

# INDIAN RIVER STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2009



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Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

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Barry Keim, Interim President from July 1, 2008,  
to July 31, 2008

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

The audit team leader was Mark D. Kenny, CPA, and the audit was supervised by Tim L. Tucker, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 922-2263.

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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

### Audit Objectives and Scope

Our audit objectives were to determine whether Indian River State 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, 2009. 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 financial statements. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Indian River State 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, 2009, which collectively comprise the College's basic financial statements as shown on pages 14 through 37. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Indian River State College and of its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 13, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA  
March 25, 2010

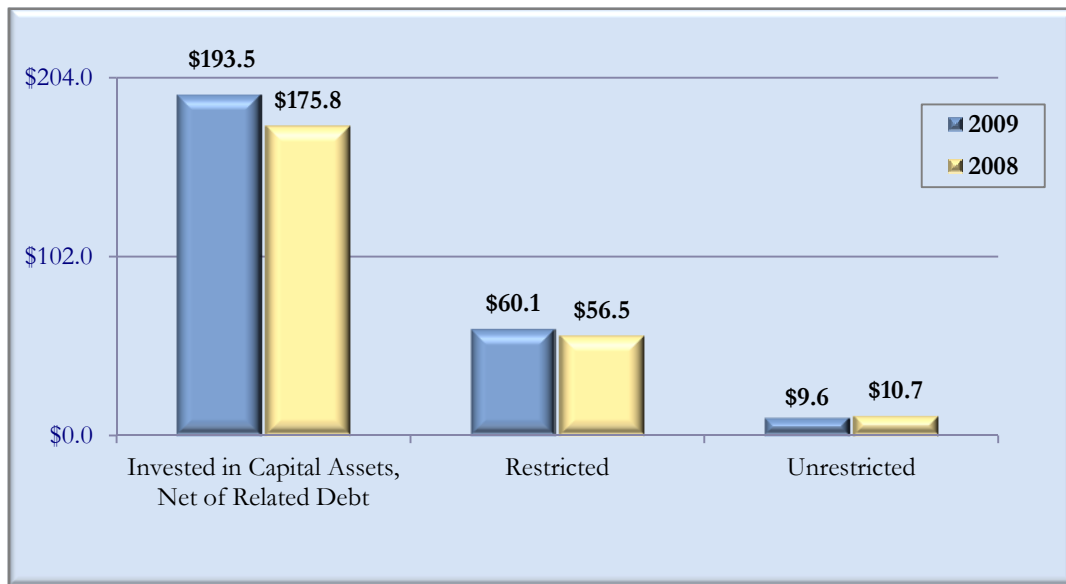
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The management’s discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2009, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activities of the College for the 2008-09 and 2007-08 fiscal years, and its component unit, the Indian River State College Foundation, Inc. (Foundation), for the fiscal years ended March 31, 2009, and March 31, 2008.

**FINANCIAL HIGHLIGHTS**

The College’s comparative total net assets by category totaling \$263.2 million and \$243 million for the respective fiscal years ended June 30, 2009, and 2008, are shown in the following graph:

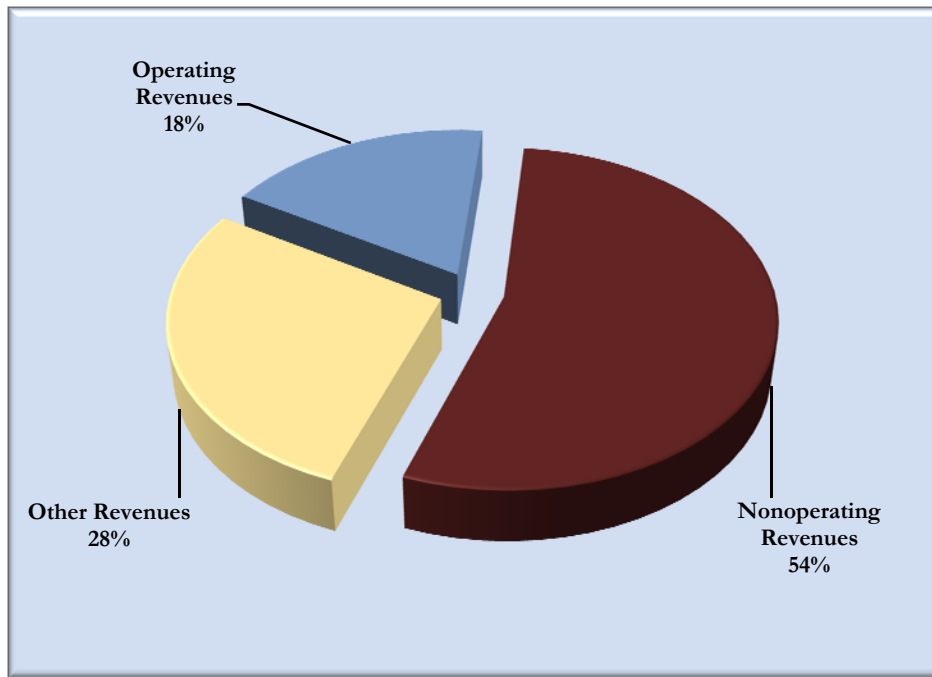
**Net Assets: College  
(In Millions)**



The College’s financial position, as a whole, improved during the 2008-09 fiscal year as the College’s revenues and other support exceeded expenses, creating an increase in the College’s net assets of \$20.3 million, or 8.3 percent, from the prior fiscal year. This was primarily due to increases in capital assets from new construction.

