

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

VALENCIA COLLEGE

For the Fiscal Year Ended
June 30, 2018



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2017-18 fiscal year, Dr. Sanford C. Shugart served as President of Valencia College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Dr. Bruce A. Carlson, Chair from 9-27-17, Vice Chair through 9-26-17	Osceola
John M. Crossman, Vice Chair from 9-27-17 through 1-25-18 ^a	Orange
Lewis M. Oliver III, Chair through 9-26-17	Orange
Maria C. Grulich	Osceola
Guillermo Hansen	Osceola
Rosene Johnson from 10-17-17 ^b	Orange
Daisy Lopez-Cid	Osceola
Raymer F. Maguire III	Orange
Beth Smith from 6-5-18 ^c	Orange
Tracey Stockwell from 1-26-18	Orange

^a Vice Chair position vacant from 1-26-18, through 6-30-18.

^b Trustee position vacant through 10-16-17.

^c Trustee position vacant through 6-4-18.

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 Patricia A. Tindel, CPA, 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

	<u>Page No.</u>
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
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 Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios	45
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	45
Schedule of College Contributions – Florida Retirement System Pension Plan	46
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan.....	46
Schedule of College Contributions – Health Insurance Subsidy Pension Plan.....	46
Notes to Required Supplementary Information	47
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 <i>GOVERNMENT AUDITING STANDARDS</i>	
Internal Control Over Financial Reporting	48
Compliance and Other Matters	49
Purpose of this Report	49

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, 2018. 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.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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, 2018, 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 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, 2018, 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.

Emphasis of Matter

As discussed in Note 2. to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported for the 2017-18 fiscal year with amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

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 Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios**, **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 our report dated March 7, 2019, 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 solely 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 7, 2019

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, 2018, 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, 2018, and June 30, 2017.

FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled \$413.5 million at June 30, 2018. This balance reflects a \$1.7 million, or 0.4 percent, increase as compared to the 2016-17 fiscal year. The increase was primarily due to a growth in deferred outflows of resources because of a reduction in the expected long-term expected rate of return on investments of the Florida Retirement System (FRS) defined pension plans administered by the Florida Division of Retirement. The College is required to recognize, as a participating member under the Governmental Accounts Standards Board (GASB), the increase in deferred outflows of resources related to the FRS pension investments. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources increased by \$22 million, or 17.5 percent, totaling \$148 million at June 30, 2018. The increase in liabilities was mainly due to a growth in net pension liability defined pension plans as a result of the decrease in expected long-term rate of return on plan investments. As a result, the College's net position decreased by \$20.3 million, resulting in a year-end balance of \$265.5 million.

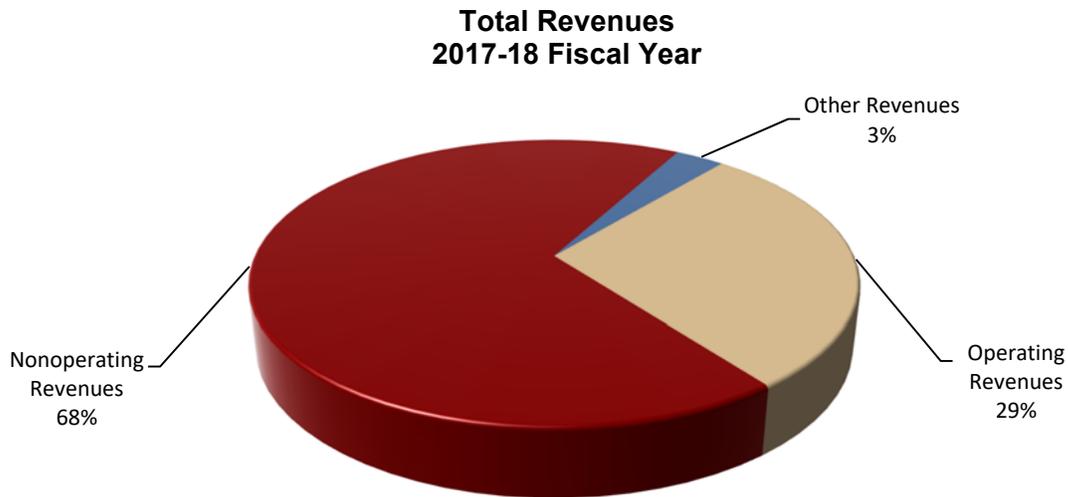
The College's operating revenues totaled \$79.8 million for the 2017-18 fiscal year, representing a 2.1 percent decrease compared to the 2016-17 fiscal year due mainly to an increase in scholarship allowances resulting in a greater portion of tuition paid by Federal and State student financial aid instead of the student, or a third party on behalf of the student. Operating expenses totaled \$298 million for the 2017-18 fiscal year, representing an increase of 12.2 percent as compared to the 2016-17 fiscal year due mainly to creation of additional positions in the student services division and for the opening of the Poinciana Campus in Fall 2017.

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, 2018, and June 30, 2017, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2017-18 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)

	2018	2017
Assets		
Current Assets	\$ 59,608	\$ 72,895
Capital Assets, Net	259,542	261,600
Other Noncurrent Assets	48,262	41,157
Total Assets	367,412	375,652
Deferred Outflows of Resources	46,111	36,187
Liabilities		
Current Liabilities	29,051	26,639
Noncurrent Liabilities	113,326	98,132
Total Liabilities	142,377	124,771
Deferred Inflows of Resources	5,624	1,263
Net Position		
Net Investment in Capital Assets	250,611	252,089
Restricted	47,892	50,174
Unrestricted	(32,981)	(16,458)
Total Net Position	\$ 265,522	\$ 285,805

Total assets decreased primarily due to a decrease in Public Education and Capital Outlay (PECO) receivable of \$7.3 million to fund the construction of Poinciana Campus Building 1.

