

VALENCIA COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2010



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

	<u>County</u>
Lewis M. Oliver, III, Chair (1)	Orange
Raymer F. Maguire, III, Vice Chair (1)	Orange
Ronald Blocker to 8-06-09	Orange
Jerry D. Buchanan	Orange
Bertica M. Cabrera-Morris	Orange
Lori K. Kifer from 8-07-09	Orange
Edward A. Moore to 5-31-10 (2)	Osceola
Maria C. Grulich Toumazos	Osceola
Jo Quittschreiber	Osceola

Dr. Sanford C. Shugart, President

- Notes: (1) Board member served beyond the end of term, May 31, 2010.
- (2) Position vacant from June 1, 2010, to June 30, 2010.

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

The audit team leader was John E. Rebhann, and the audit was supervised by Brenda C. Racis, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

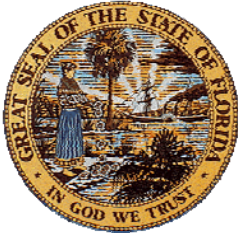
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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, 2010. We obtained an understanding of the College's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2011-025.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Valencia Community 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, 2010, which collectively comprise the College's basic financial statements as shown on pages 11 through 29. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represents 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Valencia Community College and of its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 10 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 30 and 31 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
March 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2010, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$265.7 million at June 30, 2010. The majority of these assets are in physical plant. Total assets reflect a \$7 million, or 2.7 percent, increase from the 2008-09 fiscal year. While assets grew, liabilities decreased by \$3.1 million, or 14 percent, totaling \$18.8 million at June 30, 2010, compared to \$21.9 million at June 30, 2009. As a result, the College's net assets increased by \$10 million, or 4.2 percent, reaching a year-end balance of \$246.9 million.

The College's revenues totaled \$220.3 million for the 2009-10 fiscal year, representing a 6.1 percent decrease over the 2008-09 fiscal year. Operating expenses totaled \$210.1 million for the 2009-10 fiscal year, representing an increase of 5.6 percent over the 2008-09 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 assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

- Valencia Community College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Valencia Community College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. The Foundation's fiscal year differs from the College and covers the period April through March.

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

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

These two statements report Valencia Community College's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

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

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

	College		Component Unit	
	6-30-10	6-30-09	03-31-10	03-31-09
Assets				
Current Assets	\$ 62,465	\$ 74,216	\$ 10,313	\$ 2,172
Capital Assets, Net	185,567	176,122	3,225	3,274
Other Noncurrent Assets	17,703	8,440	47,873	44,671
Total Assets	265,735	258,778	61,411	50,117
Liabilities				
Current Liabilities	9,030	12,749	695	705
Noncurrent Liabilities	9,788	9,140		
Total Liabilities	18,818	21,889	695	705
Net Assets				
Invested in Capital Assets, Net of Related Debt	182,317	172,527		
Restricted	39,269	49,012	59,546	47,966
Unrestricted	25,331	15,350	1,170	1,446
Total Net Assets	\$246,917	\$236,889	\$ 60,716	\$ 49,412
Increase in Net Assets	\$ 10,028	4.2%	\$ 11,304	22.9%

Noncapital assets decreased by \$2.5 million primarily due a decrease of \$21.4 million in the Public Education and Capital Outlay (PECO) receivable for capital project funds that were appropriated in prior fiscal years, but expended in the 2009-10 fiscal year. The PECO receivable decrease was offset by a \$19.9 million increase in cash and cash equivalents from increased tuition receipts, a result of an 11 percent rise in enrollment over the 2008-09 fiscal year, and a savings of \$6.6 million in student capital fee revenues collected but not expended in the 2009-10 fiscal year in order to provide funding for the construction of Southeast Campus Building 1.

Net capital assets increased by \$9.4 million mainly due to the acquisition of 23.4 acres for the future site of the Southeast Campus, and included an in-kind property donation of \$5 million from the seller.

