumulated depreciation of $138.8 million, for net capital assets of $261.6 million. Depreciation charges for the current fiscal year totaled $10.4 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)

	2017	2016
Land	$ 32,988	$ 32,988
Construction in Progress	33,867	6,095
Buildings	179,088	182,484
Other Structures and Improvements	2,241	3,569
Furniture, Machinery, and Equipment	4,543	3,986
Leasehold Improvements	2,754	2,828
Assets Under Capital Lease	6,119	6,285
Capital Assets, Net	$261,600	$238,235

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

Capital Expenses and Commitments

Capital expenses through June 30, 2017, were incurred on the following projects: East Campus Building 9, Poinciana Campus Building 1, and Center for Accelerated Training Building. The College's construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	$ 37,185
Completed to Date	(33,867)
Balance Committed	$ 3,318

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

Debt Administration

As of June 30, 2017, the College had $9.5 million in outstanding State Board of Education (SBE) capital outlay bonds and capital lease payable, representing a decrease of $0.6 million, or 5.4 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)

	2017	2016
SBE Capital Outlay Bonds	$ 2,923	$ 3,458
Capital Lease	6,588	6,598
Total	$ 9,511	$ 10,056

The SBE issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales and debt repayments totaled $0.6 million.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. In the 2017-18 fiscal year legislative appropriations, the College received a $1.2 million, or 1.5 percent, reduction in State general revenue and lottery funding which is less than the $4.7 million increase in funding received during the 2016-17 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A 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, 2017

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 35,247,691	$ 1,081,496
Restricted Cash and Cash Equivalents	7,191,439	-
Investments	9,725,775	-
Accounts Receivable, Net	5,179,827	2,169,705
Due from Other Governmental Agencies	10,593,093	-
Due from Component Unit/College	374,605	22,936
Inventories	2,506,523	-
Prepaid Expenses	2,073,599	-
Deposits	2,113	-
Other Assets	-	5,356,786
Total Current Assets	72,894,665	8,630,923
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	25,282,594	-
Investments	15,811,525	-
Restricted Investments	63,720	72,895,867
Depreciable Capital Assets, Net	194,744,947	5,699,185
Nondepreciable Capital Assets	66,854,635	3,084,064
Total Noncurrent Assets	302,757,421	81,679,116
TOTAL ASSETS	375,652,086	90,310,039
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	36,187,277	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,893,835	646,310
Salary and Payroll Taxes Payable	3,620,499	-
Retainage Payable	2,178,726	-
Due to Other Governmental Agencies	161,835	-
Due to Component Unit/College	20,289	520,280
Unearned Revenue	557,187	165,486
Estimated Insurance Claims Payable	12,500,451	-
Deposits Held for Others	848,456	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	569,000	-
Capital Lease Payable	10,418	-
Compensated Absences Payable	1,332,766	-
Net Pension Liability	945,216	-
Total Current Liabilities	26,638,678	1,332,076

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

June 30, 2017

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	2,354,000	-
Capital Lease Payable	6,577,618	-
Special Termination Benefits Payable	343,743	-
Compensated Absences Payable	7,297,381	-
Other Postemployment Benefits Payable	1,730,415	-
Net Pension Liability	79,828,983	-
Total Noncurrent Liabilities	98,132,140	-
TOTAL LIABILITIES	124,770,818	1,332,076
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	1,263,542	-
NET POSITION		
Net Investment in Capital Assets	252,088,546	8,783,249
Restricted:		
Nonexpendable:		
Endowment	-	33,605,140
Expendable:		
Grants and Loans	15,291,836	39,368,689
Scholarships	2,226,827	-
Capital Projects	32,592,023	-
Debt Service	63,720	-
Unrestricted	(16,457,949)	7,220,885
TOTAL NET POSITION	$ 285,805,003	$ 88,977,963