The College’s revenues by category totaling \$127.5 million for the 2008-09 fiscal year are shown in the following chart:

**Total Revenues: College**



Nonoperating revenues comprise 54 percent of total revenues, which represent State appropriations, gifts and grants, and investment income. Operating revenues, representing 18 percent of total revenues, include student fees, grants and contracts, as well as auxiliary service operations. Other revenues comprise 28 percent of total revenues and include capital appropriations, capital grants and contracts, gifts, and fees.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

	College		Component Unit	
	6-30-09	6-30-08	3-31-09	3-31-08
<b>Assets</b>				
Current Assets	\$ 68,459	\$ 58,263	\$ 19,641	\$ 55,485
Capital Assets, Net	196,917	179,804	2,827	3,321
Other Noncurrent Assets	15,782	23,330	23,257	5,102
<b>Total Assets</b>	<b>281,158</b>	<b>261,397</b>	<b>45,725</b>	<b>63,908</b>
<b>Liabilities</b>				
Current Liabilities	7,456	8,309	2,664	3,458
Noncurrent Liabilities	10,456	10,105	2,076	2,181
<b>Total Liabilities</b>	<b>17,912</b>	<b>18,414</b>	<b>4,740</b>	<b>5,639</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	193,507	175,793		
Restricted	60,118	56,484	47,250	47,665
Unrestricted	9,621	10,706	(6,265)	10,604
<b>Total Net Assets</b>	<b>\$ 263,246</b>	<b>\$ 242,983</b>	<b>\$ 40,985</b>	<b>\$ 58,269</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 20,263</b>	8.3%	<b>\$ (17,284)</b>	-29.7%

Total net assets increased by \$20.3 million, or 8.3 percent. This is attributable to an increase in amounts due from other governmental agencies for Public Education Capital Outlay (PECO) appropriations of \$9 million to fund construction of additional facilities and an increase in net depreciable capital assets of \$16.3 million. Depreciation for the 2008-09 fiscal year totaled \$10.6 million. Changes in net depreciable capital assets included increases in building additions of \$19.6 million offset by decreases in furniture, machinery, and equipment of \$2.1 million, in other structures and improvements of \$0.1 million, and in capital leases and leasehold improvements of \$1.2 million. Buildings under construction include additional facilities at the Treasure Coast Public Safety Training Complex

located on 55 acres next to the Main Campus; major renovations to the Childcare Center, the Cosmetology Center, classroom renovations, and exterior building repairs, at the Main Campus; and the Brackett Joint Use Library and College Lane Extension at the Mueller Campus.

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

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

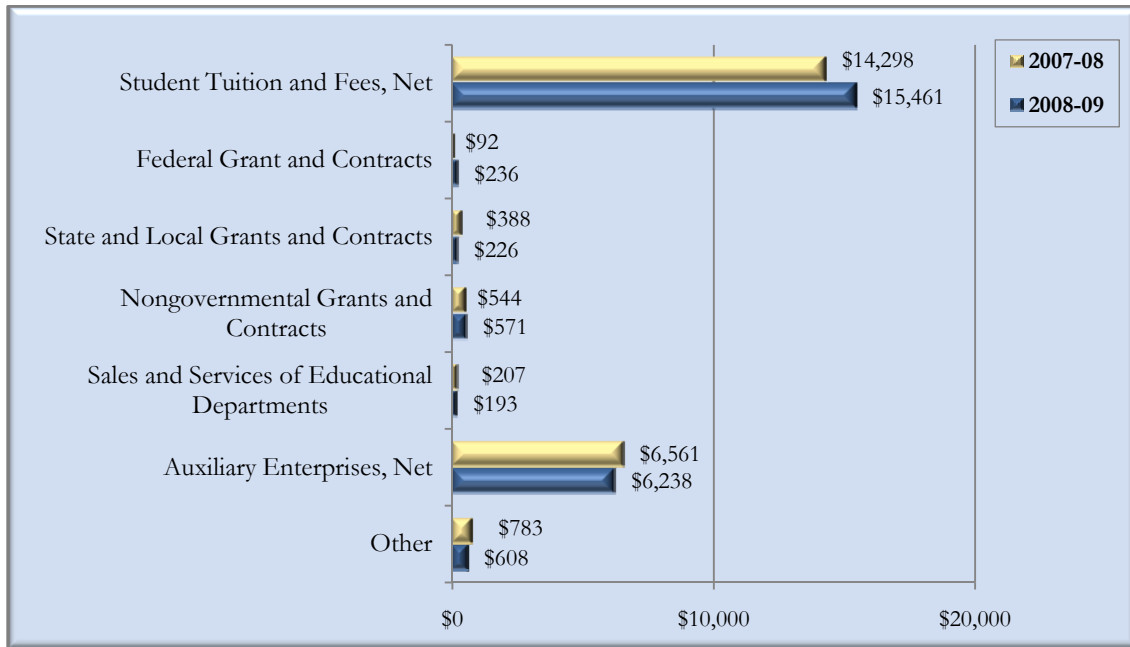
	College		Component Unit	
	6-30-09	6-30-08	3-31-09	3-31-08
<b>Operating Revenues</b>				
Student Tuition and Fees, Net of Scholarship				
Allowances	\$ 15,461	\$ 14,298	\$	\$
Federal Grants and Contracts	236	92		
State and Local Grants and Contracts	226	388	1,418	2,698
Nongovernmental Grants and Contracts	571	544	2,906	2,833
Sales and Services of Educational Departments	193	207		
Auxiliary Enterprises, Net of Scholarship				
Allowances	6,238	6,561		
Other Operating Revenues	608	783		
<b>Total Operating Revenues</b>	<b>23,533</b>	<b>22,873</b>	<b>4,324</b>	<b>5,531</b>
Less, Operating Expenses	107,803	97,566	7,671	8,907
<b>Operating Loss</b>	<b>(84,270)</b>	<b>(74,693)</b>	<b>(3,347)</b>	<b>(3,376)</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	47,678	53,751		
Other Nonoperating Revenues	21,538	16,783	3,094	3,503
Nonoperating Expenses	(173)	(192)	(18,188)	(3,279)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>69,043</b>	<b>70,342</b>	<b>(15,094)</b>	<b>224</b>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>				
Capital Appropriations	30,762	32,301	228	1,918
Capital Grants, Contracts, Gifts, and Fees	4,728	5,705		
Additions to Permanent Endowments			929	787
<b>Increase (Decrease) in Net Assets</b>	<b>20,263</b>	<b>33,655</b>	<b>(17,284)</b>	<b>(447)</b>
Net Assets, Beginning of Year	242,983	209,328	58,269	58,716
<b>Net Assets, End of Year</b>	<b>\$ 263,246</b>	<b>\$ 242,983</b>	<b>\$ 40,985</b>	<b>\$ 58,269</b>

### Operating Revenues

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

The following chart presents the College's operating revenues for the 2008-09 and 2007-08 fiscal years:

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



College operating revenues increased \$0.7 million, or 2.9 percent, as a result of the following factors:

- Student tuition and fee revenue, net of scholarship allowances increased by \$1.2 million, or 8.1 percent. This increase was the result of both an increase in tuition and fee rates and an increase in student enrollment.
- State and local grants and contracts decreased by \$0.2 million, or 41.8 percent, due to reduction in funding of programs at the statewide level because of general economic conditions.
- Revenues from auxiliary enterprises, net of scholarship allowances slightly decreased by \$0.3 million, or 4.9 percent, due to flat sales and higher cost of goods sold.
- Other operating revenues decreased by \$0.2 million, or 22.3 percent. This was the result of decreased College facility rentals as well as decreased insurance proceeds received as submitted claims for hurricane losses decreased again this fiscal year.