Total current liabilities decreased by \$3.7 million due mainly due to a decrease of \$2 million in retainage payable, since the College had no major construction projects outstanding at June 30, 2010.

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

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

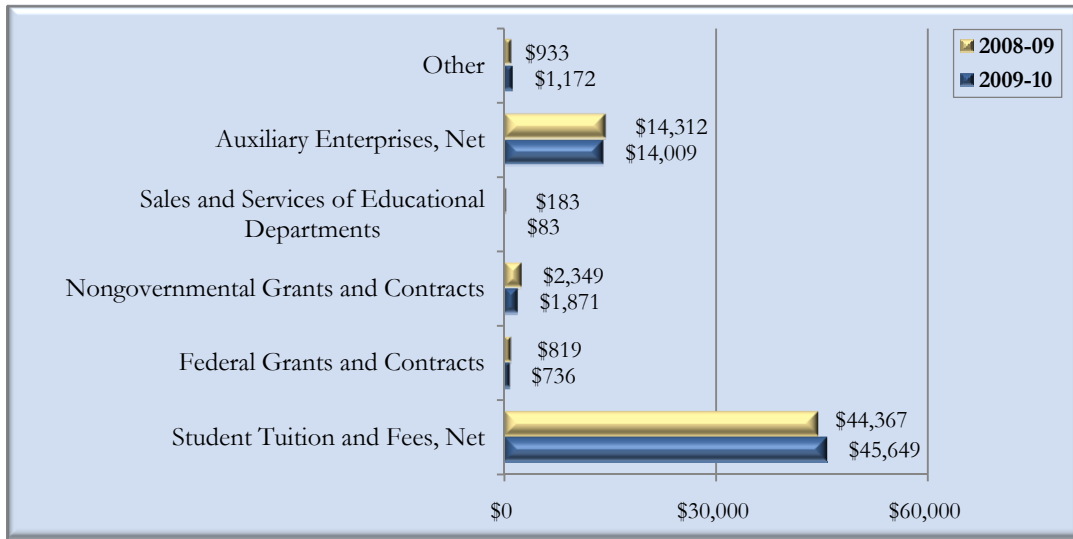
	College		Component Unit	
	6-30-10	6-30-09	3-31-10	3-31-09
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 45,649	\$ 44,367	\$	\$
Federal Grants and Contracts	736	819		
State and Local Grants and Contracts			123	233
Nongovernmental Grants and Contracts	1,871	2,349	4,139	3,103
Sales and Services of Educational Departments	83	183		
Auxiliary Enterprises, Net of Scholarship Allowances	14,009	14,312		
Other Operating Revenues	1,172	933	830	896
Total Operating Revenues	63,520	62,963	5,092	4,232
Less, Operating Expenses	210,097	198,956	3,505	4,328
Operating Income (Loss)	(146,577)	(135,993)	1,587	(96)
Nonoperating Revenues (Expenses)				
State Appropriations	57,657	62,468		
Gifts and Grants - Student Aid	76,794	46,423		
Gifts and Grants - Other	7,443	3,040		
Other Nonoperating Revenues	869	1,261	9,855	
Nonoperating Expenses	(171)	(192)	(138)	(9,474)
Net Nonoperating Revenues (Expenses)	142,592	113,000	9,717	(9,474)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,985)	(22,993)	11,304	(9,570)
Capital Appropriations	2,291	41,811		
Capital Grants, Contracts, Gifts, and Fees	11,722	16,658		
Increase (Decrease) in Net Assets	10,028	35,476	11,304	(9,570)
Net Assets, Beginning of Year	236,889	201,413	49,412	58,982
Net Assets, End of Year	\$ 246,917	\$ 236,889	\$ 60,716	\$ 49,412

Operating Revenues

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

The following chart presents the College's operating revenues for the 2009-10 and 2008-09 fiscal years:

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



Total operating revenues slightly increased by \$0.6 million, or 0.9 percent, primarily due to an increase in student tuition and fees, net of 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 assets and has displayed the functional classification in the notes to financial statements.

