

DAYTONA STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2010



BOARD OF TRUSTEES AND PRESIDENT

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

	<u>County</u>
Dr. Steven G. Miles, Chair from 5-24-10	Volusia
John E. Graham, Jr., Vice Chair to 6-14-10 (1) (2)	Volusia
Dr. Mary G. Bennett to 6-14-10 (2) Chair from 3-11-10 to 5-23-10	Volusia
Forough B. Hosseini, Chair to 2-22-10 (3)	Volusia
Bob Davis from 6-15-10 (4)	Volusia
William H. Davison	Flagler
Dr. Christina Frederick-Recascino from 6-15-10	Volusia
Mary Ann Haas	Flagler
Joseph C. Petrock	Volusia
Edward E. Schatz, Jr., to 6-14-10 (2)	Flagler
John Gregory Smith	Volusia
John W. Tanner from 6-15-10	Flagler

Dr. D. Kent Sharples, President

- Notes: (1) There was no Vice Chair from June 15, 2010, to June 30, 2010.
(2) Board Member served beyond the end of term, May 31, 2010.
(3) There was no Chair from February 23, 2010, to March 10, 2010, due to the Chair resigning effective February 22, 2010.
(4) Appointed as Robert C. Davidson, known as Bob Davis.

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 Tina Z. Myers, and the audit was supervised by Keith A. Wolfe, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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

**DAYTONA STATE COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

We noted certain matters involving the College's internal control over financial reporting and its operations that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness.

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; however, we noted a certain additional matter, as summarized below.

SIGNIFICANT DEFICIENCY (Combination of Control Deficiencies in Finding Nos. 1 through 4)

Finding No. 1: The College needed to improve its controls to ensure the accuracy of financial accounting and reporting of agency funds.

Finding No. 2: The College needed to strengthen controls to ensure that contracts and agreements are submitted to the Board of Trustees (Board) for approval in accordance with College Policy No. 5.08.

Finding No. 3: The College needed to improve its procedures for monitoring compliance with contract provisions to ensure that College resources are used only as specifically authorized and approved by the Board for a valid public purpose of the College.

Finding No. 4: The College needed to establish procedures to ensure that only eligible contributions are reported for matching grant purposes under Section 1011.85, Florida Statutes.

ADDITIONAL MATTER

Finding No. 5: The contractual arrangement between the College and a for profit organization may have resulted in a conflict of interest in violation of Section 112.313(7)(a), Florida Statutes, because a College Board member is a partner and managing director of the organization.

RELATED INFORMATION

The College entered into an agreement with a certified public accounting firm to provide professional services, including financial analysis, forensic accounting, and possibly, expert testimony and consulting related to the College's contractual relationship with the Community Cultural Foundation.

Audit Objectives and Scope

Our audit objectives were to determine whether Daytona 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, 2010. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in

both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

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

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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 Daytona 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, 2010, which collectively comprise the College's basic financial statements as shown on pages 11 through 35. These financial statements are the responsibility of College 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, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Daytona 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.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 10 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 36 and 37 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
February 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

The College's assets totaled \$215.4 million at June 30, 2010. This balance reflects a \$2.6 million, or 1.2 percent, decrease from the 2008-09 fiscal year, primarily due from a reduction in due from other governmental agencies. Liabilities decreased by \$5.2 million, or 10.6 percent, totaling \$43.3 million at June 30, 2010, compared to \$48.5 million at June 30, 2009. This decrease was primarily due to a decrease in amounts due to the College's component unit of \$3.7 million related to funds held as an investment for the Daytona State College Foundation, Inc., and a \$2.4 decrease in deferred revenue. As a result, the College's net assets increased by \$2.6 million, reaching a year-end balance of \$172.1 million.

The College's operating revenues totaled \$32.6 million for the 2009-10 fiscal year, representing a 3.4 percent increase over the 2008-09 fiscal year primarily due to an increase of 9.4 percent in student enrollment and an increase of 8 percent in tuition rates. Operating expenses totaled \$133.5 million for the 2009-10 fiscal year, representing an increase of \$18.4 million, or 16 percent, over the 2008-09 fiscal year primarily due to expenses related to the increase in student enrollment.

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:

- Daytona 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.
- Daytona 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 Daytona 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 Daytona State College's operating results.

These two statements report Daytona 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 campuses, 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 for the College and its component unit for the respective fiscal years ended is shown in the following table:

	College		Component Unit	
	6-30-10	6-30-09	12-31-09	12-31-08
Assets				
Current Assets	\$ 29,280	\$ 31,736	\$ 2,198	\$ 2,176
Capital Assets, Net	153,662	154,487		
Other Noncurrent Assets	32,435	31,758	15,950	17,718
Total Assets	215,377	217,981	18,148	19,894
Liabilities				
Current Liabilities	9,498	15,495	244	190
Noncurrent Liabilities	33,823	32,980	25	43
Total Liabilities	43,321	48,475	269	233
Net Assets				
Invested in Capital Assets, Net of Related Debt	138,705	139,017		
Restricted	20,030	19,084	17,673	19,436
Unrestricted	13,321	11,405	206	225
Total Net Assets	\$ 172,056	\$ 169,506	\$ 17,879	\$ 19,661
Increase (Decrease) in Net Assets	\$ 2,550	1.5%	\$ (1,782)	-9.1%