Noncurrent liabilities increased primarily due to an increase in net pension liability of \$12.9 million. In addition, the College implemented GASB Statement No. 75 in the 2017-18 fiscal year, which requires the recognition of the total payable for other postemployment benefits (OPEB) other than pensions, resulting

in a further increase of \$2.1 million to noncurrent liabilities. As a result of the increases to the pension and OPEB liabilities, net position was reduced.

Additional information about the College's net pension liability and OPEB is presented in the notes to financial statements.

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 2017-18 and 2016-17 fiscal years:

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

(In Thousands)

	2017-18	2016-17
Operating Revenues	\$ 79,819	\$ 81,519
Less, Operating Expenses	298,009	265,554
Operating Loss	(218,190)	(184,035)
Net Nonoperating Revenues	191,279	173,103
Loss Before Other Revenues	(26,911)	(10,932)
Other Revenues	8,688	20,679
Net Increase (Decrease) In Net Position	(18,223)	9,747
Net Position, Beginning of Year	285,805	276,058
Adjustment to Beginning Net Position (1)	(2,060)	-
Net Position, Beginning of Year, as Restated	283,745	276,058
Net Position, End of Year	\$ 265,522	\$ 285,805

(1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 75, which is a change in accounting principle that requires employers providing OPEB benefits to employees to report the total liability of the OPEB plan.

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.

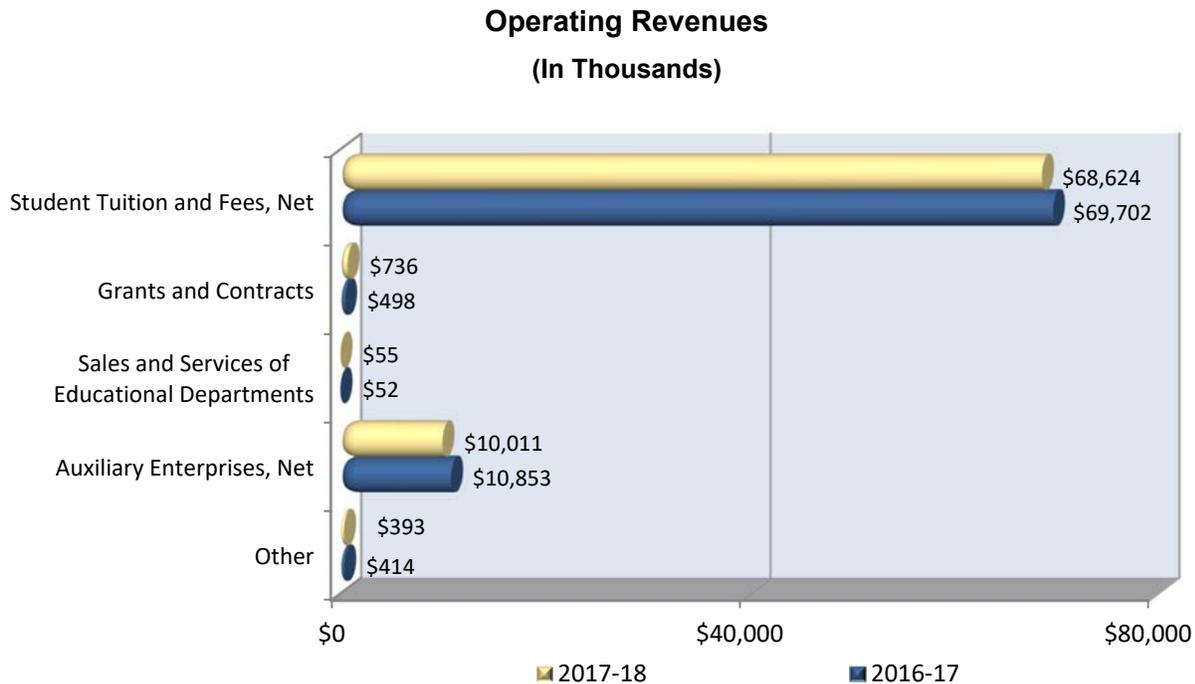
The following summarizes the operating revenues by source that were used to fund operating activities for the 2017-18 and 2016-17 fiscal years:

Operating Revenues For the Fiscal Years

(In Thousands)

	2017-18	2016-17
Student Tuition and Fees, Net	\$ 68,624	\$ 69,702
Grants and Contracts	736	498
Sales and Services of Educational Departments	55	52
Auxiliary Enterprises, Net	10,011	10,853
Other	393	414
Total Operating Revenues	\$ 79,819	\$ 81,519

The following chart presents the College's operating revenues for the 2017-18 and 2016-17 fiscal years:



Total operating revenue decreased by \$1.7 million primarily due to an increase in the amount of tuition and auxiliary bookstore 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 2017-18 and 2016-17 fiscal years:

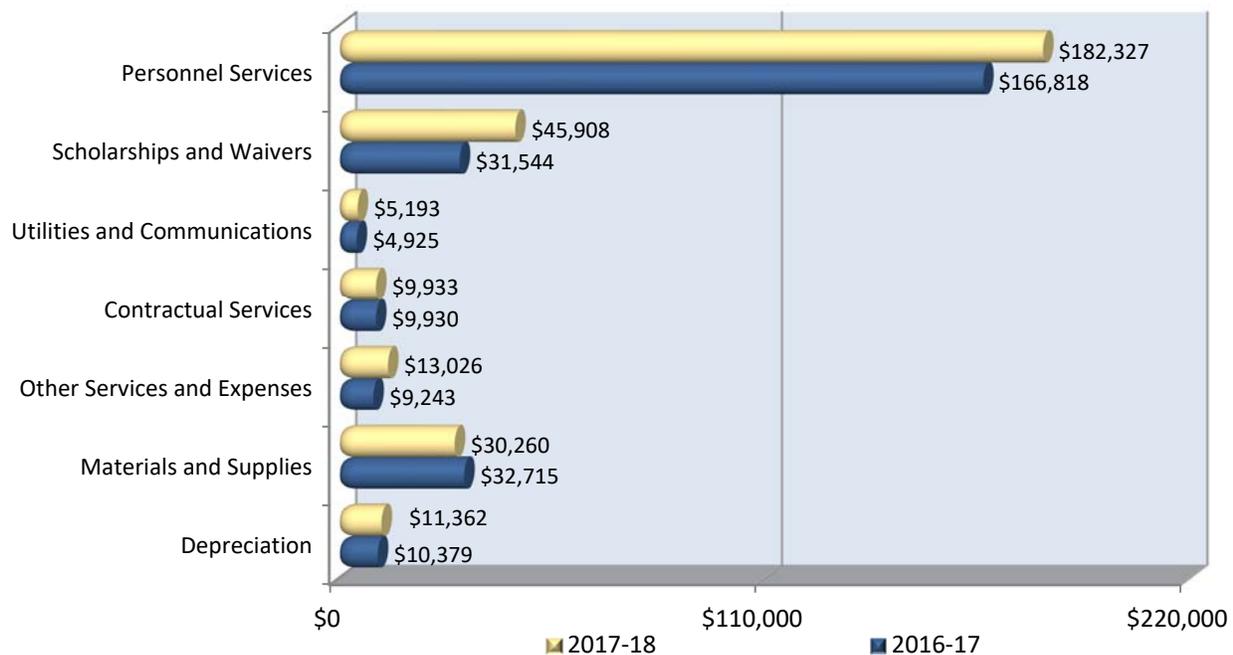
Operating Expenses For the Fiscal Years

(In Thousands)

	2017-18	2016-17
Personnel Services	\$ 182,327	\$ 166,818
Scholarships and Waivers	45,908	31,544
Utilities and Communications	5,193	4,925
Contractual Services	9,933	9,930
Other Services and Expenses	13,026	9,243
Materials and Supplies	30,260	32,715
Depreciation	11,362	10,379
Total Operating Expenses	\$ 298,009	\$ 265,554

The following chart presents the College's operating expenses for the 2017-18 and 2016-17 fiscal years:

Operating Expenses (In Thousands)



Total operating expenses increased by \$32.5 million due to the following factors:

- All full-time and part-time faculty and staff received a 3 percent salary increase.
- Nine faculty and twenty-six staff positions were established for the opening of the Poinciana Campus.
- Nineteen new advisor positions were created to continue the proactive advising initiative developed as part of the College's Quality Enhancement Plan.
- Scholarship expenditures increased by \$14.4 million, primarily due to a higher average Federal Pell Grant award as a result of the introduction of year-round Pell scholarships, in addition to growth in the number of Pell eligible students.

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 2017-18 and 2016-17 fiscal years:

	2017-18	2016-17
State Noncapital Appropriations	\$ 85,827	\$ 87,267
Federal and State Student Financial Aid	91,287	74,060
Gifts and Grants	13,327	11,450
Investment Income	1,329	791
Other Nonoperating Revenues	81	135
Interest on Capital Asset-Related Debt	(572)	(600)
Net Nonoperating Revenues	\$ 191,279	\$ 173,103

Net nonoperating revenues increased by \$18.2 million, or 10.5 percent, primarily due to an increase in Federal Pell Grant (\$12.4 million) and Florida Student Assistance Grant (\$4.1 million) funds, a result of the increase in scholarship awards. In addition, gifts and grants revenue increased \$1.9 million mainly due to growth of the dual enrollment program.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2017-18 and 2016-17 fiscal years:

	2017-18	2016-17
State Capital Appropriations	\$ 2,870	\$ 14,869
Capital Grants, Contracts, Gifts, and Fees	5,818	5,810
Total	\$ 8,688	\$ 20,679

Other revenues decreased by \$12 million, or 58 percent, because the College did not receive an appropriation for construction funding during the 2017-18 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 2017-18 and 2016-17 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years
(In Thousands)**

	2017-18	2016-17
Cash Provided (Used) by:		
Operating Activities	\$ (192,628)	\$ (170,608)
Noncapital Financing Activities	190,491	173,771
Capital and Related Financing Activities	3,677	(6,802)
Investing Activities	2,639	572
Net Increase (Decrease) in Cash and Cash Equivalents	4,179	(3,067)
Cash and Cash Equivalents, Beginning of Year	67,722	70,789
Cash and Cash Equivalents, End of Year	\$ 71,901	\$ 67,722

Major sources of funds came from Federal and State student financial aid (\$91.3 million), State noncapital appropriations (\$85.8 million), net student tuition and fees (\$69.8 million), and Federal Direct Student Loan program receipts (\$42.6 million). Major uses of funds were for payments to employees and for employee benefits (\$171.1 million), providers of goods and services (\$53.7 million), scholarships (\$45.9 million), and disbursements to students for Federal Direct Student Loans (\$42.7 million).