**Operating Expenses**

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

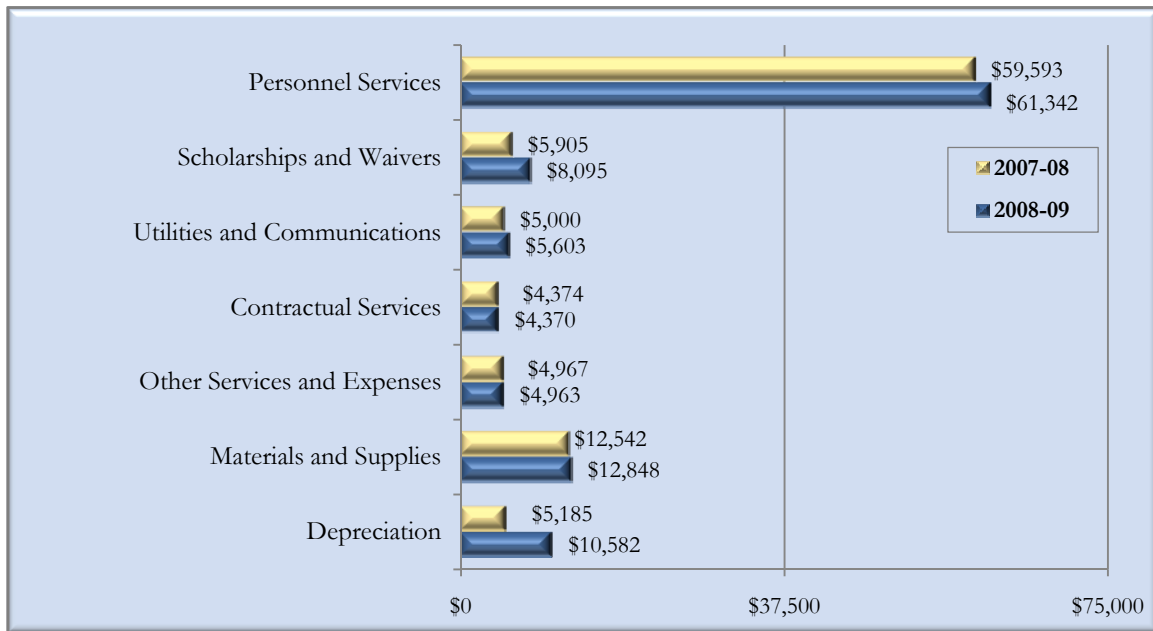
Operating expenses for the College and its component unit for the respective periods ended are presented in the following table:

**Operating Expenses for the Periods Ended  
(In Thousands)**

	College		Component Unit	
	6-30-09	6-30-08	3-31-09	3-31-08
<b>Operating Expenses</b>				
Personnel Services	\$ 61,342	\$ 59,593	\$ 253	\$ 191
Scholarships and Waivers	8,095	5,905	1,879	3,471
Utilities and Communications	5,603	5,000		
Contractual Services	4,370	4,374		
Other Services and Expenses	4,963	4,967	5,375	5,065
Materials and Supplies	12,848	12,542		
Depreciation	10,582	5,185	164	180
<b>Total Operating Expenses</b>	<b>\$ 107,803</b>	<b>\$ 97,566</b>	<b>\$ 7,671</b>	<b>\$ 8,907</b>

The following chart presents the College’s operating expenses for the 2008-09 and 2007-08 fiscal years:

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



College operating expense increased \$10.2 million, or 10.5 percent, primarily due to the following factors:

- There was an increase of personnel services (salary and benefits) expenditures totaling \$1.7 million, or 2.9 percent. This increase was mainly due to a salary increase approved for existing personnel.
- Scholarships and waivers also increased by \$2.2 million, or 37.1 percent, primarily due to increases in Federal Pell grants corresponding with increases in enrollment of students with financial need.
- Utilities and communications expenditures increased by \$0.6 million, or 12.1 percent. This increase is attributable to overall higher usage rates due to the opening of new buildings at the Treasure Coast Public Safety Complex; William Center at the Dixon-Hendry Campus; Human Development Resource Center at the Northwest Center; the Florida State University, College of Medicine at the Regional Fort Pierce Campus; and the reopening of the Bryan Administration Building on the Main Campus. Further, global demand for energy resources has exerted upward pressure on utility prices which is being passed on to the College in the form of rate hikes by the local utility companies.

- Depreciation expense increased by \$5.4 million, or 104.1 percent due to a change in estimating useful life for depreciation expense related to certain furniture, machinery, and equipment. In addition, there were new facilities that were placed into service during the 2008-09 fiscal year.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2008-09 and 2007-08 fiscal years:

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

	2008-09	2007-08
State Appropriations	\$ 47,678	\$ 53,751
Gifts and Grants	21,738	15,112
Investment Income	561	1,651
Unrealized Loss on Investments	(768)	
Other Nonoperating Revenues	7	20
Interest on Capital Asset-Related Debt	(173)	(192)
<b>Net Nonoperating Revenues</b>	<b>\$ 69,043</b>	<b>\$ 70,342</b>

- State appropriations decreased by \$6.1 million, or 11.3 percent, compared to prior fiscal year. This net decrease was primarily due to the following:
  - Net overall decrease of \$3.2 million in the College Program Fund for general revenue and performance based incentive funding.
  - Decrease of \$1.5 million due to reporting Florida Student Assistance Grants in gifts and grants.
  - Decrease of \$0.6 million in State appropriations for the Baccalaureate Programs.
  - Increase in lottery funding of \$0.6 million.
- Gifts and grants increased \$6.6 million, or 43.8 percent, compared to prior fiscal year. This net increase is primarily due to increases in Federal Pell grants, Bright Futures Program grants, and Florida Student Assistance grants as a result of increased student enrollment.
- Investment income decreased \$1.1 million, or 66 percent. Also, at June 30, 2009, the State Board of Administration (SBA) Fund B investments were adjusted to fair value resulting in an unrealized loss of \$0.8 million. Additional SBA Fund B detail is presented in the notes to financial statements. Further, there was a decrease in cash available to invest, as construction contracts were paid throughout the fiscal year, coupled with historic lows in market interest rates compared to prior year. The average annual interest rate earned for College investments decreased from 4.26 percent in the 2007-08 fiscal year to 0.4 percent in the 2008-09 fiscal year.