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

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

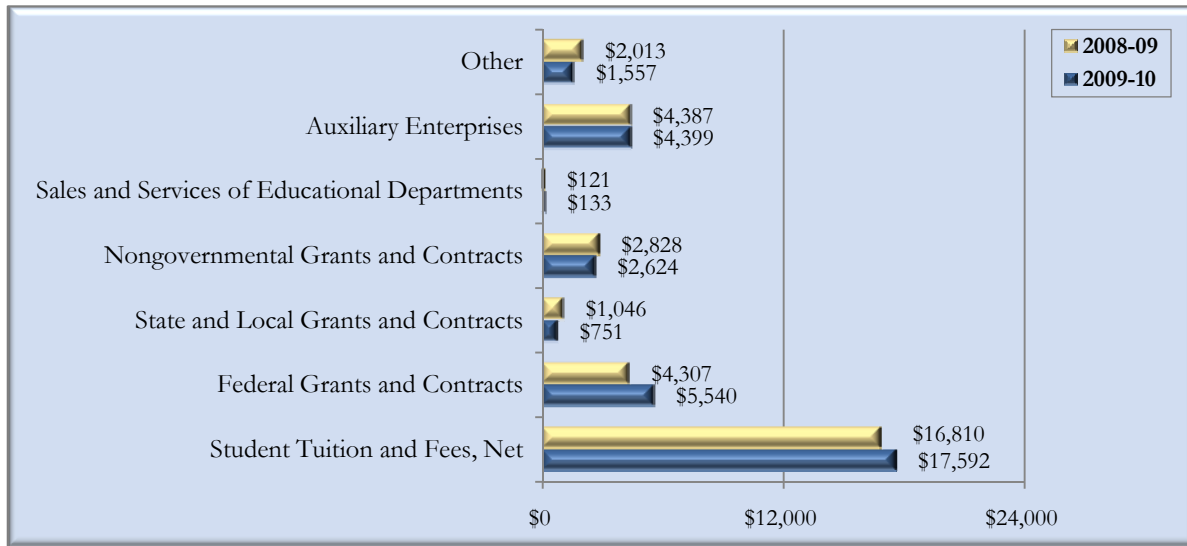
	College		Component Unit	
	6-30-10	6-30-09	12-31-09	12-31-08
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 17,592	\$ 16,810	\$	\$
Federal Grants and Contracts	5,540	4,307		
State and Local Grants and Contracts	751	1,046	242	424
Nongovernmental Grants and Contracts	2,624	2,828		
Sales and Services of Educational Departments	133	121		
Auxiliary Enterprises	4,399	4,387		
Other Operating Revenues	1,557	2,013	1,634	4,130
Total Operating Revenues	32,596	31,512	1,876	4,554
Less, Operating Expenses	133,544	115,167	7,751	4,752
Operating Loss	(100,948)	(83,655)	(5,875)	(198)
Nonoperating Revenues (Expenses)				
State Appropriations	46,684	50,467		
Other Nonoperating Revenues	45,030	23,713	4,104	628
Interest on Capital-Asset Related Debt	(786)	(858)		
Other Nonoperating Expenses			(11)	(8,209)
Net Nonoperating Revenues (Expenses)	90,928	73,322	4,093	(7,581)
Loss Before Other Revenues, Expenses, Gains, or Losses	(10,020)	(10,333)	(1,782)	(7,779)
Capital Appropriations	4,007	3,623		
Capital Grants, Contracts, Gifts, and Fees	8,563	2,380		
Increase (Decrease) in Net Assets	2,550	(4,330)	(1,782)	(7,779)
Net Assets, Beginning of Year	169,506	173,836	19,661	27,440
Net Assets, End of Year	\$ 172,056	\$ 169,506	\$ 17,879	\$ 19,661

Operating Revenues

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

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

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



College operating revenue increased by \$1.1 million, or 3.4 percent as a result of the following factors:

- An increase in student enrollment of 9.4 percent.
- Increase of 8 percent in tuition rates.
- An increase of 28.6 percent in funds from Federal grants and contracts.