Cash used by operating activities increased by \$22 million mainly due to:

- Increased payments to students for scholarships.
- Additional personnel positions for the Poinciana Campus and student services division.
- Raise in salary for most positions.

Cash provided by noncapital activities increased by \$16.7 million primarily due to an increase in Federal and State student financial aid receipts.

Cash provided by investing activities increased by \$2.1 million mainly due to a redemption of a mutual fund investment.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,
AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2018, the College had \$409.3 million in capital assets, less accumulated depreciation of \$149.8 million, for net capital assets of \$259.5 million. Depreciation charges for the current fiscal year totaled \$11.4 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)

	<u>2018</u>	<u>2017</u>
Land	\$ 32,988	\$ 32,988
Construction in Progress	2,539	33,867
Buildings	210,795	179,088
Other Structures and Improvements	759	2,241
Furniture, Machinery, and Equipment	3,827	4,543
Leasehold Improvements	2,680	2,754
Assets Under Capital Lease	5,954	6,119
Capital Assets, Net	<u>\$259,542</u>	<u>\$261,600</u>

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, 2018, were incurred on the following projects: Poinciana Campus Building 1, Poinciana Campus Center for Accelerated Training Building, and University of Central Florida – Valencia Downtown Campus Building. The College's construction commitments at June 30, 2018, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$ 13,827
Completed to Date	<u>(2,539)</u>
Balance Committed	<u>\$ 11,288</u>

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

Debt Administration

As of June 30, 2018, the College had \$8.9 million in outstanding State Board of Education (SBE) capital outlay bonds and capital lease payable, representing a decrease of \$0.6 million, or 6.1 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)

	<u>2018</u>	<u>2017</u>
SBE Capital Outlay Bonds	\$ 2,354	\$ 2,923
Capital Lease	6,578	6,588
Total	<u>\$ 8,932</u>	<u>\$ 9,511</u>

The SBE issues capital outlay bonds on behalf of the College. During the 2017-18 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. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2018-19 fiscal year. The College's current financial and capital plans indicate that there are adequate financial resources 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.

BASIC FINANCIAL STATEMENTS

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

June 30, 2018

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 34,259,574	\$ 2,203,346
Restricted Cash and Cash Equivalents	5,389,985	-
Investments	8,280,745	-
Accounts Receivable, Net	4,480,970	6,578,390
Due from Other Governmental Agencies	2,439,151	-
Due from Component Unit/College	576,485	-
Inventories	2,534,764	-
Prepaid Expenses	1,641,856	-
Deposits	4,949	-
Other Assets	-	5,317,617
Total Current Assets	59,608,479	14,099,353
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	32,251,028	-
Investments	15,956,882	-
Restricted Investments	53,074	78,317,854
Depreciable Capital Assets, Net	224,015,382	5,541,214
Nondepreciable Capital Assets	35,527,015	3,084,065
Total Noncurrent Assets	307,803,381	86,943,133
TOTAL ASSETS	367,411,860	101,042,486
DEFERRED OUTFLOWS OF RESOURCES		
Other Postemployment Benefits	47,715	-
Pensions	46,063,205	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	46,110,920	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,116,738	107,010
Salary and Payroll Taxes Payable	4,080,041	-
Retainage Payable	1,200,347	-
Due to Other Governmental Agencies	2,259,956	-
Due to Component Unit/College	14,948	352,594
Unearned Revenue	505,954	139,360
Estimated Insurance Claims Payable	15,201,483	-
Deposits Held for Others	880,662	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	261,000	-
Capital Lease Payable	11,136	-
Special Termination Benefits Payable	40,994	-
Compensated Absences Payable	1,376,362	-
Other Postemployment Benefits Payable	202,583	-
Net Pension Liability	898,962	-
Total Current Liabilities	29,051,166	598,964

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

June 30, 2018

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	2,093,000	-
Capital Lease Payable	6,566,483	-
Special Termination Benefits Payable	353,075	-
Compensated Absences Payable	7,830,546	-
Other Postemployment Benefits Payable	3,659,884	-
Net Pension Liability	92,822,837	-
Total Noncurrent Liabilities	113,325,825	-
TOTAL LIABILITIES	142,376,991	598,964
DEFERRED INFLOWS OF RESOURCES		
Other Postemployment Benefits	231,874	-
Pensions	5,392,204	-
TOTAL DEFERRED INFLOWS OF RESOURCES	5,624,078	-
NET POSITION		
Net Investment in Capital Assets	250,610,778	8,625,279
Restricted:		
Nonexpendable:		
Endowment	-	34,347,062
Expendable:		
Grants and Loans	13,704,897	49,866,310
Scholarships	1,723,490	-
Capital Projects	32,410,157	-
Debt Service	53,074	-
Unrestricted	(32,980,685)	7,604,871
TOTAL NET POSITION	\$ 265,521,711	\$ 100,443,522