**Other Revenues, Expenses, Gains, or Losses**

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2008-09 and 2007-08 fiscal years:

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

	2008-09	2007-08
Capital Appropriations	\$ 30,762	\$ 32,301
Capital Grants, Contracts, Gifts, and Fees	4,728	5,705
<b>Total</b>	<b>\$ 35,490</b>	<b>\$ 38,006</b>

- Capital appropriations decreased overall by \$1.5 million, or 4.8 percent, as compared to the prior year. This decrease is due to a \$1 million reduction in State capital appropriations for State Facilities Enhancement Challenge Grants and by a decrease in PECO revenues of \$0.5 million.
- Capital grants, contracts, gifts, and fees decreased \$1 million, or 17.1 percent, due to decreases in matched Foundation contributions of capital campaign gifts and contributions, under the State Facilities Enhancement Challenge Grants, as compared to the prior year.

**THE STATEMENT OF CASH FLOWS**

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

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

A summary of the College's cash flows for the 2008-09 and 2007-08 fiscal years is presented in the following table:

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

	2008-09	2007-08
Cash Provided (Used) by:		
Operating Activities	\$ (73,097)	\$ (68,323)
Noncapital Financing Activities	69,423	68,863
Capital and Related Financing Activities	(3,442)	(7,952)
Investing Activities	(4,827)	(866)
<b>Net Decrease in Cash and Cash Equivalents</b>	(11,943)	(8,278)
Cash and Cash Equivalents, Beginning of Year	43,456	51,734
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 31,513</b>	<b>\$ 43,456</b>

For the purpose of cash flows, cash equivalents include time deposits and all highly liquid debt instruments with original maturities of three months or less.

The College's overall cash and cash equivalents decreased by \$11.9 million, or 27.5 percent, compared to prior fiscal year. This overall decrease is mainly attributable to the purchase and construction of capital assets including building, land, and equipment during the fiscal year.

- The net cash used for operating activities increased \$4.8 million (decrease to cash) compared to the prior fiscal year. The major inflow of cash from operating activities was a \$0.8 million increase in tuition and fee

payments due to both higher enrollments in fee paying credit courses and a tuition rate increase. The major outflows of cash from operating activities were: increases in payments for scholarships of \$2.2 million; increases in payments to employees for salaries and benefits in the amount of \$0.9 million and \$0.4 million, respectively; and increases in payments for utilities of \$0.6 million compared to the prior fiscal year. Receipts from grants and contracts decreased \$1.4 million compared to the prior fiscal year (cash outflow) due to reduced statewide funding for all programs.

- The net cash provided by noncapital financing activities increased \$0.5 million (increase to cash) compared to the prior fiscal year. A \$6.1 million reduction in State appropriations was offset by a net \$6.6 million increase from gifts and grant.
- The net cash used for capital and related financing activities” decreased \$4.5 million (increase to cash) compared to the prior fiscal year. Included in this total are the following reductions in cash inflows of capital and related financing activities: capital appropriations decreased \$6.1 million as capital projects funded with PECO funds are nearing completion; capital gifts received from the Foundation decreased \$1 million; and purchases of capital assets and construction decreased \$11.4 million compared to the prior fiscal year as existing construction projects are nearing completion. There were no new issues of capital bonds during the 2008-09 fiscal year.
- The net cash used by investing activities increased \$4 million (decrease to cash) compared to the prior fiscal year. Normally, the cash changes from investing activities consist primarily of interest income. This year, \$6.1 million in cash was used for the purchase of mutual fund investments. Cash provided by earnings on investment activities decreased \$1.1 million compared to the prior fiscal year primarily due to historic lows in market interest rates coupled with decreased cash to invest as construction contracts were paid throughout the fiscal year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2009, the College had \$273.3 million in capital assets, less accumulated depreciation of \$76.4 million, for net capital assets of \$196.9 million. Depreciation charges for the current fiscal year totaled \$10.6 million. The following table summarizes the College’s and its component unit’s capital assets for the respective periods ended:

**Capital Assets for the Periods Ended  
(In Thousands)**

Capital Assets	College		Component Unit	
	6-30-09	6-30-08	3-31-09	3-31-08
Land	\$ 19,974	\$ 19,972	\$	\$
Buildings	119,985	100,342		
Other Structures and Improvements	1,095	1,165		
Furniture, Machinery, and Equipment	6,681	8,739		
Capital Leases and Leasehold Improvements	159	1,364		
Construction in Progress	49,023	48,222		
Component Unit Property and Equipment			2,827	3,321
<b>Capital Assets, Net</b>	<b>\$ 196,917</b>	<b>\$ 179,804</b>	<b>\$ 2,827</b>	<b>\$ 3,321</b>

Significant capital asset additions during the year include the following:

- Building additions consisted of multiple projects completed and closed out this year and were primarily funded by PECO funds and Facilities Enhancement Challenge Grant funds. These building additions consisted of construction of the Schumann Center (\$6.2 million) at the Mueller Campus, Human Resource Development Center (\$4.4 million) at the Northwest Center, the Williamson Center (\$4.1 million) at the Dixon-Hendry Campus, Florida State University College of Medicine (\$3.5 million) at the Main Campus, the

Maintenance Complex and Transportation Building (\$3.1 million) at the main campus, and upgrades to the chiller plant (\$1.2 million) at the Main Campus. Other building additions included the renovation of the WQCS radio station located at the Main Campus.