Operating Expenses

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

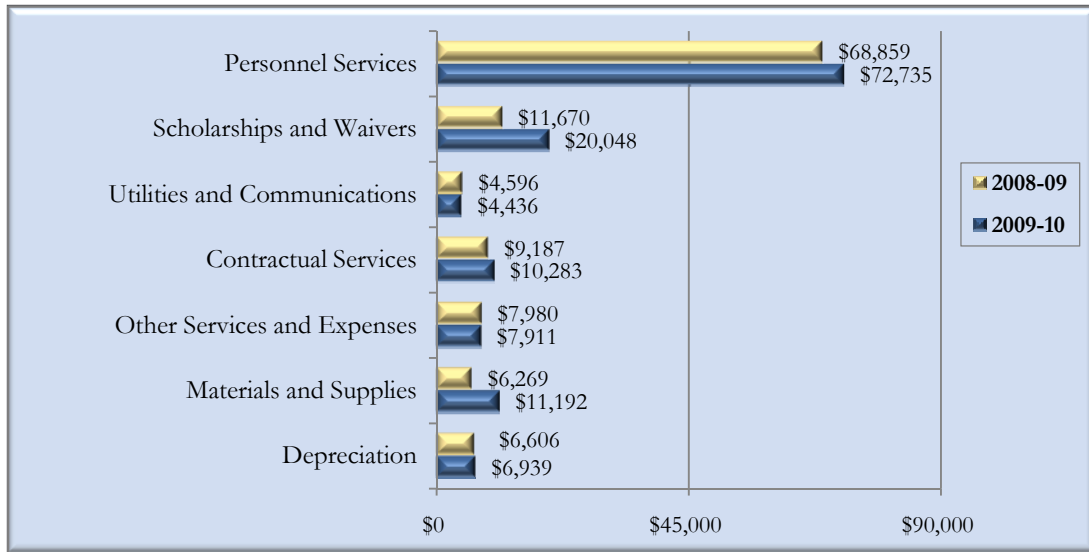
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

**Operating Expenses
(In Thousands)**

	College		Component Unit	
	6-30-10	6-30-09	12-31-09	12-31-08
Operating Expenses				
Personnel Services	\$ 72,735	\$ 68,859	\$ 200	\$ 204
Scholarships and Waivers	20,048	11,670	1,319	91
Utilities and Communications	4,436	4,596		
Contractual Services	10,283	9,187	20	9
Other Services and Expenses	7,911	7,980	6,209	4,403
Materials and Supplies	11,192	6,269	3	45
Depreciation	6,939	6,606		
Total Operating Expenses	\$ 133,544	\$ 115,167	\$ 7,751	\$ 4,752

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

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



Total operating expenses increased by \$18.4 million, representing an increase of 16 percent over the 2008-09 fiscal year, primarily as a result of the following factors:

- Personnel services increased by \$3.9 million, or 5.6 percent, as a result of additional costs related to increased student enrollment.
- Scholarships and waivers increased by \$8.4 million, or 71.8 percent, because of increased Federal and State student financial aid related to the increase in student enrollment.
- Materials and supplies increased by \$4.9 million, or 78.5 percent, as a result of minor equipment purchased to properly furnish classrooms to accommodate the increase in student enrollment.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2009-10 and 2008-09 fiscal years:

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

	<u>2009-10</u>	<u>2008-09</u>
State Appropriations	\$46,684	\$50,467
Gifts and Grants	43,082	23,581
Investment Income	1,820	128
Other Nonoperating Revenues	128	4
Interest on Capital Asset-Related Debt	<u>(786)</u>	<u>(858)</u>
Net Nonoperating Revenues	<u>\$90,928</u>	<u>\$73,322</u>

State appropriations decreased; however, this was offset by increases in gifts and grants and funding received through the Federal American Recovery and Reinvestment Act (ARRA). The increase in gifts and grants was primarily the

result of increases in Federal and State programs for student financial aid as a result of the increase in student enrollment.

Other Revenues, Expenses, Gains, or Losses

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

Other Revenues, Expenses, Gains, or Losses: College		
(In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Capital Appropriations	\$ 4,007	\$ 3,623
Capital Grants, Contracts, Gifts, and Fees	<u>8,563</u>	<u>2,380</u>
Total	<u>\$12,570</u>	<u>\$ 6,003</u>

THE STATEMENT OF CASH FLOWS

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

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

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

Condensed Statement of Cash Flows: College		
(In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Cash Provided (Used) by:		
Operating Activities	\$ (94,156)	\$ (75,668)
Noncapital Financing Activities	86,146	78,250
Capital and Related Financing Activities	5,690	(888)
Investing Activities	<u>1,821</u>	<u>137</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(499)	1,831
Cash and Cash Equivalents, Beginning of Year	<u>38,446</u>	<u>36,615</u>
Cash and Cash Equivalents, End of Year	<u>\$ 37,947</u>	<u>\$ 38,446</u>

Major sources of funds came from State appropriations (\$46.7 million), noncapital gifts and grants (\$43 million), net student tuition and fees (\$17.1 million), grants and contracts (\$8.3 million), and auxiliary services (\$4.4 million). Major uses of funds were for payments to employees (\$56.5 million), payments to providers of goods and services (\$30.2 million), and payments for scholarships (\$20 million).

Changes in cash and cash equivalents were the result of the following factors:

- Net cash used for operating activities increased by \$18.5 million primarily due to the increase enrollment of 9.4 percent, which resulted in a 15.7 percent increase in student FTE.
- Net cash provided by noncapital financing activities increased by \$7.9 million primarily due to the increase in student financial aid.