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, 2018

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$45,977,898	\$ 68,624,628	\$ -
Federal Grants and Contracts	735,816	86,185
State and Local Grants and Contracts	-	246,627
Nongovernmental Grants and Contracts	-	8,821,306
Sales and Services of Educational Departments	55,079	-
Auxiliary Enterprises, Net of Scholarship Allowances of \$6,649,853	10,010,744	-
Other Operating Revenues	393,021	832,074
Total Operating Revenues	<u>79,819,288</u>	<u>9,986,192</u>
EXPENSES		
Operating Expenses:		
Personnel Services	182,327,377	1,417,665
Scholarships and Waivers	45,907,811	3,632,211
Utilities and Communications	5,193,351	-
Contractual Services	9,932,736	304,946
Other Services and Expenses	13,025,718	748,493
Materials and Supplies	30,259,523	20,104
Depreciation	11,362,174	157,969
Total Operating Expenses	<u>298,008,690</u>	<u>6,281,388</u>
Operating Income (Loss)	<u>(218,189,402)</u>	<u>3,704,804</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	85,826,707	-
Federal and State Student Financial Aid	91,286,279	-
Gifts and Grants	13,327,245	-
Investment Income	1,517,994	4,118,542
Net Gain (Loss) on Investments	(188,898)	3,642,213
Other Nonoperating Revenues	80,898	-
Interest on Capital Asset-Related Debt	(572,928)	-
Net Nonoperating Revenues	<u>191,277,297</u>	<u>7,760,755</u>
Income (Loss) Before Other Revenues	<u>(26,912,105)</u>	<u>11,465,559</u>
State Capital Appropriations	2,870,929	-
Capital Grants, Contracts, Gifts, and Fees	5,817,560	-
Total Other Revenues	<u>8,688,489</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(18,223,616)</u>	<u>11,465,559</u>
Net Position, Beginning of Year	285,805,003	88,977,963
Adjustment to Beginning Net Position	(2,059,676)	-
Net Position, Beginning of Year, as Restated	<u>283,745,327</u>	<u>88,977,963</u>
Net Position, End of Year	<u>\$ 265,521,711</u>	<u>\$ 100,443,522</u>

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, 2018

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 69,766,376
Grants and Contracts	1,216,560
Payments to Suppliers	(53,699,467)
Payments for Utilities and Communications	(5,193,351)
Payments to Employees	(139,705,416)
Payments for Employee Benefits	(31,377,433)
Payments for Scholarships	(45,907,811)
Auxiliary Enterprises, Net	9,687,041
Sales and Services of Educational Departments	55,079
Other Receipts	2,529,731
	(192,628,691)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	85,826,707
Federal and State Student Financial Aid	91,349,099
Federal Direct Loan Program Receipts	42,638,731
Federal Direct Loan Program Disbursements	(42,651,044)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	13,327,245
	190,490,738
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	10,021,230
Capital Grants and Gifts	5,010,986
Proceeds from Sale of Capital Assets	80,898
Purchases of Capital Assets	(10,283,368)
Principal Paid on Capital Debt and Lease	(579,418)
Interest Paid on Capital Debt and Lease	(572,928)
	3,677,400
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,611,673
Investment Income	1,027,743
	2,639,416
Net Cash Provided by Operating Activities	(192,628,691)
Net Cash Provided by Noncapital Financing Activities	190,490,738
Net Cash Provided by Capital and Related Financing Activities	3,677,400
Net Cash Provided by Investing Activities	2,639,416
Net Increase in Cash and Cash Equivalents	4,178,863
Cash and Cash Equivalents, Beginning of Year	67,721,724
Cash and Cash Equivalents, End of Year	\$ 71,900,587

VALENCIA COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2018

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (218,189,402)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	11,362,174
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	879,621
Due from Other Governmental Agencies	763,150
Due from Component Unit	(201,880)
Due to Other Governmental Agencies	2,107,341
Inventories	(28,241)
Prepaid Expenses	431,743
Accounts Payable	(975,862)
Salaries and Payroll Taxes Payable	459,542
Unearned Revenue	(51,233)
Estimated Insurance Claims Payable	2,701,032
Deposits Held for Others	29,368
Special Termination Benefits Payable	50,326
Compensated Absences Payable	576,761
Other Postemployment Benefits Payable	72,376
Net Pension Liability	12,947,600
Deferred Outflows of Resources Related to Other Postemployment Benefits	(47,715)
Deferred Inflows of Resources Related to Other Postemployment Benefits	231,874
Deferred Outflows of Resources Related to Pensions	(9,875,928)
Deferred Inflows of Resources Related to Pensions	4,128,662
	<u>\$ (192,628,691)</u>
NET CASH USED BY OPERATING ACTIVITIES	
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING 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.	\$ (177,225)
Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 45,000

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, 2018.

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, 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 SBA 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, 2018, the College reported as cash equivalents \$67,520,952 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 30 days as of June 30, 2018. 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, provides 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, 2018, 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 assets 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
- Assets 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 liabilities 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. 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. Reporting Change

The College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting*

and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended. This statement addresses accounting and financial reporting for postemployment benefits other than pensions (OPEB) provided to employees of state and local government employers; establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses; requires governments to report a liability, deferred outflows of resources, deferred inflows of resources, and expenses on the face of the financial statement for the OPEB they provide; and requires more extensive note disclosures and supplementary information about a government's OPEB liability.

3. Adjustment to Beginning Net Position

The beginning net position of the College was decreased by \$2,059,676 due to implementation of GASB Statement No. 75. The College's total OPEB liability reported at June 30, 2017, increased by \$2,059,676 to \$3,790,091 as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75, and beginning balances for deferred outflows and inflows of resources were not restated.

4. 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, OPEB payable, and net pension liabilities) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (49,092,594)
Auxiliary Funds	16,111,909
Total	\$ (32,980,685)

5. 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, 2018, are valued using quoted market prices (Level 1 inputs).