- Other structures and improvements additions included landscaping improvements for the Williamson Center (\$0.8 million) at the Dixon-Hendry Campus, Schumann Center (\$0.7 million) at the Mueller Campus, and Florida State University College of Medicine (\$0.3 million) at the Main Campus.
- Furniture, machinery, and equipment additions consisted of various technology and computer equipment, audio and video equipment, a donated fire truck and welding system, and the purchase of new vehicles for the Treasure Coast Public Safety training program.
- Construction in progress additions included Treasure Coast Public Safety Training Complex (\$14 million) and the Brackett Joint Use Library (\$6 million) at the Mueller Campus, renovations for the A, KSU, F, Cosmetology, Childcare Center, R, T, and Q Buildings (\$4.1 million), the Center for Innovation and Entrepreneurship (\$0.5 million) at the main campus, and the Science, Technology, Engineering, and Mathematics Building (\$0.3 million) at the St. Lucie West Campus.

The College has construction contract commitments totaling \$6.6 million to be satisfied in the coming years. Projects include completion of additional facilities at the Treasure Coast Public Safety Training Complex located on 55 acres adjacent to the Main Campus, completion of the Brackett Joint Use Library at the Mueller Campus, completion of the Road & Bridge Project at the Mueller Campus, and remodeling and renovation of the Cosmetology, Childcare Center, KSU, and F Buildings at the Main Campus.

Notable projects in various stages of completion during the 2008-09 fiscal year include the Vernon Smith Public Safety Education Building at the Treasure Coast Public Safety Training Complex on 55 acres adjacent to the Main Campus, the Williamson Conference Center at Dixon-Hendry Campus, and completion of the remodeling and renovation of the Bryan Administration Building at the Main Campus. Additional information about the College’s capital assets is presented in the notes to financial statements.

Projects in the planning phase include the Center for Innovation and Entrepreneurship at the Main Campus and the Science Technology Engineering and Mathematics (STEM) Building at the St. Lucie West Campus.

**DEBT ADMINISTRATION**

At fiscal year-end, the College had \$3.4 million in long-term debt outstanding. The following table summarizes the College’s and its component unit’s outstanding long-term debt by type for the respective periods ended:

	<b>Long-Term Debt at (In Thousands)</b>			
	College		Component Unit	
	6-30-09	6-30-08	3-31-09	3-31-08
SBE Capital Outlay Bonds	\$ 3,410	\$ 3,665	\$	\$
Capital Lease Payable		346		
Student Revenue Housing Bonds			2,182	2,283
<b>Total</b>	<b>\$ 3,410</b>	<b>\$ 4,011</b>	<b>\$ 2,182</b>	<b>\$ 2,283</b>

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2008-09 fiscal year, there were no bond sales and no new capital lease agreements. Debt repayments and reductions totaled \$255 thousand for the SBE bonds and \$346 thousand for the capital leases. Additional information about the College's long-term debt is presented in the notes to financial statements.

### **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Indian River State 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, no change in State funding is anticipated in the coming year. Because of this flat funding, the Board of Trustees increased the tuition rate 8 percent to take effect beginning with the Fall 2009 term. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services to ensure student success.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President of Administration and Finance, Indian River State College, 3209 Virginia Avenue, Fort Pierce, FL 34981.

**BASIC FINANCIAL STATEMENTS**

**INDIAN RIVER STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS  
June 30, 2009**

	<u>College</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 16,601,756	\$ 6,334,979
Restricted Cash and Cash Equivalents	6,394,890	
Investments		9,595,127
Accounts Receivable	1,430,109	457
Contributions Receivable		270,871
Due from Other Governmental Agencies	42,012,884	
Due from Component Unit	53,440	
Inventories	1,823,568	
Prepaid Expenses	126,072	
Deposits - Other	16,550	
Prepaid Tuition		3,439,107
<b>Total Current Assets</b>	<u>68,459,269</u>	<u>19,640,541</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	8,516,362	
Restricted Investments	7,266,066	
Investments		19,643,067
Contributions Receivable		3,275,616
Depreciable Capital Assets, Net	127,919,353	2,575,569
Nondepreciable Capital Assets	68,997,162	251,407
Other Assets		339,099
<b>Total Noncurrent Assets</b>	<u>212,698,943</u>	<u>26,084,758</u>
<b>TOTAL ASSETS</b>	<u>\$ 281,158,212</u>	<u>\$ 45,725,299</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 2,214,767	\$ 190,211
Salary and Payroll Taxes Payable	2,250,027	
Retainage Payable	585,277	
Due to Other Governmental Agencies	3,512	
Deferred Revenue	822,003	
Deposits Held for Others	982,473	2,368,137
Long-Term Liabilities - Current Portion:		
Bonds Payable	265,000	106,262
Compensated Absences Payable	333,454	
<b>Total Current Liabilities</b>	<u>7,456,513</u>	<u>2,664,610</u>
Noncurrent Liabilities:		
Bonds Payable	3,145,000	2,075,740
Compensated Absences Payable	7,209,605	
Other Postemployment Benefits Payable	101,515	
<b>Total Noncurrent Liabilities</b>	<u>10,456,120</u>	<u>2,075,740</u>
<b>TOTAL LIABILITIES</b>	<u>17,912,633</u>	<u>4,740,350</u>

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS (Continued)**  
**June 30, 2009**

	<b>College</b>	<b>Component Unit</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 193,506,515	\$
Restricted:		
Nonexpendable:		
Endowment		19,002,847
Expendable:		
Grants and Loans	3,090,240	
Scholarships	564,351	19,429,568
Capital Projects	56,348,337	
Debt Service	115,087	2,182,002
Other		6,635,062
Unrestricted	9,621,049	(6,264,530)
<b>Total Net Assets</b>	263,245,579	40,984,949
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 281,158,212	\$ 45,725,299