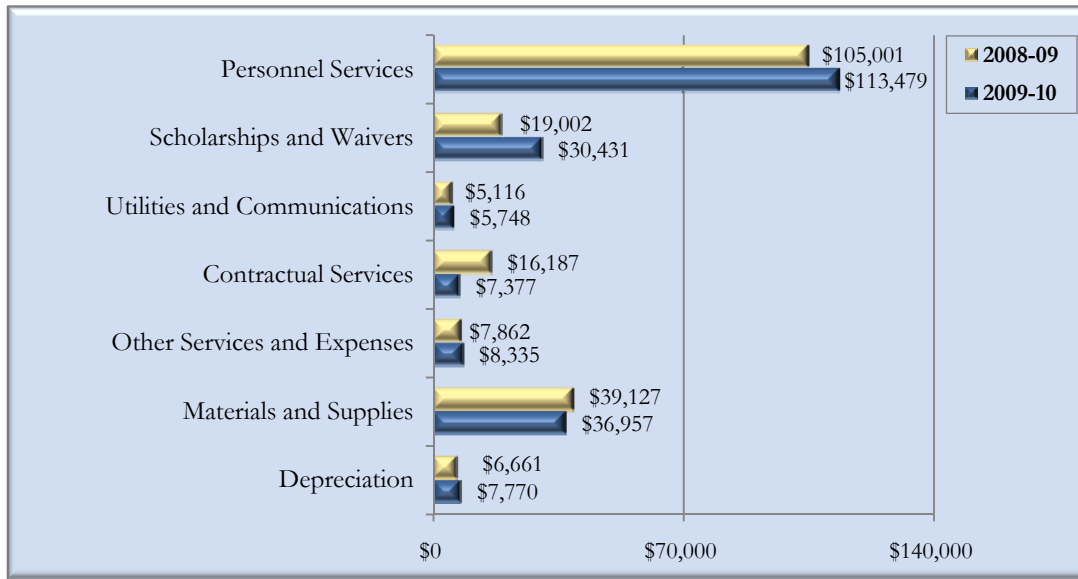
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

**Operating Expenses
(In Thousands)**

	College		Component Unit	
	6-30-10	6-30-09	3-31-10	3-31-09
Operating Expenses				
Personnel Services	\$113,479	\$105,001	\$ 369	\$ 694
Scholarships and Waivers	30,431	19,002	2,367	3,232
Utilities and Communications	5,748	5,116	2	2
Contractual Services	7,377	16,187	43	55
Other Services and Expenses	8,335	7,862	648	256
Materials and Supplies	36,957	39,127	28	39
Depreciation	7,770	6,661	48	50
Total Operating Expenses	\$210,097	\$198,956	\$ 3,505	\$ 4,328

The following chart presents the College’s operating expenses for the 2009-10 and 2008-09 fiscal years:

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



Operating expenses for the College increased \$11.1 million, or 5.6 percent, compared to the prior fiscal year as a result of the following factors:

- Salary and related benefit expenses increased \$8.5 million due to the reclassification of information technology personnel from contracted employees to College employees. However, this increase in personnel expenditures was offset by a decrease in contractual services of \$8.8 million.
- Scholarship and waivers expense increased by \$11.4 million because of a 49.6 percent increase in the number of students receiving the Pell Grant award. In addition, year-round Pell awards were disbursed for the first time during the 2009-10 fiscal year, which could result in a student receiving awards from two different aid years within the same fiscal year.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, 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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
State Appropriations	\$ 57,657	\$ 62,468
Gifts and Grants - Student Aid	76,794	46,423
Gifts and Grants - Other	7,443	3,040
Other Nonoperating Revenues	869	1,261
Interest on Capital Asset-Related Debt	(171)	(192)
Net Nonoperating Revenues	<u>\$142,592</u>	<u>\$113,000</u>

Net nonoperating revenues increased by \$29.6 million, or 26.2 percent, primarily due to an increase in Federal and State student financial aid revenue of \$30.4 million as a result of enrollment growth, the number of eligible participants qualifying for financial aid, and year-round Pell awards. Funding of \$5.2 million received through the

Federal American Recovery and Reinvestment Act (ARRA) was partially offset by a decrease in State appropriations of \$4.8 million.