The College's investments at June 30, 2018, 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	\$ 53,074	\$ 53,074	\$ -	\$ -
Mutual Funds				
Fixed Income	24,237,627	24,237,627	-	-
Total investments by fair value level	\$ 24,290,701	\$ 24,290,701	\$ -	\$ -

State Board of Administration Debt Service Accounts. The College reported investments totaling \$53,074 at June 30, 2018, 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 these accounts. 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 \$24,237,627 at June 30, 2018, consist of fixed income mutual funds reported at fair value. The following risks apply to these investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair market 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.

<u>Investment Maturities</u>	<u>Percent of Portfolio</u>
Less than 1 Year	34%
1 to 3 Years	66%
Total	100%

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 investment. The College's investments in mutual funds at June 30, 2018, 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.

At June 30, 2018, 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, 2018, 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:

	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)
Investments by fair value level				
Fixed income mutual funds	\$ 21,984,241	\$ 21,984,241	\$ -	\$ -
Equity mutual funds	26,521,787	26,521,787	-	-
International mutual funds	20,646,704	20,646,704	-	-
Total investments by fair value level	69,152,732	\$ 69,152,732	\$ -	\$ -
Investments measured at the net asset value (NAV)				
SEI Energy Debt Fund, L.P.	4,390,523			
SEI Structured Credit Fund, L.P.	1,584,599			
Total investments measured at NAV	5,975,122			
Other				
Cash	3,190,000			
Total investments	\$ 78,317,854			

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table:

<u>Investments measured at the NAV</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
SEI Energy Debt Fund, L.P.	\$ 4,390,523	\$ -	3-year lock up on each subscription (50% available after lock up then 25% available for each of the next 2 semi-annual periods)	Semi-annual with 95 days notice, 10% holdback on total redemptions
SEI Structured Credit Fund, L.P.	1,584,599	-	2-year lock up on each subscription	Quarterly via tender offer. Tender offer is at discretion of advisor. 65 days notice, 10% holdback on total redemptions
Total investments measured at the NAV	\$ 5,975,122	\$ -		

6. Accounts Receivable

Accounts receivable represent amounts for student fee deferrals and unused credit memos. The accounts receivable are reported net of a \$1,852,106 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$1,005,881 due from the Florida Prepaid College Board for payment of tuition fees for students under contract enrolled in the summer term.

8. Due From and To Component Unit/College

The \$576,485 reported as due from component unit consists of amounts owed to the College by the Foundation for grant expenditure reimbursements and scholarship costs. The \$14,948 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, 2018. The College's component unit financial statements are reported for the fiscal year ended March 31, 2018. 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.

9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 32,987,698	\$ -	\$ -	\$ 32,987,698
Construction in Progress	33,866,937	7,890,546	39,218,166	2,539,317
Total Nondepreciable Capital Assets	\$ 66,854,635	\$ 7,890,546	\$ 39,218,166	\$ 35,527,015
Depreciable Capital Assets:				
Buildings	\$ 281,530,811	\$ 38,758,376	\$ -	\$ 320,289,187
Other Structures and Improvements	20,245,157	459,790	-	20,704,947
Furniture, Machinery, and Equipment	22,142,862	1,414,443	361,485	23,195,820
Leasehold Improvements	2,973,769	-	-	2,973,769
Assets Under Capital Lease	6,615,433	-	-	6,615,433
Total Depreciable Capital Assets	333,508,032	40,632,609	361,485	373,779,156
Less, Accumulated Depreciation:				
Buildings	102,443,074	7,050,430	-	109,493,504
Other Structures and Improvements	18,003,979	1,942,060	-	19,946,039
Furniture, Machinery, and Equipment	17,600,269	2,129,954	361,485	19,368,738
Leasehold Improvements	219,605	74,345	-	293,950
Assets Under Capital Lease	496,158	165,385	-	661,543
Total Accumulated Depreciation	138,763,085	11,362,174	361,485	149,763,774
Total Depreciable Capital Assets, Net	\$ 194,744,947	\$ 29,270,435	\$ -	\$ 224,015,382

10. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2018, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 2,923,000	\$ -	\$ 569,000	\$ 2,354,000	\$ 261,000
Capital Lease Payable	6,588,036	-	10,417	6,577,619	11,136
Special Termination Benefits Payable	343,743	50,326	-	394,069	40,994
Compensated Absences Payable	8,630,147	1,364,082	787,321	9,206,908	1,376,362
Other Postemployment Benefits Payable (1)	3,790,091	483,272	410,896	3,862,467	202,583
Net Pension Liability	80,774,199	54,728,400	41,780,800	93,721,799	898,962
Total Long-Term Liabilities	\$ 103,049,216	\$ 56,626,080	\$ 43,558,434	\$ 116,116,862	\$ 2,791,037

(1) OPEB Payable beginning balance adjusted for adoption of GASB Statement No. 75, as described in Notes 2. and 3.

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, 2018:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2009A, Refunding	\$ 75,000	5	2019
Series 2010A	2,195,000	3.5 - 5	2030
Series 2014B, Refunding	84,000	2 - 5	2020
Total	\$ 2,354,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2018, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	175,000	61,225	236,225
2024-2028	950,000	198,300	1,148,300
2029-2030	430,000	26,000	456,000
Total	\$ 2,354,000	\$ 618,995	\$ 2,972,995

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 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, 2018, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 456,461
2020	456,461
2021	456,461
2022	456,461
2023	456,461
2024-2028	2,282,305
2029-2033	2,282,305
2034-2038	2,282,305
2039-2043	2,282,305
2044-2048	2,282,305
2049-2053	2,282,305
2054-2058	2,282,305
2059-2063	2,282,305
2064-2068	2,282,305
2069-2073	2,282,305
2074	456,461
Total Minimum Payments	25,561,816
Less, Amount Representing Interest	18,984,197
Present Value of Minimum Payments	<u>\$ 6,577,619</u>

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, 2018, totaled \$394,069.