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

**INDIAN RIVER STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Fiscal Year Ended June 30, 2009**

	<b>College</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$7,609,082	\$ 15,460,838	\$
Federal Grants and Contracts	236,153	
State and Local Grants and Contracts	225,962	1,417,840
Nongovernmental Grants and Contracts	571,242	2,905,686
Sales and Services of Educational Departments	193,215	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,819,782	6,237,269	
Other Operating Revenues	608,323	
	<b>23,533,002</b>	<b>4,323,526</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	61,341,863	253,215
Scholarships and Waivers	8,095,578	1,879,021
Utilities and Communications	5,602,759	
Contractual Services	4,370,461	
Other Services and Expenses	4,962,920	5,374,962
Materials and Supplies	12,848,091	
Depreciation	10,581,645	164,182
	<b>107,803,317</b>	<b>7,671,380</b>
<b>Operating Loss</b>	<b>(84,270,315)</b>	<b>(3,347,854)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	47,677,643	
Gifts and Grants	21,738,386	
Investment Income	561,335	1,917,056
Net Realized and Unrealized Loss on Investments	(767,967)	(18,053,343)
Other Nonoperating Revenues	7,100	1,177,391
Interest on Capital Asset-Related Debt	(173,426)	(134,365)
	<b>69,043,071</b>	<b>(15,093,261)</b>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(15,227,244)</b>	<b>(18,441,115)</b>
Capital Appropriations	30,762,334	227,902
Capital Grants, Contracts, Gifts, and Fees	4,727,973	
Additions to Permanent Endowments		928,748
	<b>35,490,307</b>	<b>1,156,650</b>
<b>Total Other Revenues</b>	<b>35,490,307</b>	<b>1,156,650</b>
<b>Increase (Decrease) in Net Assets</b>	<b>20,263,063</b>	<b>(17,284,465)</b>
Net Assets, Beginning of Year	242,982,516	58,269,414
<b>Net Assets, End of Year</b>	<b>\$ 263,245,579</b>	<b>\$ 40,984,949</b>

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

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2009**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 15,302,515
Grants and Contracts	636,010
Payments to Suppliers	(22,529,086)
Payments for Utilities and Communications	(5,602,759)
Payments to Employees	(49,379,626)
Payments for Employee Benefits	(11,192,510)
Payments for Scholarships	(8,095,578)
Net Loans Issued to Students	(3,465)
Collection of Loans to Students	3,465
Auxiliary Enterprises, Net	6,286,376
Sales and Services of Educational Departments	193,215
Other Receipts	1,284,767
	<b>(73,096,676)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	47,677,643
Gifts and Grants Received for Other Than Capital or Endowment Purposes	21,745,485
	<b>69,423,128</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Appropriations	21,136,541
Capital Grants and Gifts	4,727,973
Purchases of Capital Assets	(28,532,808)
Principal Paid on Capital Debt and Leases	(600,667)
Interest Paid on Capital Debt and Leases	(173,426)
	<b>(3,442,387)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments	(6,117,200)
Proceeds from Sales and Maturities of Investments	729,257
Investment Income	561,335
	<b>(4,826,608)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(11,942,543)</b>
Cash and Cash Equivalents, Beginning of Year	43,455,551
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 31,513,008</b>

**INDIAN RIVER STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (Continued)  
For the Fiscal Year Ended June 30, 2009**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (84,270,315)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,581,645
Changes in Assets and Liabilities:	
Receivables, Net	(257,031)
Inventories	(347,616)
Other Assets	259,762
Accounts Payable	492,202
Deferred Revenue	(249,530)
Deposits Held for Others	(11,037)
Compensated Absences Payable	659,653
Other Postemployment Benefits Payable	45,591
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (73,096,676)</b>

**SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY**

The College recognized unrealized losses of \$767,967 on investing activities. The unrealized losses were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.

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

**INDIAN RIVER STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Discretely Presented Component Unit.** Based on the application of the criteria for determining component units, the Indian River State College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2009.

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.

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

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

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

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

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

The College follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated its scholarship allowance by indentifying within its student accounts receivable system amounts paid by students for tuition, fees, and books. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against student tuition and fees and auxiliary enterprises.

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, money market accounts, and funds invested with the State Board of Administration (SBA) Local Government Surplus Funds Trust Fund Investment Pool (LGIP), which effective July 1, 2009, is known as Florida PRIME. For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the LGIP 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.

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

At June 30, 2009, the College reported as cash equivalents at fair value \$3,728,204 of moneys held in the LGIP administered by the State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The College's investments in the LGIP, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The LGIP carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 46 days as of June 30, 2009. 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 LGIP to interest rate changes. The investments in the LGIP are reported at fair value, which is amortized cost.

At June 30, 2009, the College reported money market funds at fair value of \$18,057,521 as cash and cash equivalents. The College's investment in money market accounts are as follows: (1) Dreyfus Government Cash Management amounting to \$9,031,592 with a weighted-average maturity (WAM) of 57 days; and, (2) Goldman Sachs Financial Square Funds – Prime Obligations Fund amounting to \$9,025,929 with a WAM of 48 days. The money market funds are rated AAAM by Standard & Poor's and Aaa by Moody's.

**Capital Assets.** College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; assets under capital leases and leasehold improvements. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements (excluding disaster restoration). 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, Educational Equipment – 5, 7, or 10 years
  - Furniture – 7 or 10 years
- Assets Under Capital Leases and Leasehold Improvements – 10 years or life of asset, whichever is less

**INDIAN RIVER STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2009**

Land, buildings, and equipment of the College’s component unit are stated at cost except for donated property which is stated at fair market value at the date of the donation, and is net of accumulated depreciation of \$2,765,237. The College’s component unit depreciates buildings and equipment using the straight-line method over estimated life ranging from 3 to 40 years.

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

**2. INVESTMENTS**

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

The College’s restricted investments at June 30, 2009, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 1,033,779
State Board of Administration Debt Service Accounts	115,087
Mutual Funds	<u>6,117,200</u>
<b>Total College Investments</b>	<b><u><u>\$ 7,266,066</u></u></b>

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

The goal of the College's investment program is set forth in the investment policy as approved by the District Board of Trustees. The primary objective is for principal preservation and liquidity, with a secondary objective of maximizing investment income and providing minimal risk of market value volatility, while being consistent with the Florida Statutes and State Board of Education Rules. The majority of assets will be invested in cash and cash equivalents, short term money market fund, and indirect funds invested United States Government securities.

**State Board of Administration Fund B Surplus Funds Trust Fund.** On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund (LGIP) to also establish the Fund B Surplus Funds Trust Fund (Fund B). Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the LGIP.

At June 30, 2009, the College reported restricted investments at fair value of \$1,033,779 for amounts held in Fund B. The College's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.5137 at June 30, 2009. The weighted-average life (WAL) of Fund B at June 30, 2009, was 6.87 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2009. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

**State Board of Administration Debt Service Accounts.** The College reported restricted investments at fair value totaling \$115,087 at June 30, 2009, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**INDIAN RIVER STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009**

**Other Investments**

The following risks apply to other College investments:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The College's investment policy limits interest rate risk by requiring that investment maturities shall not be greater than five years from the date of purchase. To limit volatility and provide maximum diversification in the short term portfolio no more than 20 percent of the portfolio may have maturities greater than three years and no less than 10 percent of the fund shall have an effective maturity of one year or less. The College invested in Federated United States Government Securities Fund mutual fund amounting to \$6,117,200 with a maturity schedule of less than a year to three years. As of June 30, 2009, the College's investments were mostly held in short term investments, as a means of achieving an overall objective of principal safety.