- Net cash used for capital and related financing activities increased by \$6.6 million primarily due to a significant decrease in the construction of capital assets.
- Net cash provided by investing activities increased by \$1.7 million due to an increase in interest earnings as a result of current economic conditions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2010, the College had \$238.6 million in capital assets, less accumulated depreciation of \$84.9 million, for net capital assets of \$153.7 million. Depreciation charges for the current fiscal year totaled \$6.9 million. The following table summarizes the College’s capital assets at June 30:

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

Capital Assets	2010	2009
Land	\$ 13,071	\$ 11,408
Buildings	176,796	174,088
Other Structures and Improvements	27,680	27,680
Furniture, Machinery, and Equipment	20,607	19,427
Artwork	96	45
Construction in Progress	321	187
Total	238,571	232,835
Less, Accumulated Depreciation:		
Buildings	47,367	43,137
Other Structures and Improvements	19,531	18,010
Furniture, Machinery, and Equipment	18,011	17,201
Total Accumulated Depreciation	84,909	78,348
Capital Assets, Net	\$ 153,662	\$ 154,487

The College has a \$0.1 million construction contract commitment at June 30, 2010, for the Mike Curb College of Arts and Sciences project. State appropriations together with local funds are expected to finance the expansion of the News Journal Center to include the Mike Curb College of Arts and Sciences. More information about the College’s capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$18.9 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2010, and June 30, 2009:

**Long-Term Debt, at June 30: College
(In Thousands)**

	2010	2009
SBE Capital Outlay Bonds	\$ 3,665	\$ 4,095
Loans Payable	15,275	15,965
Total	\$18,940	\$20,060

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2009-10 fiscal year, there were refunding bond sales of \$2.5 million, debt retirement payments of \$2.6 million, and bond principal payments of \$0.3 million. The College had two bank loans outstanding at year end. There were no new loans

obtained during the 2009-10 fiscal year and principal payments totaled \$0.7 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Daytona 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, only a modest increase in State funding is anticipated in the coming year. In response to an anticipated fourth year of significant enrollment increases, the Daytona State College District Board of Trustees approved a Legislative appropriated eight percent tuition increase to take effect beginning with the Fall 2010 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 and provide nominal reserves to address potential shortfalls in State funding during the 2010-11 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Interim Chief Financial Officer, Dennis Micare, Daytona State College, Post Office Box 2811, Daytona Beach, Florida 32120-2811.

BASIC FINANCIAL STATEMENTS

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

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 18,275,865	\$ 121,953
Restricted Cash and Cash Equivalents	2,233,824	67,712
Accounts Receivable, Net	3,359,533	104,736
Notes Receivable, Net	1,005,718	
Due from Other Governmental Agencies	3,831,894	
Due from College		1,902,866
Prepaid Expenses	566,281	
Deposits	7,094	
Other Assets		1,054
Total Current Assets	<u>29,280,209</u>	<u>2,198,321</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	17,437,451	
Investments		81,714
Restricted Investments	95,242	15,867,850
Investment in Joint Venture	13,500,000	
Depreciable Capital Assets, Net	140,174,100	
Nondepreciable Capital Assets	13,487,857	
Assets Held for Resale	1,402,500	
Total Noncurrent Assets	<u>186,097,150</u>	<u>15,949,564</u>
TOTAL ASSETS	<u>\$ 215,377,359</u>	<u>\$ 18,147,885</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,791,655	\$ 52,842
Salary and Payroll Taxes Payable	1,201,933	
Retainage Payable	24,765	
Due to Other Governmental Agencies	317,171	
Due to Component Unit/College	1,295,111	26,023
Deferred Revenue	1,800,358	151,842
Estimated Insurance Claims Payable	772,000	
Deposits Held for Others	428,617	
Long-Term Liabilities - Current Portion:		
Bonds Payable	330,000	
Loans Payable	715,000	
Notes Payable		13,120
Special Termination Benefits Payable	47,690	
Compensated Absences Payable	773,676	
Total Current Liabilities	<u>9,497,976</u>	<u>243,827</u>
Noncurrent Liabilities:		
Bonds Payable	3,335,000	
Loans Payable	14,560,000	
Notes Payable		25,421
Special Termination Benefits Payable	942,827	
Compensated Absences Payable	10,054,282	
Other Postemployment Benefits Payable	4,931,288	
Total Noncurrent Liabilities	<u>33,823,397</u>	<u>25,421</u>
TOTAL LIABILITIES	<u>43,321,373</u>	<u>269,248</u>

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

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 138,705,163	\$
Restricted:		
Nonexpendable:		
Endowment	17,211	5,389,082
Expendable:		
Grants and Loans	3,722,906	12,283,493
Scholarships	133,377	
Capital Projects	16,060,982	
Debt Service	95,242	
Unrestricted	13,321,105	206,062
Total Net Assets	172,055,986	17,878,637
TOTAL LIABILITIES AND NET ASSETS	\$ 215,377,359	\$ 18,147,885