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, 2017

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $42,605,835	$ 69,701,813	$ -
Federal Grants and Contracts	497,858	83,839
State and Local Grants and Contracts	-	122,816
Nongovernmental Grants and Contracts	-	4,255,064
Sales and Services of Educational Departments	51,428	-
Auxiliary Enterprises, Net of Scholarship Allowances of $5,695,420	10,853,172	-
Other Operating Revenues	414,292	832,074
Total Operating Revenues	81,518,563	5,293,793
EXPENSES		
Operating Expenses:		
Personnel Services	166,818,768	1,044,928
Scholarships and Waivers	31,543,721	3,408,216
Utilities and Communications	4,924,790	-
Contractual Services	9,930,412	293,558
Other Services and Expenses	9,242,609	675,533
Materials and Supplies	32,714,575	24,748
Depreciation	10,378,696	156,030
Total Operating Expenses	265,553,571	5,603,013
Operating Loss	(184,035,008)	(309,220)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	87,267,473	-
Federal and State Student Financial Aid	74,059,432	-
Gifts and Grants	11,449,836	-
Investment Income	951,810	2,194,521
Net Gain (Loss) on Investments	(160,314)	6,698,111
Other Nonoperating Revenues	132,959	-
Gain on Disposal of Capital Assets	2,378	-
Interest on Capital Asset-Related Debt	(600,349)	-
Net Nonoperating Revenues	173,103,225	8,892,632
Income (Loss) Before Other Revenues	(10,931,783)	8,583,412
State Capital Appropriations	14,869,493	-
Capital Grants, Contracts, Gifts, and Fees	5,808,787	-
Total Other Revenues	20,678,280	-
Increase in Net Position	9,746,497	8,583,412
Net Position, Beginning of Year	276,058,506	80,394,551
Net Position, End of Year	$ 285,805,003	$ 88,977,963

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

THIS PAGE INTENTIONALLY LEFT BLANK

VALENCIA COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 69,898,394
Grants and Contracts	427,332
Payments to Suppliers	(52,446,485)
Payments for Utilities and Communications	(4,924,790)
Payments to Employees	(134,516,848)
Payments for Employee Benefits	(27,963,347)
Payments for Scholarships	(31,543,721)
Auxiliary Enterprises, Net	10,856,285
Sales and Services of Educational Departments	51,428
Other Payments	(446,171)
Net Cash Used by Operating Activities	(170,607,923)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	87,267,473
Federal and State Student Financial Aid	73,988,659
Federal Direct Loan Program Receipts	46,655,321
Federal Direct Loan Program Disbursements	(45,589,582)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	11,449,836
Net Cash Provided by Noncapital Financing Activities	173,771,707
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	19,367,531
Capital Grants and Gifts	6,596,404
Proceeds from Sale of Capital Assets	132,959
Purchases of Capital Assets	(31,754,234)
Principal Paid on Capital Debt and Lease	(544,747)
Interest Paid on Capital Debt and Lease	(600,349)
Net Cash Used by Capital and Related Financing Activities	(6,802,436)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	571,684
Net Decrease in Cash and Cash Equivalents	(3,066,968)
Cash and Cash Equivalents, Beginning of Year	70,788,692
Cash and Cash Equivalents, End of Year	$ 67,721,724

VALENCIA COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2017

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (184,035,008)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,378,696
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(329,431)
Due from Other Governmental Agencies	(1,024,869)
Inventories	(710,613)
Prepaid Expenses	(938,826)
Accounts Payable	1,437,003
Salary and Payroll Taxes Payable	(3,873,875)
Unearned Revenue	112,150
Estimated Insurance Claims Payable	3,034,986
Deposits Held for Others	164,405
Special Termination Benefits Payable	2,457
Compensated Absences Payable	507,270
Other Postemployment Benefits Payable	262,180
Net Pension Liability	28,186,122
Deferred Outflows of Resources Related to Pensions	(18,388,667)
Deferred Inflows of Resources Related to Pensions	(5,391,903)
NET CASH USED BY OPERATING ACTIVITIES	$ (170,607,923)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized losses on investments were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ (160,314)

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 laws and SBE rules. The College serves 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, 2017.

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

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

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

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

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

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

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 amounts within its student accounts receivable system paid by

student aid for tuition and books. The amounts are deducted from student tuition and fees and auxiliary enterprises, 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, that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the Florida PRIME investment pool to be cash equivalents.

College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2017, the College reported as cash equivalents $39,535,318 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the

trustees exceed 15 days." As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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 positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

The College reported an unrestricted net position which included a deficit in the current funds - unrestricted, as shown below. This deficit can be attributed to the full recognition of long-term

liabilities (i.e., compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

Fund	Net Position
Current Funds - Unrestricted	$ (34,373,491)
Auxiliary Funds	17,915,542
Total	$ (16,457,949)

3. Investments

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

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

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

All of the College's recurring fair value measurements as of June 30, 2017, are valued using quoted market prices (Level 1 inputs).