Credit Risk. Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy addresses credit risk by authorizing investments be limited to fixed income securities selected from the following types United States Treasury Bills, Notes, Bonds, and Strips and other obligations whose principal and interest are backed by the full faith and credit of the United States of America or any of its agencies or instrumentalities, money market funds registered with the securities exchange commission and other investments authorized by the College's policy. The College's investment in the mutual fund contains authorized United States government treasury securities as authorized by the College's investment policy.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover that value of investments or collateral securities that are in the possession of an outside party. The College's investment policy addresses this by requiring that all securities purchased by Indian River State College shall be properly designated as an asset of the College and held in safe keeping by a third party custodial bank or institution. Further, the policy states that no withdrawal of securities, in whole or in part, shall be made from safekeeping except those designated within the Investment Management and Custodial Agreement between the Custodian and Indian River State College. The College's investments in mutual funds totaling \$6,117,200 are all held by the safekeeping agent in the name of the College.

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**Component Unit Investments.** Investments held by the College’s component unit at March 31, 2009, are reported at fair value as follows:

<u>Investment Type</u>	<u>Component Unit</u>
Bonds and Notes	\$ 22,319
Stocks and Other Equity Securities	11,977,054
Money Market and Mutual Funds	17,238,821
<b>Total Component Unit Investments</b>	<b>\$ 29,238,194</b>

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are deemed fully collectible and therefore no allowance for uncollectible accounts has been recognized.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$ 40,529,731 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

**5. DUE FROM COMPONENT UNIT**

The College recorded an amount of \$53,440 representing scholarships that will be reimbursed by the Indian River State College Foundation, Inc. (Foundation), pursuant to agreements between the College and the Foundation to support College grants providing faculty with financial support to strengthen academic programs. The College’s financial statements are reported for the fiscal year ended June 30, 2009. The College’s component unit’s financial statements are reported as of March 31, 2009. Accordingly, although the College reported an amount as due from the component unit on the statement of net assets, the component unit has not reported an amount due to the College.

**6. INVENTORIES**

Inventories consist of items for resale by the campus Bookstore, computer parts sold to various departments by the Network Support department, and supplies utilized by the Cosmetology department, and are valued using the last invoice cost, which approximates the first-in, first-out method of inventory valuation.

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**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 19,972,437	\$ 1,760	\$	\$ 19,974,197
Construction in Progress	48,222,143	25,089,343	24,288,521	49,022,965
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 68,194,580</b>	<b>\$ 25,091,103</b>	<b>\$ 24,288,521</b>	<b>\$ 68,997,162</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 149,234,537	\$ 24,118,326	\$	\$ 173,352,863
Other Structures and Improvements	9,107,252	170,194		9,277,446
Furniture, Machinery, and Equipment	16,622,637	4,521,752	628,287	20,516,102
Capital Leases and Leasehold Improvements (1)	3,740,034		2,554,964	1,185,070
<b>Total Depreciable Capital Assets</b>	<b>178,704,460</b>	<b>28,810,272</b>	<b>3,183,251</b>	<b>204,331,481</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	48,892,808	4,474,811		53,367,619
Other Structures and Improvements	7,942,061	240,926		8,182,987
Furniture, Machinery, and Equipment	7,883,963	6,580,102	628,287	13,835,778
Capital Leases and Leasehold Improvements (1)	2,376,644	244,935	1,595,835	1,025,744
<b>Total Accumulated Depreciation</b>	<b>67,095,476</b>	<b>11,540,774</b>	<b>2,224,122</b>	<b>76,412,128</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 111,608,984</b>	<b>\$ 17,269,498</b>	<b>\$ 959,129</b>	<b>\$ 127,919,353</b>

Note: (1) During 2008-09 fiscal year, the telephone system lease was paid off and the asset and accumulated depreciation were reclassified as furniture, machinery, and equipment. As a result, depreciation expense of \$10,581,645 differs from additions to accumulated depreciation of \$11,540,774 by the reclassification of capital lease and leasehold improvements to furniture machinery and equipment of \$959,129.

**8. LONG-TERM LIABILITIES**

Long-term liabilities of the College at June 30, 2009, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2009, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 3,665,000	\$	\$ 255,000	\$ 3,410,000	\$ 265,000
Capital Leases Payable	345,667		345,667		
Compensated Absences Payable	6,883,406	1,358,704	699,051	7,543,059	333,454
Other Postemployment Benefits Payable	55,924	110,535	64,944	101,515	
<b>Total Long-Term Liabilities</b>	<b>\$ 10,949,997</b>	<b>\$ 1,469,239</b>	<b>\$ 1,364,662</b>	<b>\$ 11,054,574</b>	<b>\$ 598,454</b>

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**Bonds Payable.** The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2009:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2003A	\$ 1,670,000	3.00 - 4.25	2023
Series 2005A	<u>1,740,000</u>	5.0	2017
<b>Total</b>	<b><u>\$ 3,410,000</u></b>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2010	\$ 265,000	\$ 178,850	\$ 443,850
2011	280,000	165,175	445,175
2012	295,000	150,725	445,725
2013	305,000	135,500	440,500
2014	325,000	119,775	444,775
2015-2019	1,300,000	347,350	1,647,350
2020-2023	<u>640,000</u>	<u>91,575</u>	<u>731,575</u>
<b>Total</b>	<b><u>\$ 3,410,000</u></b>	<b><u>\$ 1,188,950</u></b>	<b><u>\$ 4,598,950</u></b>

**Bonds Payable – Component Unit.** A summary of the long-term obligations of the component unit as of March 31, 2009, is as follows:

	Amount
Student Housing Revenue Bonds, Series 1993, Secured by Property with a Cost of \$3,574,000 and Leases, Due \$19,696 Principal Monthly Plus Interest at 5.94 Percent Per Annum, with Final Balloon Payment Due August 1, 2012.	<u>\$2,182,002</u>

**Compensated Absences Payable.** College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave

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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, 2009, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$7,543,059. Of the total liability for compensated absences, \$333,454 is considered the current portion of the compensated absences leave liability that is expected to be paid in the coming fiscal year and represents payments for employees in the final year of the Deferred Retirement Option Program.