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

DAYTONA 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, 2010

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$21,151,721	\$ 17,592,202	\$
Federal Grants and Contracts	5,539,587	
State and Local Grants and Contracts	750,979	242,482
Nongovernmental Grants and Contracts	2,624,357	
Sales and Services of Educational Departments	132,983	
Auxiliary Enterprises	4,398,752	
Other Operating Revenues	1,556,913	1,634,145
Total Operating Revenues	32,595,773	1,876,627
EXPENSES		
Operating Expenses:		
Personnel Services	72,735,096	199,592
Scholarships and Waivers	20,048,125	1,318,992
Utilities and Communications	4,436,439	
Contractual Services	10,282,887	20,055
Other Services and Expenses	7,910,925	6,209,223
Materials and Supplies	11,191,512	3,486
Depreciation	6,939,218	
Total Operating Expenses	133,544,202	7,751,348
Operating Loss	(100,948,429)	(5,874,721)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	46,683,788	
Gifts and Grants	43,082,040	551,709
Investment Income	1,820,423	423,731
Net Unrealized and Realized Gain on Investments		3,127,773
Other Nonoperating Revenues	127,535	
Interest on Capital Asset-Related Debt	(786,043)	
Other Nonoperating Expenses		(11,208)
Net Nonoperating Revenues	90,927,743	4,092,005
Loss Before Other Revenues, Expenses, Gains, or Losses	(10,020,686)	(1,782,716)
Capital Appropriations	4,007,218	
Capital Grants, Contracts, Gifts, and Fees	8,563,693	
Total Other Revenues	12,570,911	
Increase (Decrease) in Net Assets	2,550,225	(1,782,716)
Net Assets, Beginning of Year	169,505,761	19,661,353
Net Assets, End of Year	\$ 172,055,986	\$ 17,878,637

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

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

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 17,117,147
Grants and Contracts	8,286,323
Payments to Suppliers	(30,184,962)
Payments for Utilities and Communications	(4,436,439)
Payments to Employees	(56,451,078)
Payments for Employee Benefits	(14,219,881)
Payments for Scholarships	(20,048,125)
Net Loans Issued to Students	(18,885,486)
Collection of Loans to Students	18,563,841
Auxiliary Enterprises	4,412,698
Sales and Service of Educational Departments	132,983
Other Receipts	1,557,116
	(94,155,863)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	46,683,788
Gifts and Grants Received for Other Than Capital or Endowment Purposes	43,082,040
Other Nonoperating Disbursements	(3,620,244)
	86,145,584
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	2,465,000
Capital Appropriations	5,130,408
Capital Grants and Gifts	8,563,693
Purchases of Capital Assets	(6,098,117)
Principal Paid on Capital Debt	(3,585,000)
Interest Paid on Capital Debt	(786,043)
	5,689,941
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	881
Investment Income	1,820,423
	1,821,304
Net Cash Provided by Investing Activities	1,821,304
Net Decrease in Cash and Cash Equivalents	(499,034)
Cash and Cash Equivalents, Beginning of Year	38,446,174
Cash and Cash Equivalents, End of Year	\$ 37,947,140

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

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (100,948,429)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	6,939,218
Changes in Assets and Liabilities:	
Receivables, Net	(1,196,861)
Due From Other Governmental Agencies	(57,587)
Notes Receivable	(321,645)
Prepaid Expenses	(89,457)
Other Assets	450
Accounts Payable	(201,387)
Salary and Payroll Taxes Payable	(48,662)
Due to Other Governmental Agencies	22,759
Deferred Revenue	(555,906)
Deposits Held for Others	211,687
Estimated Insurance Claims Payable	92,000
Compensated Absences Payable	467,991
Special Termination Benefits Payable	(39,340)
Other Postemployment Benefits Payable	1,569,306
	\$ (94,155,863)
NET CASH USED BY OPERATING ACTIVITIES	

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES

Unrealized gains on investments are recognized as income on the statement of revenues, expenses, and changes in net assets, but are not considered a source of cash for the statement of cash flows.

\$ 705,171

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Daytona 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 Volusia and Flagler 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 Daytona 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 December 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.

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

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

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

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

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

The College's component unit uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting for state and local governmental entities.

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

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

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

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

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

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

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash placed with the State Treasury Special Purpose Investment Accounts (SPIA) and the State Board of Administration (SBA) Florida PRIME Investment Pool, formerly known as the Local Government Funds Surplus Trust Fund Investment Pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in SPIA and the SBA Florida PRIME investment pools to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2010, the College reported as cash equivalents at fair value \$35,258,970 of moneys held in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 1.81 years at June 30, 2010. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2010, the College reported as cash equivalents at fair value \$930 of moneys held in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 46 days as of June 30, 2010. A portfolio's WAM reflects the average maturity in

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

days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; construction in progress; artwork; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

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

2. INVESTMENTS

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

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

State Board of Administration Debt Service Accounts

The College reported investments at fair value totaling \$95,242 at June 30, 2010, 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.

Component Unit Investments

Investments in mutual funds, equity securities, and money market funds held by Daytona State College Foundation, Inc., at December 31, 2009, are reported at fair value as follows:

<u>Investment Type</u>	<u>Average</u>	<u>Credit Quality</u>	<u>Fair Value</u>
Commonfund Multi-Strategy Bond Fund	3.9 Years	AA	\$ 3,083,844
Commonfund Multi-Strategy Equity Fund	(2)	(2)	8,852,146
Bernstein Intermediate Duration Portfolio	4.4 Years	A+	1,274,687
Ameriprise	(2)	(2)	53,887
Equity Interest in Real Property	(2)	(2)	<u>2,685,000</u>
Total Investments of Component Unit			<u>\$15,949,564</u>

- Notes: (1) Represents average of credit qualities for those investments within the fund or portfolio that were assigned a credit quality rating. The credit quality ratings were obtained from various agencies including Standard & Poor's and Moody's Investors Service.
- (2) Disclosure of maturity and credit quality is not required for these investment types.