The College's investments at June 30, 2017, 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	$ 63,720	$ 63,720	$ -	$ -
Mutual Funds:				
Fixed Income	25,537,300	25,537,300	-	-
Total investments by fair value level	$ 25,601,020	$ 25,601,020	$ -	$ -

State Board of Administration Debt Service Accounts.

The College reported investments totaling $63,270 at June 30, 2017, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments.

The College's other investments totaling $25,537,300 at June 30, 2017, consist of fixed income mutual fund 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, 2017, 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, 2017, 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, 2017, there were no concentrations of credit risk.

Component Unit Investments.

The Foundation categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The fair value of investments consists of the following:

		Fair Value Measurements Using		
Investments by fair value level	**Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fixed income mutual funds	$ 19,946,678	$ 19,946,678	$ -	$ -
Equity mutual funds	29,428,282	29,428,282	-	-
International mututal funds	19,205,508	19,205,508	-	-
SEI Energy Debt Fund, L.P.	4,315,399	-	-	4,315,399
Total investments by fair value level	$ 72,895,867	$ 68,580,468	$ -	$ 4,315,399

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments and unused credit memos. The accounts receivable are reported net of a $2,197,486 allowance for doubtful accounts.

5. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of $7,300,000 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 $374,605 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 $20,289 reported as due to component unit consists of amounts owed by the College to the Foundation

for theater production ticket sales. The College's financial statements are reported for the fiscal year ended June 30, 2017. The College's component unit's financial statements are reported for the fiscal year ended March 31, 2017. Accordingly, amounts reported by the College as due from and to component unit on the statement of net position do not agree with amounts reported by the component unit as due from and to the College.

7. Capital Assets

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 32,987,698	$ -	$ -	$ 32,987,698
Construction in Progress	6,095,186	30,629,577	2,857,826	33,866,937
Total Nondepreciable Capital Assets	$ 39,082,884	$ 30,629,577	$ 2,857,826	$ 66,854,635
Depreciable Capital Assets:				
Buildings	$ 278,672,985	$ 2,857,826	$ -	$ 281,530,811
Other Structures and Improvements	20,090,558	154,599	-	20,245,157
Furniture, Machinery, and Equipment	21,523,421	2,969,643	2,350,202	22,142,862
Leasehold Improvements	2,973,769	-	-	2,973,769
Asset Under Capital Lease	6,615,433	-	-	6,615,433
Total Depreciable Capital Assets	329,876,166	5,982,068	2,350,202	333,508,032
Less, Accumulated Depreciation:				
Buildings	96,189,176	6,253,898	-	102,443,074
Other Structures and Improvements	16,521,708	1,482,271	-	18,003,979
Furniture, Machinery, and Equipment	17,537,376	2,402,797	2,339,904	17,600,269
Leasehold Improvements	145,261	74,344	-	219,605
Asset Under Capital Lease	330,772	165,386	-	496,158
Total Accumulated Depreciation	130,724,293	10,378,696	2,339,904	138,763,085
Total Depreciable Capital Assets, Net	$ 199,151,873	$ (4,396,628)	$ 10,298	$ 194,744,947

8. Long-Term Liabilities

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 3,458,000	$ -	$ 535,000	$ 2,923,000	$ 569,000
Capital Lease Payable	6,597,783	-	9,747	6,588,036	10,418
Special Termination Benefits Payable	341,286	57,108	54,651	343,743	-
Compensated Absences Payable	8,122,877	1,616,426	1,109,156	8,630,147	1,332,766
Other Postemployment Benefits Payable	1,468,235	475,965	213,785	1,730,415	-
Net Pension Liability	52,588,077	56,905,386	28,719,264	80,774,199	945,216
Total Long-Term Liabilities	$ 72,576,258	$ 59,054,885	$ 30,641,603	$ 100,989,540	$ 2,857,400

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and 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, 2017:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2009A, Refunding	$ 145,000	5	2019
Series 2010A	2,340,000	3.5 - 5	2030
Series 2014B, Refunding	438,000	2 - 5	2020
Total	$ 2,923,000		