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Capital Appropriations	\$ 2,291	\$ 41,811
Capital Grants, Contracts, Gifts, and Fees	11,722	16,658
Total	\$ 14,013	\$ 58,469

Other revenues decreased by \$44.5 million, or 76 percent, mainly because of a significant reduction in PECO appropriations for new construction in the 2009-10 fiscal year.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College’s cash flows for the 2009-10 and 2008-09 fiscal years is presented in the following table:

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

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (140,433)	\$ (128,663)
Noncapital Financing Activities	141,879	111,945
Capital and Related Financing Activities	12,616	22,135
Investing Activities	5,868	(4,648)
Net Increase in Cash and Cash Equivalents	19,930	769
Cash and Cash Equivalents, Beginning of Year	41,904	41,135
Cash and Cash Equivalents, End of Year	\$ 61,834	\$ 41,904

The major sources of operating activities funds came from net student tuition and fees (\$42 million), and bookstore receipts (\$13.2 million). State appropriations (\$57.7 million), and grants and contracts (\$84.2 million) are the primary sources of funds for noncapital financing activities. Capital appropriations from the State’s PECO program (\$23.4 million), and the student capital improvement fee (\$6.6 million), account for most of the cash provided for capital and related financing activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2010, the College had \$266.2 million in capital assets, less accumulated depreciation of \$80.6 million, for net capital assets of \$185.6 million. Depreciation charges for the current fiscal year totaled \$7.8 million. The following table summarizes the College’s capital assets at June 30:

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

<u>Capital Assets</u>	<u>2010</u>	<u>2009</u>
Land	\$ 29,145	\$ 18,598
Buildings	202,049	176,299
Other Structures and Improvements	19,683	13,542
Furniture, Machinery, and Equipment	15,061	14,733
Construction in Progress	250	26,363
Total	<u>266,188</u>	<u>249,535</u>
Less, Accumulated Depreciation:		
Buildings	59,353	54,009
Other Structures and Improvements	7,953	6,511
Furniture, Machinery, and Equipment	13,315	12,893
Total Accumulated Depreciation	<u>80,621</u>	<u>73,413</u>
Capital Assets, Net	<u>\$ 185,567</u>	<u>\$ 176,122</u>

The College has no material construction commitments at June 30, 2010. The major capital projects planned for the 2010-11 fiscal year are to begin construction on Southeast Building 1, and start the design and construction of Osceola Building 4. State appropriations together with local funds are expected to finance the planning and construction of these buildings. More information about the College’s capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$3.3 million in debt outstanding versus \$3.6 million at the end of the prior fiscal year, a decrease of 8.3 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2009-10 fiscal year, the College’s portion of the State Board of Education Capital Outlay Bonds, Series 1999-A, in the amount of \$615,000, was refunded by a portion of the Capital Outlay Bonds Series 2009-A, resulting in a reduction of debt of \$35,000. Debt repayments on bond issues totaled \$310,000. Additional information about the College’s long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Valencia Community College’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the coming year. In response to a decrease in State appropriations, the Board of Trustees increased the tuition rate 5 percent to take effect beginning with the Fall 2010 term. The College’s current financial and capital plans are based on continued reductions in State funding which are partially offset by a steady increase in enrollment and higher student tuition and fees.

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 Administrative Services, Valencia Community College, Post Office Box 3028, Orlando, Florida 32802.