The Foundation’s investment policy allows for investment allocation of 55 to 75 percent in equities, 25 to 35 percent in fixed-income securities, and up to 10 percent in cash. The Foundation’s investment policies do not place specific limits on maturities or credit quality.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation’s policy does not address custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Foundation’s policy for managing its exposure for changes in interest rate is through maintaining diversification of its investments and investment maturity dates to minimize the impact of downturns in the market.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Foundation’s policy for managing its credit risk is a rating of A or better by Standard & Poor’s or Moody’s Investors Service for debt obligations of United States corporations.

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

Concentration Risk: The Foundation's investment policy discourages more than five percent of the portfolio's total assets taken at current value be invested in the securities of one issuer, other than the United States of America, its agencies or instrumentalities. The Policy further discourages more than 20 percent of the portfolio's total assets to be invested in the securities of companies in any one industry.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferrals, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$1,526,177 allowance for uncollectible accounts.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under the College Falcon Loan Program. Notes receivable are reported net of a \$20,401 allowance for uncollectible notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$2,158,153 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

6. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The \$1,295,111 reported as due to component unit consists of amounts owed by the College to the Foundation pursuant to an agreement to invest Foundation short-term cash-on-hand in the SPIA investment account of the College. The College's financial statements are reported for the fiscal year ended June 30, 2010. The College's component unit's financial statements are reported as of December 31, 2009. Accordingly, amounts reported by the College as due from and to component unit on the statement of net assets do not agree with amounts reported by the component unit as due from and to the College.

7. CAPITAL ASSETS

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

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 11,407,821	\$ 1,662,985	\$	\$ 13,070,806
Construction in Progress	186,968	224,779	90,631	321,116
Artwork	45,600	50,335		95,935
Total Nondepreciable Capital Assets	\$ 11,640,389	\$ 1,938,099	\$ 90,631	\$ 13,487,857
Depreciable Capital Assets:				
Buildings	\$ 174,087,409	\$ 2,708,234	\$	\$ 176,795,643
Other Structures and Improvements	27,680,349			27,680,349
Furniture, Machinery, and Equipment	19,426,757	1,558,166	378,108	20,606,815
Total Depreciable Capital Assets	221,194,515	4,266,400	378,108	225,082,807
Less, Accumulated Depreciation:				
Buildings	43,136,702	4,230,475		47,367,177
Other Structures and Improvements	18,009,973	1,520,737		19,530,710
Furniture, Machinery, and Equipment	17,200,922	1,188,006	378,108	18,010,820
Total Accumulated Depreciation	78,347,597	6,939,218	378,108	84,908,707
Total Depreciable Capital Assets, Net	\$ 142,846,918	\$ (2,672,818)	\$	\$ 140,174,100

8. DEFERRED REVENUE

Deferred revenue includes health insurance premiums collected from employees prior to the insurance coverage period; capital grants; student tuition and fees received prior to fiscal year-end related to subsequent accounting periods; and a donated asset held for resale. As of June 30, 2010, the College reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Auxiliary (Insurance Premiums)	\$ 263,391
Capital Grants	52,108
Student Tuition and Fees	82,359
Asset Held for Resale	1,402,500
Total Deferred Revenue	\$ 1,800,358

9. LONG-TERM LIABILITIES

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

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 4,095,000	\$ 2,465,000	\$ 2,895,000	\$ 3,665,000	\$ 330,000
Loans Payable	15,965,000		690,000	15,275,000	715,000
Special Termination Benefits Payable	1,029,857	155,293	194,633	990,517	47,690
Compensated Absences Payable	10,359,967	1,474,063	1,006,072	10,827,958	773,676
Other Postemployment Benefits Payable	3,361,982	1,872,485	303,179	4,931,288	
Total Long-Term Liabilities	\$ 34,811,806	\$ 5,966,841	\$ 5,088,884	\$ 35,689,763	\$ 1,866,366

Bonds Payable. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2010:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2001A	\$ 255,000	4.375 - 5.000	2021
Series 2002B	1,040,000	4.000 - 5.375	2015
Series 2009A, Refunding	2,370,000	2.000 - 5.000	2019
Total	\$ 3,665,000		

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

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2011	\$ 330,000	\$ 179,700	\$ 509,700
2012	355,000	164,350	519,350
2013	375,000	142,025	517,025
2014	390,000	131,431	521,431
2015	410,000	111,019	521,019
2016-2020	1,785,000	235,000	2,020,000
2021	20,000	1,000	21,000
Total	\$ 3,665,000	\$ 964,525	\$ 4,629,525

Refunded Debt. On September 10, 2009, State Board of Education Capital Outlay Refunding Bonds, Series 2009A, dated August 15, 2009, were issued to advance refund \$2,575,000 of the callable portions of the College’s State Board of Education Capital Outlay Bonds, Series 1999A, maturing on January 1, 2019. The College’s pro rata share of net proceeds totaling \$2,737,606 (after deductions of \$22,383 for the College’s pro rata share of underwriting fees and other issuance costs) were placed in an irrevocable trust until the bonds were redeemed on September 24, 2009.