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, 2018, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$9,206,908. The current portion of the compensated absences liability, \$1,376,362, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for certain other

postemployment benefits administered by the College and life insurance benefits through purchased commercial insurance.

General Information about the OPEB Plan

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 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 OPEB Plan contribution requirements and benefit terms of the College and the OPEB Plan members are established and may be amended by action from the Board. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided. The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

Employees Covered by Benefit Terms. At June 30, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	140
Inactive Employees Entitled to But Not Yet Receiving Benefits	26
Active Employees	1,706
Total	<u>1,872</u>

Total OPEB Liability

The College’s total OPEB liability of \$3,862,467 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60 percent
Real wage growth	0.65 percent
Wage inflation	3.25 percent
Salary increases	4.00 - 7.80 percent
Municipal Bond Index Rate	
Prior Measurement Date	3.01 percent
Measurement date	3.56 percent
Healthcare cost trend rates	
Pre-Medicare	7.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2023
Medicare	5.50 percent for 2017 decreasing to an ultimate rate of 5.00 percent by 2020

The discount rate was based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for FRS experience and generational mortality improvements using Scale MP-2014.

The demographic actuarial assumptions for mortality, retirement, disability incidence, and withdrawal used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013, adopted by the FRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017, valuation were based on a review of recent plan experience done concurrently with the June 30, 2017, valuation.

Changes in the Total OPEB Liability

	Amount
Balance at 6/30/17, as Restated	<u>\$ 3,790,091</u>
Changes for the year:	
Service Cost	371,504
Interest	111,768
Changes in Assumptions or Other Inputs	(256,028)
Benefit Payments	<u>(154,868)</u>
Net Changes	<u>72,376</u>
Balance at 6/30/18	<u><u>\$ 3,862,467</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.01 percent in 2016 to 3.56 percent in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the total OPEB liability of the College, as well as what the College's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

	<u>1% Decrease (2.56%)</u>	<u>Current Discount Rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
Total OPEB liability	\$4,350,308	\$3,862,467	\$3,461,518

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the total OPEB liability of the College, as well as what the College's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB liability	\$3,303,450	\$3,862,467	\$4,584,897

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the College recognized OPEB expense of \$459,118. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Change of assumptions or other inputs	\$ -	\$ 231,874
Transactions subsequent to the measurement date	47,715	-
Total	<u>\$ 47,715</u>	<u>\$ 231,874</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$47,715 resulting from benefits paid subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 24,154
2020	24,154
2021	24,154
2022	24,154
2023	24,154
Thereafter	111,104
Total	<u>\$ 231,874</u>

Net Pension Liability. As a participating employer in the Florida Retirement System (FRS), 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, 2018, the College's proportionate share of the net pension liabilities totaled \$93,721,799. Note 11. includes a complete discussion of defined benefit pension plans.

11. 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 \$14,457,256 for the fiscal year ended June 30, 2018.

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 creditable 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.

The 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:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
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 Plan 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 2017-18 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.92
FRS, Senior Management Service	3.00	22.71
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	13.26
FRS, Reemployed Retiree	(2)	(2)

(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 \$5,348,171 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a liability of \$60,308,011 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.203885664 percent, which was an increase of 0.013834956 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of \$10,994,152. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,534,824	\$ 334,075
Change of assumptions	20,267,750	-
Net difference between projected and actual earnings on FRS Plan investments	-	1,494,583
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	3,750,160	604,647
College FRS contributions subsequent to the measurement date	5,348,171	-
Total	\$ 34,900,905	\$ 2,433,305

The deferred outflows of resources totaling \$5,348,171, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 4,265,130
2020	9,042,354
2021	6,426,501
2022	1,746,664
2023	4,365,687
Thereafter	1,273,093
Total	\$ 27,119,429

Actuarial Assumptions. The total pension liability in the July 1, 2017, 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	7.10 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, 2017, 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:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate (Property)	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.10 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. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

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 7.10 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 (6.10 percent) or 1 percentage point higher (8.10 percent) than the current rate:

	<u>1% Decrease (6.10%)</u>	<u>Current Discount Rate (7.10%)</u>	<u>1% Increase (8.10%)</u>
College’s proportionate share of the net pension liability	\$109,155,897	\$60,308,011	\$19,754,767

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, 2018, the College reported a payable of \$1,428,144 for the outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2018.

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, 2018, 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, 2018, 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 \$1,707,432 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a net pension liability of \$33,413,788 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.312498562 percent, which was an increase of 0.031182292 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of \$3,463,104. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 69,573
Change of assumptions	4,696,830	-
Net difference between projected and actual earnings on HIS Plan investments	18,530	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	4,739,508	2,889,326
College contributions subsequent to the measurement date	1,707,432	-
Total	\$ 11,162,300	\$ 2,958,899

The deferred outflows of resources totaling \$1,707,432, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 1,433,746
2020	1,430,873
2021	1,429,342
2022	1,181,678
2023	832,758
Thereafter	187,572
Total	\$ 6,495,969

Actuarial Assumptions. The total pension liability at July 1, 2017, 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	3.58 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.58 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 in the 2017 valuation was updated from 2.85 percent to 3.58 percent.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 3.58 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
College's proportionate share of the net pension liability	\$38,129,557	\$33,413,788	\$29,485,813

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, 2018, the College reported a payable of \$17,855 for the outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2018.