BASIC FINANCIAL STATEMENTS

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2010**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 27,984,670	\$ 7,268,438
Restricted Cash and Cash Equivalents	16,147,050	5,225
Accounts Receivable, Net	7,716,330	2,168,602
Due from Other Governmental Agencies	7,180,749	772,151
Due from Component Unit/College	259,601	1,125
Inventories	2,642,403	
Prepaid Expenses	517,619	
Other Current Assets	17,075	97,235
Total Current Assets	<u>62,465,497</u>	<u>10,312,776</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	17,702,771	
Restricted Investments		47,872,670
Depreciable Capital Assets, Net	156,172,080	436,971
Nondepreciable Capital Assets	29,395,393	2,788,245
Total Noncurrent Assets	<u>203,270,244</u>	<u>51,097,886</u>
TOTAL ASSETS	<u>\$ 265,735,741</u>	<u>\$61,410,662</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,493,754	\$ 279,253
Salary and Payroll Taxes Payable	4,420,339	
Retainage Payable	150,342	
Due to Other Governmental Agencies	629,120	
Due to Component Unit/College	61,030	233,862
Deferred Revenue	124,979	181,480
Deposits Held for Others	194,816	
Long-Term Liabilities - Current Portion:		
Bonds Payable	325,000	
Special Termination Benefits Payable	17,850	
Compensated Absences Payable	612,797	
Total Current Liabilities	<u>9,030,027</u>	<u>694,595</u>
Noncurrent Liabilities:		
Bonds Payable	2,925,000	
Special Termination Benefits Payable	252,153	
Compensated Absences Payable	6,352,622	
Other Postemployment Benefits Payable	258,700	
Total Noncurrent Liabilities	<u>9,788,475</u>	
TOTAL LIABILITIES	<u>18,818,502</u>	<u>694,595</u>

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 182,317,473	\$
Restricted:		
Nonexpendable:		
Endowment		40,325,422
Expendable:		
Grants and Loans	15,417,651	19,221,138
Scholarships	1,036,365	
Capital Projects	22,738,927	
Debt Service	75,568	
Unrestricted	25,331,255	1,169,507
Total Net Assets	246,917,239	60,716,067
TOTAL LIABILITIES AND NET ASSETS	\$ 265,735,741	\$ 61,410,662

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

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2010

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$41,882,882	\$ 45,649,251	\$
Federal Grants and Contracts	736,047	
State and Local Grants and Contracts		123,195
Nongovernmental Grants and Contracts	1,871,499	4,138,785
Sales and Services of Educational Departments	82,669	
Auxiliary Enterprises, Net of Scholarship Allowances of \$9,376,231 and Discounts of \$1,079,858	14,008,737	
Other Operating Revenues	1,171,953	829,992
Total Operating Revenues	63,520,156	5,091,972
EXPENSES		
Operating Expenses:		
Personnel Services	113,479,041	368,543
Scholarships and Waivers	30,431,248	2,367,092
Utilities and Communications	5,747,754	2,342
Contractual Services	7,376,690	42,642
Other Services and Expenses	8,335,444	647,760
Materials and Supplies	36,957,063	28,338
Depreciation	7,770,209	47,846
Total Operating Expenses	210,097,449	3,504,563
Operating Income (Loss)	(146,577,293)	1,587,409
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	57,656,855	
Gifts and Grants - Student Aid	76,793,799	
Gifts and Grants - Other	7,443,179	
Investment Income	407,122	9,855,207
Other Nonoperating Revenues	461,422	
Net Realized Gain on Investment	1,007	
Interest on Capital Asset-Related Debt	(171,181)	
Other Nonoperating Expenses		(138,460)
Net Nonoperating Revenues	142,592,203	9,716,747
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,985,090)	11,304,156
Capital Appropriations	2,291,135	
Capital Grants, Contracts, Gifts, and Fees	11,722,081	
Total Other Revenues	14,013,216	
Increase in Net Assets	10,028,126	11,304,156
Net Assets, Beginning of Year	236,889,113	49,411,911
Net Assets, End of Year	\$ 246,917,239	\$ 60,716,067