**Other Postemployment Benefits Payable.** The College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the Florida College System Risk Management Consortium (Consortium) and life insurance benefits through purchased commercial insurance.

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

*Funding Policy.* Benefit provisions are pursuant to provisions of Section 112.0801, Florida Statutes, and benefits and contribution rates can be amended by the Board of Trustees. The College has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 95 retirees received postemployment health care benefits and 80 retirees received postemployment life insurance benefits. The College provided required contributions of \$64,944 toward the

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annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$621,748.

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

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 58,968
Amortization of Unfunded Actuarial Accrued Liability	51,753
<b>Annual Required Contribution</b>	110,721
Interest on Net OPEB Obligation	1,678
Adjustment to Annual Required Contribution	(1,864)
<b>Annual OPEB Cost (Expense)</b>	110,535
Contribution Toward the OPEB Cost	(64,944)
<b>Increase in Net OPEB Obligation</b>	45,591
Net OPEB Obligation, Beginning of Year	55,924
<b>Net OPEB Obligation, End of Year</b>	\$ 101,515

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009, and for the transition and preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	110,721	49.5%	55,924
2008-09	110,535	58.8%	101,515

*Funded Status and Funding Progress.* As of June 30, 2009, the actuarial accrued liability for benefits was \$1,592,371 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,592,371 and a funded status of 0 percent. The covered payroll (annual payroll of active participating

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employees) was \$36,535,355 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The College's initial OPEB actuarial valuation as of July 1, 2007, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2008, and to estimate the 2007-08 and the 2008-09 fiscal years' ARC. This method was selected because it is the same method used in private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 9 percent initially, reduced by 1 percent per year for two years, then 0.5 percent per year thereafter, to an ultimate rate of 5 percent after six years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll method amortized over 30 years. The remaining amortization period at June 30, 2009, was 28 years.

## **9. RETIREMENT PROGRAMS**

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

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defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2008-09 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$3,129,982, \$3,312,799, and \$3,342,964, respectively, which were equal to the required contributions for each fiscal year.

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As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 136 College participants during the 2008-09 fiscal year. Required contributions made to the PEORP totaled \$588,310.

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

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

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

There were 17 College participants during the 2008-09 fiscal year. Required employer contributions made to the Program totaled \$191,828.

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**10. CONSTRUCTION COMMITMENTS**

The College’s major construction commitments at June 30, 2009, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Fort Pierce/Main Campus:			
Remodel Buildings "A", KSU, "F"	\$ 7,953,807	\$ 6,433,138	\$ 1,520,669
Treasure Coast Public Safety Training Complex	33,042,613	29,550,354	3,492,259
Cosmetology Building Renovation	709,983	50,535	659,448
Childcare Center Building Renovation	438,103	27,315	410,788
Vero Beach/Mueller Campus:			
Brackett Joint Use Library	6,743,458	6,384,789	358,669
Road and Bridge Project - College Lane Extension	2,235,925	2,036,939	198,986
<b>Total</b>	<b>\$ 51,123,889</b>	<b>\$ 44,483,070</b>	<b>\$ 6,640,819</b>

**11. OPERATING LEASE COMMITMENTS**

The College leased building space, a vehicle, and six copiers under operating leases, which expire between years 2010 and 2013. These leased assets and the related commitments are not reported on the College’s statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from the lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases with remaining terms in excess of one year as of June 30, 2009, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2010	\$ 209,576
2011	157,260
2012	150,898
2013	140,657
<b>Total Minimum Payments Required</b>	<b>\$ 658,391</b>

**12. RISK MANAGEMENT PROGRAMS**

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

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specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$200 million through February 2009, and up to \$175 million starting March 1, 2009. Insurance coverage obtained through the Consortium included health, life, dental, fire, extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**13. SCHEDULE OF STATE REVENUE SOURCES**

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

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

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

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<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 39,586,315
Gross Receipts Tax (Public Education Capital Outlay)	27,900,830
Education Enhancement Trust Fund (Lottery)	5,502,603
Restricted Contracts and Grants	2,444,912
Bright Futures Scholarship Program	2,402,876
Facility Enhancement Challenge Grant Program	2,325,000
Florida Student Assistance Grants	1,529,750
Motor Vehicle License Tax (Capital Outlay and Debt Service)	536,504
Special Appropriation - Baccalaureate Funding	427,252
First Generation Matching Grant	200,000
Special Appropriation - Other:	
Critical Jobs	144,315
Workforce Development (Disabled)	142,328
<b>Total</b>	<b><u><u>\$ 83,142,685</u></u></b>

**14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets 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	\$ 41,326,208
Public Services	811,174
Academic Support	7,333,700
Student Services	8,205,515
Institutional Support	7,755,395
Operation and Maintenance of Plant	16,416,881
Scholarships and Fellowships	7,762,405
Depreciation	10,581,645
Auxiliary Enterprises	7,610,394
<b>Total Operating Expenses</b>	<b><u><u>\$ 107,803,317</u></u></b>

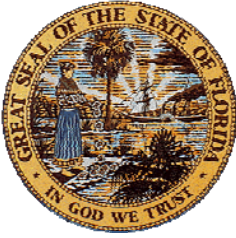
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**15. RELATED PARTY TRANSACTIONS**

As permitted by Section 1004.70, Florida Statutes, the College receives direct and indirect support from its direct-support organization, the Indian River State College Foundation, Inc. (Foundation). The Foundation is included within the College's reporting entity as a discretely presented component unit.

The College approved lease agreements with the Foundation for the College's use of classroom and office space at the Prima Vista site in Port St. Lucie and the Indian River Academy in Fort Pierce, at total annual rents of \$143,907 during the 2008-09 fiscal year.

In April 1993, the College entered into an agreement with the Foundation to lease 2.5 acres of land to the Foundation for the establishment of student housing. The agreement provided for a lease term of 99 years in consideration of a one-time payment of \$99 for the life of the lease.



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AUDITOR GENERAL

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

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

We have audited the financial statements of Indian River State 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, 2009, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

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

### **Compliance and Other Matters**

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

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

Respectfully submitted,



David W. Martin, CPA  
March 25, 2010