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

The State Board of Education Capital Outlay Bonds, Series 2009A, were issued to reduce the total debt service payments over the next nine years by \$196,603 and obtain an economic gain of \$197,303.

Loans Payable. Pursuant to Section 1001.64(38), Florida Statutes, the College obtained two loans to finance the cost of the acquisition and construction of various capital projects and equipment, including but not limited to, construction of the Hospitality Center, a physical plant, a shipping and receiving building, additional parking, and the demolition of a building. The College borrowed \$10 million on December 23, 2005, at a stated interest rate of 3.96 percent, and \$8 million on January 10, 2006, at a stated interest rate of 4.03 percent. Both loans mature on January 1, 2026, and principal and interest payments are made at the beginning of each quarter.

Annual requirements to amortize the outstanding notes as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 715,000	\$ 599,270	\$ 1,314,270
2012	740,000	570,236	1,310,236
2013	775,000	540,303	1,315,303
2014	795,000	508,873	1,303,873
2015	840,000	476,692	1,316,692
2016-2020	4,710,000	1,847,509	6,557,509
2021-2025	5,740,000	812,956	6,552,956
2026	960,000	19,310	979,310
Total	\$ 15,275,000	\$ 5,375,149	\$ 20,650,149

Special Termination Benefits Payable. Beginning July 1, 2000, the Board of Trustees established a severance pay plan that is available to certain College administrative employees. As of June 30, 2010, a total of 11 employees had accrued benefits in the severance pay plan. The plan provides that an eligible employee’s total benefit must not exceed an amount equal to twice the employee’s annualized base pay determined as of the date of the employee’s separation from service. The severance pay plan benefit is not available to an eligible employee until the date of separation from the College, and must be paid in one lump-sum payment within 60 days of the separation date. All benefits under the plan must be paid from assets of the College, which assets must remain subject to the claims of general creditors of the College until such time as the benefits are paid to eligible employees. The College believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. At June 30, 2010, a liability for accrued plan benefits of \$990,517 was reported by the College as Special Termination Benefits Payable.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2010, the estimated liability for

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compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$10,827,958. The College's estimate of the current portion of the compensated absences liability is based on historical leave payment data.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend the benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 55 retirees received postemployment healthcare benefits and 148 retirees received postemployment life insurance benefits. The College provided required contributions of \$303,179 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$295,703.

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:

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 1,314,333
Amortization of Unfunded Actuarial Accrued Liability	572,721
Annual Required Contribution	1,887,054
Interest on Net OPEB Obligation	100,859
Adjustment to Annual Required Contribution	(115,428)
Annual OPEB Cost (Expense)	1,872,485
Contribution Toward the OPEB Cost	(303,179)
Increase in Net OPEB Obligation	1,569,306
Net OPEB Obligation, Beginning of Year	3,361,982
Net OPEB Obligation, End of Year	\$ 4,931,288

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

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	1,894,596	10.0%	1,706,072
2008-09	1,888,909	12.3%	3,361,982
2009-10	1,872,485	16.2%	4,931,288

Funded Status and Funding Progress. As of June 30, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$16,681,182, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$16,681,182 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$49,772,674 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 33.5 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the

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JUNE 30, 2010

types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2009, used the projected unit credit method to estimate the unfunded actuarial liability as of June 30, 2010, and the College's 2009-10 fiscal year ARC. This method was selected because it is the same method used in 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 7.8 percent for the 2009-10 fiscal year, reduced on average by 0.2 percent per year, to an ultimate rate of 4.5 percent after seventeen years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years. The remaining amortization period at June 30, 2010, was 27 years.

10. RETIREMENT PROGRAMS

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

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

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

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

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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
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 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions, including employee contributions, for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$3,386,021, \$3,511,345, and \$3,556,550, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 188 College participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$726,747.

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.

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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 100 College participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$715,057.

11. CONSTRUCTION COMMITMENTS

The College’s construction commitment at June 30, 2010, is as follows:

<u>Project Description</u>	<u>Total Contract</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Mike Curb College of Arts and Sciences Project: Architect	<u>\$ 456,485</u>	<u>\$ 313,400</u>	<u>\$ 143,085</u>

12. JOINT VENTURE

A joint venture is a legal entity or other organization that results from a contractual agreement, and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain: (a) an ongoing financial interest or (b) an ongoing financial responsibility. As discussed below, the College participates in a joint venture.

The College entered into an agreement with the Flagler and Volusia County District School Boards, pursuant to Section 163.01, Florida Statutes, and Chapter 98-302, Laws of Florida, to construct and operate a charter technical career center. The charter technical career center’s corporate name is the Volusia Flagler Advanced Technology Center, Inc., and it does business as the Advanced Technology College (ATC). The ATC is a separate legal entity, and is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, and Section 1002.34, Florida Statutes. Because the sponsoring governments (sponsors) have an on-going financial interest and financial responsibility, the ATC is considered a joint venture. The ATC Board of Directors, which oversees the ATC’s operations, has eleven members: one member is the chief executive officer from a sponsor, and is appointed on a rotating basis from each sponsor to a one year term; six members are appointed by the sponsors (two members are appointed by each sponsor); and four members are elected by the seven appointed board members. The current agreement is effective through June 30, 2011, and may be renewed every five years by mutual written agreement of the sponsors.