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

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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	175,000	69,975	244,975
2023-2027	925,000	234,325	1,159,325
2028-2030	630,000	51,200	681,200
Total	$ 2,923,000	$ 745,880	$ 3,668,880

Capital Lease Payable. The College entered into a capital lease agreement in the amount of $6,615,433, at a 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 present value of the minimum payments as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Amount
2018	$ 456,461
2019	456,461
2020	456,461
2021	456,461
2022	456,461
2023-2027	2,282,305
2028-2032	2,282,305
2033-2037	2,282,305
2038-2042	2,282,305
2043-2047	2,282,305
2048-2052	2,282,305
2053-2057	2,282,305
2058-2062	2,282,305
2063-2067	2,282,305
2068-2072	2,282,305
2073-2074	912,921
Total Minimum Payments	26,018,276
Less, Amount Representing Interest	19,430,240
Present Value of Minimum Payments	$ 6,588,036

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 reason other than cause. Accrued benefits for 18 participants at June 30, 2017, totaled $343,743.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $8,630,147. The current portion of the compensated absences liability, $1,332,766, is the amount expected to be paid in the coming fiscal year based on a historically determined average of the current portion in prior years.

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

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 other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 140 retirees received OPEB healthcare benefits, and 8 retirees received OPEB life insurance benefits. The College provided required contributions of $213,785 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 $1,009,866, which represents 1.1 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	169,990
Interest on Normal Cost and Amortization	11,596
Annual Required Contribution	471,485
Interest on Net OPEB Obligation	58,729
Adjustment to Annual Required Contribution	(54,249)
Annual OPEB Cost (Expense)	475,965
Contribution Toward the OPEB Cost	(213,785)
Increase in Net OPEB Obligation	262,180
Net OPEB Obligation, Beginning of Year	1,468,235
Net OPEB Obligation, End of Year	$ 1,730,415

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014-15	$ 532,645	48.9%	$ 1,210,533
2015-16	453,426	43.2%	1,468,235
2016-17	475,965	44.9%	1,730,415

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 $96,520,831 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.5 percent.

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

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

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial cost method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 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 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent beginning with the 2020-21 fiscal year for pre-Medicare and the 2017-18 fiscal year for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled $80,774,199. Note 9. includes a complete discussion of defined benefit pension plans.

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 $11,150,891 for the fiscal year ended June 30, 2017.

FRS Pension Plan.

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after

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

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

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

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 was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit

by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

	Percent of Gross Salary	
Class	**Employee**	**Employer** (1)
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The College's contributions to the Plan totaled $5,194,416 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of $47,987,953 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.190050708 percent, which was a decrease of 0.006243691 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of $7,931,608. 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	$ 3,674,327	$ 446,800
Change of assumptions	2,903,128	-
Net difference between projected and actual earnings on FRS Plan investments	12,404,301	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	2,692,988	742,067
College FRS contributions subsequent to the measurement date	5,194,416	-
Total	$ 26,869,160	$ 1,188,867

The deferred outflows of resources related to pensions totaling $5,194,416, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	$ 3,188,742
2019	3,188,742
2020	7,965,966
2021	5,350,115
2022	670,280
Thereafter	122,032
Total	$ 20,485,877

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

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

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

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
College's proportionate share of the net pension liability	$88,349,070	$47,987,953	$14,392,653

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, 2017, the College reported a payable of $1,288,506 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2017.

HIS Pension Plan.

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

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled $1,565,744 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of $32,786,246 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.281316270 percent, which was an increase of 0.014274865 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of $3,219,283. 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	$ -	$ 74,675
Change of assumptions	5,144,996	-
Net difference between projected and actual earnings on HIS Plan investments	16,577	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	2,590,800	-
College contributions subsequent to the measurement date	1,565,744	-
Total	$ 9,318,117	$ 74,675

The deferred outflows of resources totaling $1,565,744, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2018	$ 1,393,772
2019	1,393,772
2020	1,390,899
2021	1,389,371
2022	1,160,368
Thereafter	949,516
Total	$ 7,677,698

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

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
College's proportionate share of the net pension liability	$37,613,273	$32,786,246	$28,780,077

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, 2017, the College reported a payable of $15,935 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2017.

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 2016-17 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, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

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

The College's Investment Plan pension expense totaled $2,119,470 for the fiscal year ended June 30, 2017.