12. 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’s 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 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2017-18 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
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, 2018, 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 roll over 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 \$2,565,395 for the fiscal year ended June 30, 2018.

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, 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan, for a total of 8.45 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 \$426,953 and employee contributions totaled \$248,710 for the 2017-18 fiscal year.

13. Construction Commitments

The College's construction commitments at June 30, 2018, were as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Osceola Campus Careers in Technology Building	\$ 1,582,739	\$ 650,637	\$ 932,102
Osceola Campus Center for Accelerated Training Building	4,036,657	751,103	3,285,554
University of Central Florida - Valencia Downtown Campus Building	8,202,338	1,132,292	7,070,046
Subtotal	13,821,734	2,534,032	11,287,702
Other Projects (1)	5,285	5,285	-
Total	\$ 13,827,019	\$ 2,539,317	\$ 11,287,702

(1) Individual projects with a current balance committed of less than \$1 million at June 30, 2018.

14. 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:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 97,566
2020	107,185
2021	107,185
2022	107,185
2023	26,796
Total Minimum Payments Required	\$ 445,917

15. 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 to February 28, 2018, and up to \$100 million from March 1, 2018, 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 2017-18 fiscal year. The plan is provided by an insurance company licensed by the Florida 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 \$15,201,483 as of June 30, 2018. Amounts held by the College in excess of the estimated insurance claims liability at June 30, 2018, totaled \$14,114,788 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:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Fiscal Year</u>
2016-17	\$ 9,465,465	\$ 14,493,030	\$ (11,458,044)	\$ 12,500,451
2017-18	12,500,451	16,740,753	(14,039,721)	15,201,483

16. 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:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 95,411,148
Academic Support	21,078,277
Student Services	35,387,820
Institutional Support	43,897,273
Operation and Maintenance of Plant	30,147,812
Scholarships and Waivers	45,907,811
Depreciation	11,362,174
Auxiliary Enterprises	14,816,375
Total Operating Expenses	\$ 298,008,690

17. 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 10. 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 January 1, 2020 and expiring on the earlier of May 31, 2073, or the sale of the property to a third party. The purchase price will be the Foundation's cost basis as of the date the College notifies the Foundation of its election to exercise the purchase option.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios

	2017
Total OPEB Liability	
Service cost	\$ 371,504
Interest	111,768
Changes of assumptions or other inputs	(256,028)
Benefit Payments	(154,868)
Net change in total OPEB liability	72,376
Total OPEB Liability - beginning, as Restated	3,790,091
Total OPEB Liability - ending	\$ 3,862,467
Covered-Employee Payroll	\$ 90,205,089
Total OPEB Liability as a percentage of covered-employee payroll	4.28%

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

	2017 (1)	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.203885664%	0.190050708%	0.196294399%	0.187742199%	0.167975911%
College's proportionate share of the FRS net pension liability	\$ 60,308,011	\$ 47,987,953	\$ 25,354,054	\$ 11,455,035	\$ 28,916,130
College's covered payroll (2)	\$ 118,458,249	\$ 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	50.91%	45.75%	25.63%	12.16%	32.99%
FRS Plan fiduciary net pension as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

(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**

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 5,348,171	\$ 5,194,416	\$ 4,650,143	\$ 4,785,824	\$ 4,112,351
FRS contributions in relation to the contractually required contribution	<u>(5,348,171)</u>	<u>(5,194,416)</u>	<u>(4,650,143)</u>	<u>(4,785,824)</u>	<u>(4,112,351)</u>
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered payroll (2)	\$ 121,862,041	\$ 118,458,249	\$ 104,892,761	\$ 98,931,589	\$ 94,207,047
FRS contributions as a percentage of covered payroll	4.39%	4.39%	4.43%	4.84%	4.37%

(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**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.312498562%	0.281316270%	0.267041405%	0.255960092%	0.241878469%
College's proportionate share of the HIS net pension liability	\$ 33,413,788	\$ 32,786,246	\$ 27,234,023	\$ 23,932,893	\$ 21,058,701
College's covered payroll (2)	\$ 109,716,705	\$ 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	30.45%	34.09%	30.20%	28.05%	26.67%
HIS Plan fiduciary net pension as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

(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**

	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 1,707,432	\$ 1,565,744	\$ 1,441,293	\$ 1,020,798	\$ 876,833
HIS contributions in relation to the contractually required HIS contribution	<u>(1,707,432)</u>	<u>(1,565,744)</u>	<u>(1,441,293)</u>	<u>(1,020,798)</u>	<u>(876,833)</u>
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
College's covered payroll (2)	\$ 113,571,692	\$ 109,716,705	\$ 96,187,891	\$ 90,177,274	\$ 85,319,642
HIS contributions as a percentage of covered payroll	1.50%	1.43%	1.50%	1.13%	1.03%

(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 Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Changes of Assumptions. The municipal rate used to determine total OPEB liability increased from 3.01 percent at the prior measurement date to 3.56 percent at the current measurement date.

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 7.60 percent to 7.10 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 increased from 2.85 percent to 3.58 percent.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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, 2018, 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 7, 2019, 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 communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with a large initial "S" and "N".

Sherrill F. Norman, CPA
Tallahassee, Florida
March 7, 2019