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

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010**

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 42,023,775
Grants and Contracts	2,702,942
Payments to Suppliers	(52,931,816)
Payments for Utilities and Communications	(5,428,331)
Payments to Employees	(92,089,746)
Payments for Employee Benefits	(19,454,315)
Payments for Scholarships	(30,431,248)
Auxiliary Enterprises, Net	13,218,027
Sales and Service of Educational Departments	82,669
Other Receipts	1,875,312
	(140,432,731)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	57,656,855
Gifts and Grants Received for Other Than Capital or Endowment Purposes	84,236,978
Other Nonoperating Disbursements	(15,318)
	141,878,515
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	580,000
Capital Appropriations	23,351,560
Capital Grants and Gifts	6,695,481
Proceeds from Sale of Capital Assets	461,422
Purchases of Capital Assets	(17,376,086)
Principal Paid on Capital Debt and Lease	(925,000)
Interest Paid on Capital Debt and Lease	(171,181)
	12,616,196
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	5,000,000
Investment Income	868,465
	5,868,465
Net Increase in Cash and Cash Equivalents	19,930,445
Cash and Cash Equivalents, Beginning of Year	41,904,046
Cash and Cash Equivalents, End of Year	\$ 61,834,491

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010**

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (146,577,293)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,770,209
Changes in Assets and Liabilities:	
Receivables, Net	(4,280,940)
Inventories	(71,115)
Prepaid Expenses	250,305
Other Assets	(1,371)
Accounts Payable	528,204
Salaries and Payroll Taxes Payable	1,559,862
Deferred Revenue	30,168
Compensated Absences Payable	323,914
Special Termination Benefits	(4,887)
Other Postemployment Benefits Payable	40,213
NET CASH USED BY OPERATING ACTIVITIES	\$ (140,432,731)

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

The fair market value of the donated Southeast Campus property was recognized as revenue on the statement of revenues, expenses, and changes in net assets, but is not a cash transaction for the statement of cash flows. \$ 5,026,600

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

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading or incomplete. Based upon the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activity 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 Community College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit. This organization provides funding and services to support and foster the pursuit of higher education at the College.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2010.

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

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board (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

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

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

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

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

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

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 appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated its scholarship allowance by identifying within its student accounts receivable system amounts paid by student aid for tuition and books. The amounts are deducted from student tuition and fees, and auxiliary 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 and money market accounts, and cash with the State Board of Administration (SBA) Florida PRIME investment pool, formerly known as the Local Government Surplus Fund Trust Fund Investment Pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested with the SBA Florida PRIME investment pool and a money market account 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, 2010, the College reported as cash equivalents at fair value \$25,176,482 of moneys held in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, 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 46 days as of June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 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

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

2. INVESTMENTS

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

Component Unit Investments

Investments held by the College's component unit at March 31, 2010, are reported at fair value, as follows:

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Investment Type	Amount
Hedge Funds	\$ 5,996,634
Certificates of Deposit	3,000,000
Mutual Funds	38,876,036
Total Component Unit Investments	\$ 47,872,670

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for vending machine sales, unused credit memos, insurance reimbursements, and grant reimbursements due from third parties. These receivables are reported net of a \$1,130,377 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$4,937,063 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM AND TO COMPONENT UNIT

The College’s financial statements are reported for the fiscal year ended June 30, 2010, whereas the Foundation’s financial statements are reported for the fiscal year ended March 31, 2010. Accordingly, amounts reported by the College as due from and to component units on the statement of net assets do not agree with amounts reported by the component unit as due from and to the College. The \$259,601 reported as due from the component unit consists mainly of amounts owed to the College by the Foundation for scholarships and personnel costs. The \$61,030 reported as due to the component unit mainly consists of amounts owed to the Foundation for ticket sales.