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, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, for a total of 7.98 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 $450,190 and employee contributions totaled $262,247 for the 2016-17 fiscal year.

11. Capital Expenses and Commitments

The College's construction commitments at June 30, 2017, were as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
East Campus Building 9	$ 11,300,148	$ 10,694,736	$ 605,412
Poinciana Campus Building 1	23,804,336	21,211,083	2,593,253
Poinciana Campus Center for Accelerated Training Building	2,080,624	1,961,118	119,506
Total	$ 37,185,108	$ 33,866,937	$ 3,318,171

12. 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
2018	$ 90,695
2019	97,566
2020	107,185
2021	107,185
2022	107,185
2023	26,796
Total Minimum Payments Required	$ 536,612

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.

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 $500,000 per insured person for the 2016-17 fiscal year. The plan is provided by an insurance company licensed by the Florida Department of Financial Services, Office of Insurance Regulation. The College contributes employee premiums as a fringe benefit. Employee dependent coverage is by payroll deduction and coverage for retirees, former employees, and their dependents is by prepaid premium.

The College reports a liability when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The liability includes an amount for claims that have been incurred, but not reported, and an amount for claims administration expense. Because the actual claims liability depends on such complex factors as inflation, change in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. The College reevaluates the claims liability periodically and the claims liability totaled $12,500,451 as of June 30, 2017. Amounts held by the College in excess of the estimated insurance claims liability at June 30, 2017, totaled $11,634,175 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
2015-16	$ 10,745,206	$ 10,473,468	$ (11,753,209)	$ 9,465,465
2016-17	9,465,465	14,493,030	(11,458,044)	12,500,451

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	$ 89,684,261
Academic Support	20,697,938
Student Services	31,798,919
Institutional Support	39,789,123
Operation and Maintenance of Plant	26,880,445
Scholarships and Waivers	31,543,721
Depreciation	10,378,696
Auxiliary Enterprises	14,780,468
Total Operating Expenses	$ 265,553,571

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 annual lease payment is $456,461 per year, 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 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.

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

	2016 (1)	**2015** (1)	**2014** (1)	**2013** (1)
College's proportion of the FRS net pension liability	0.190050708%	0.196294399%	0.187742199%	0.167975911%
College's proportionate share of the FRS net pension liability	$ 47,987,953	$ 25,354,054	$ 11,455,035	$ 28,916,130
College's covered payroll (2)	$ 104,892,761	$ 98,931,589	$ 94,207,047	$ 87,660,009
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	45.75%	25.63%	12.16%	32.99%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

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

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

Schedule of College Contributions – Florida Retirement System Pension Plan

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required FRS contribution	$ 5,194,416	$ 4,650,143	$ 4,785,824	$ 4,112,351
FRS contributions in relation to the contractually required contribution	(5,194,416)	(4,650,143)	(4,785,824)	(4,112,351)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 118,458,249	$ 104,892,761	$ 98,931,589	$ 94,207,047
FRS contributions as a percentage of covered payroll	4.39%	4.43%	4.84%	4.37%

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

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

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

	2016 (1)	**2015** (1)	**2014** (1)	**2013** (1)
College's proportion of the HIS net pension liability	0.281316270%	0.267041405%	0.255960092%	0.241878469%
College's proportionate share of the HIS net pension liability	$ 32,786,246	$ 27,234,023	$ 23,932,893	$ 21,058,701
College's covered payroll (2)	$ 96,187,981	$ 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 payroll	34.09%	30.20%	28.05%	26.67%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

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

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

Schedule of College Contributions – Health Insurance Subsidy Pension Plan

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)
Contractually required HIS contribution	$ 1,565,744	$ 1,441,293	$ 1,020,798	$ 876,833
HIS contributions in relation to the contractually required HIS contribution	(1,565,744)	(1,441,293)	(1,020,798)	(876,833)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 109,716,705	$ 96,187,891	$ 90,177,274	$ 85,319,642
HIS contributions as a percentage of covered payroll	1.43%	1.50%	1.13%	1.03%

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

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

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of $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 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 – Florida Retirement System Pension Plan

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 28, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

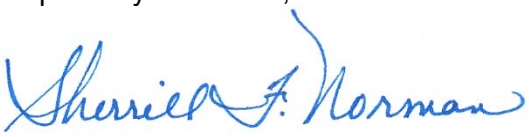
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 28, 2018