6. INVENTORIES

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

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 18,597,912	\$ 10,546,945	\$	\$ 29,144,857
Construction in Progress	26,363,348	4,800,857	30,913,669	250,536
Total Nondepreciable Capital Assets	\$ 44,961,260	\$ 15,347,802	\$ 30,913,669	\$ 29,395,393
Depreciable Capital Assets:				
Buildings	\$176,299,421	\$ 25,749,241	\$	\$202,048,662
Other Structures and Improvements	13,541,414	6,141,718		19,683,132
Furniture, Machinery, and Equipment	14,732,909	869,381	541,020	15,061,270
Total Depreciable Capital Assets	204,573,744	32,760,340	541,020	236,793,064
Less, Accumulated Depreciation:				
Buildings	54,008,750	5,344,631		59,353,381
Other Structures and Improvements	6,511,029	1,441,551		7,952,580
Furniture, Machinery, and Equipment	12,892,992	984,027	561,996	13,315,023
Total Accumulated Depreciation	73,412,771	7,770,209	561,996	80,620,984
Total Depreciable Capital Assets, Net	\$131,160,973	\$ 24,990,131	\$ (20,976)	\$156,172,080

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2010, include bonds payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 3,595,000	\$ 580,000	\$ 925,000	\$ 3,250,000	\$ 325,000
Special Termination Benefits Payable	274,890	18,098	22,985	270,003	17,850
Compensated Absences Payable	6,641,505	748,483	424,569	6,965,419	612,797
Other Postemployment Benefits Payable	218,487	40,213		258,700	
Total Long-Term Liabilities	\$ 10,729,882	\$ 1,386,794	\$ 1,372,554	\$ 10,744,122	\$ 955,647

Bonds Payable. The State Board of Education 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 State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2010:

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education			
Capital Outlay Bonds:			
Series 2005-B	\$ 2,720,000	5.0	2018
Series 2009-A, Refunding	530,000	3.0 - 5.0	2019
Total	\$ 3,250,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2011	\$ 325,000	\$ 160,500	\$ 485,500
2012	345,000	145,250	490,250
2013	360,000	128,500	488,500
2014	380,000	111,000	491,000
2015	400,000	92,000	492,000
2016-2019	1,440,000	154,250	1,594,250
Total	\$ 3,250,000	\$ 791,500	\$ 4,041,500

During the fiscal year, the State Board of Education Capital Outlay Bonds, Series 1999-A, were refunded by placing a portion of the proceeds of the Series 2009-A bonds in an irrevocable trust, and on September 24, 2009, the Series 1999-A bonds were paid in full.

Special Termination Benefits Payable. Executive management employees are provided seven days of administrative incentive leave credit each year. Such credit is prorated for each month worked, to a maximum of 35 days. Payment of such credited service is made at the time of termination from full-time executive management service for any reason other than cause. Accrued benefits for the 12 participants at June 30, 2010, totaled \$270,003, of which \$17,850 represents the current portion.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State 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, 2010, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$6,965,419. The current portion of the compensated absences liability of \$612,797 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.

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Other Postemployment Benefits Payable. The College follows Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits administered by the College.

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

Funding Policy. The College has established contribution requirements which may be amended through recommendations of the Insurance Committee and actions from the Board. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 147 retirees received postemployment health benefits, and 145 retirees received postemployment life insurance benefits. The College provided required contributions of \$254,273 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$1,118,530.

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

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 187,857
Amortization of Unfunded Actuarial Accrued Liability	114,077
Annual Required Contribution	301,934
Interest on Net OPEB Obligation	6,359
Adjustment to Annual Required Contribution	(13,807)
Annual OPEB Cost (Expense)	294,486
Contribution Toward the OPEB Cost	(254,273)
Increase in Net OPEB Obligation	40,213
Net OPEB Obligation, Beginning of Year	218,487
Net OPEB Obligation, End of Year	\$ 258,700

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	217,658	52.0%	104,385
2008-09	223,840	49.0%	218,487
2009-10	294,486	86.3%	258,700

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$3,322,639, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,322,639 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$69,802,412 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.8 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs

VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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, 2009, used the projected unit credit method to estimate the unfunded actuarial liability as of June 30, 2010, and the College's 2009-10 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent for the 2009-10 fiscal year, reduced by 0.2 percent per year for two years, then from 0.1 to 0.3 percent per year thereafter, to an ultimate rate of 4.5 percent after eighteen years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2010, was 27 years.

9. RETIREMENT PROGRAMS

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

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

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

**VALENCIA COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$5,321,203, \$4,467,329, and \$4,777,637, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 143 College participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$1,128,456.

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

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

**VALENCIA COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 10.43 percent of the participant’s salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant’s annuity account.

There were 125 College participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$969,211.

10. OPERATING LEASE COMMITMENTS

The College leased land and building space under operating leases, which expire in 2052. These leased assets and the related commitments are not reported on the College’s statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 1,217,058
2012	838,979
2013	647,920
2014	647,920
2015	647,920
2016-2052	14,118,800
Total Minimum Payments Required	\$ 18,118,597

11. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$175 million through February 28, 2010, and up to \$150 million effective March 1, 2010. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile

**VALENCIA COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

liability, workers’ compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

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

12. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college’s apportionment considering the following components: base budget, which includes the State appropriation to the College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

The following is a summary of State revenue sources and amounts:

<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 50,528,297
Education Enhancement Trust Fund (Lottery)	7,128,558
Florida Student Assistance Grants	6,849,115
Bright Futures Scholarship Program	5,034,022
Motor Vehicle License Tax (Capital Outlay and Debt Service)	1,151,600
Gross Receipts Tax (Public Education Capital Outlay)	1,139,535
Other State Sources	707,135
Total	\$ 72,538,262

13. 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

**VALENCIA COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

Functional Classification	Amount
Instruction	\$ 62,576,313
Academic Support	12,665,465
Student Services	19,985,754
Institutional Support	28,162,811
Operation and Maintenance of Plant	27,948,940
Scholarships and Fellowships	30,431,248
Auxiliary Enterprises	20,556,709
Depreciation	7,770,209
Total Operating Expenses	\$210,097,449

14. SUBSEQUENT EVENT

The United States Department of Education (USDOE) awarded the College, as fiscal agent, seven Gaining Early Awareness and Readiness for Undergraduate Program (GEAR UP) partnership grants totaling \$3,023,019 during the 1998-99 and 1999-2000 award years. In May 2001, GEAR UP became the subject of a Federal audit conducted by the USDOE Office of Inspector General (OIG), which resulted in questioned local matching costs. In January 2011, the College received a Letter of Final Audit Determination (FAD) from USDOE relating to the audit’s findings, accepting \$2,443,053 in local, nonfederal matching funds documented by the College, and requiring that the College refund to the Department a remaining matching funds balance of \$289,966 in nonfederal funds. On January 25, 2011, the College submitted \$289,966 to USDOE. In an accompanying letter, the College asserted that it acted properly in providing and accounting for matching funds well in excess of the GEAR UP requirement of 50 percent of program costs; however, the College found it less costly to settle the matter, with payment of the adjusted matching contribution, than to appeal.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
7/1/2007	\$	\$ 2,334,741	\$ 2,334,741	0%	\$ 67,481,224	3.5%
7/1/2009	\$	\$ 3,322,639	\$ 3,322,639	0%	\$ 69,802,412	4.8%

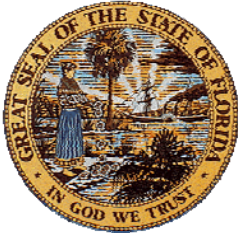
Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate actuarial accrued liability.

**VALENCIA COMMUNITY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFIT PLANS

The July 1, 2009, unfunded actuarial liability of \$3,322,639 was approximately \$988,000 higher than the July 1, 2007, liability of \$2,334,741 primarily due to:

- Changes in census and expected growth in unfunded obligation (increase to AAL of approximately \$512,000).
- Change in plan design for retirees and dependents, including adjustments in assumed medical plan participation (increase to AAL of approximately \$308,000).
- Updated claims costs and revised contributions (increase to AAL of approximately \$49,000).
- Revised medical trend and mortality assumptions (increase to AAL of approximately \$119,000).



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

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

We have audited the financial statements of Valencia Community 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, 2010, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the 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, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2011-025.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 15, 2011