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JUNE 30, 2010

The College's capital contribution was \$13.5 million as provided in the agreement and is reported as an investment in joint venture. The agreement provides a vested interest for each sponsor for the purposes of recouping investments, allocating assets, and assuming liabilities upon termination of the agreement. In the event of termination of the agreement, the capital assets purchased by the ATC will be appraised and sold. The profits will revert to the sponsors based on their proportionate equity in the ATC as defined by the agreement. As of June 30, 2010, the College's proportionate share of profits to be distributed in the event of termination of the agreement was 29.4 percent.

The total cost to construct the ATC facility was \$25.5 million and was financed through capital contributions from each sponsor as provided in the agreement. However, Volusia County District School Board holds title to, and is considered the owner of the facility and the site on which the facility is located. Pursuant to the agreement, Volusia County District School Board must lease the facility to the College for a period of 40 years.

The agreement requires participants to make a pro-rata contribution for annual operating costs. Additionally, should enrollment at the ATC exceed expectations, sponsors must make additional pro-rata contributions as required by the agreement. The agreement provides that these commitments are exclusive of the College's obligation to pay occupancy costs of the facility. In prior years annual required contributions by each sponsor were adjusted annually to cover the estimated annual operating costs of the ATC. In September 2009, the Flagler and Volusia County District School Boards informed the College that, due to budgetary constraints, they would not be contributing funds for the operation of the ATC. As a result, the College discontinued all secondary level instructional, academic support and student services and replaced these secondary level educational activities with traditional dual enrollment instructional programs and related College academic programs to the ATC. The College's operating costs of the ATC for the 2009-10 fiscal year were \$4,952,893.

The ATC is accounted for as a proprietary joint venture. A summary of financial information for the fiscal year ended June 30, 2010, the most recent year for which audited information is available, is shown below:

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Condensed Statement of Net Assets

Assets:	
Current Assets	\$ 346,057
Noncurrent Assets	<u>744,559</u>
Total Assets	<u>1,090,616</u>
Liabilities:	
Current Liabilities	346,057
Noncurrent Liabilities	<u>744,559</u>
Total Liabilities	<u>1,090,616</u>
Net Assets:	
Restricted	<u> </u>
Total Net Assets	<u>\$ 0</u>

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets**

Total Revenues	\$ 4,952,893
Total Expenses	<u>4,952,893</u>
Decrease in Net Assets	
Net Assets, Beginning of the Year	<u> </u>
Net Assets, End of Year	<u>\$ 0</u>

13. JOINT PARTICIPATION AGREEMENT

Daytona State College entered into a joint participation agreement with Brevard Community College to provide for the transition of both Colleges to digital transmission capabilities for their respective public television stations. The Colleges agreed to submit a joint application for Federal funds that will be combined with funding from other sources to finance the project.

The joint participation agreement provides for conversion of master control facilities for each College, the installation of a joint-use digital antenna, and jointly leased tower space. The Colleges will equally share the lease payments and other obligations contained in the tower lease agreement. Also, the Colleges agreed to equally share the costs of maintenance and repairs of the equipment and facilities and common expenses relating to the joint-use of the lease tower, the digital antenna, the transmission lines, and other common equipment. In addition, the Colleges agreed to share any such engineering fees or consulting fees as may be necessary for the common benefit of the Colleges.

Daytona State College has been designated as the fiscal agent and, in accordance with the agreement, will act for the benefit of both Colleges. Daytona State College will serve as the owner of record of the digital antenna, transmission lines, and associated equipment acquired with various Federal and State grants. However, the Federal government retains a ten-year lien on equipment purchased with Federal funds that commences from the date of completion of the project. The lien is effective through September 30, 2013.

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JUNE 30, 2010**

14. RISK MANAGEMENT PROGRAMS

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

Self-Insured Program. The Board has established an individual self-insured program to provide group health insurance for its employees, retirees, former employees, and their dependents. The College's liability was limited by excess reinsurance to \$125,000 per insured person with a \$56,000 aggregating specific deductible for the 2009-10 fiscal year. The plan is provided by an insurance company licensed by the Florida Department of Financial Services, Office of Insurance Regulation. The College contributes employee premiums as a fringe benefit. Employee dependent coverage is by payroll deduction and coverage for retirees, former employees, and their dependents is by prepaid premium.

The College reports a liability when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The liability includes an amount for claims that have been incurred, but not reported, and an amount for claims administration expense. Because the actual claims liability depends on such complex factors as inflation, change in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. The College reevaluates the claims liability periodically and the claims liability totaled \$772,000 as of June 30, 2010. Amounts held by the College in excess of the estimated insurance claims liability at June 30, 2010, totaled \$2,371,838. The College will use these amounts to pay claims incurred in future fiscal years.

The following schedule represents the changes in claims liability for the past two fiscal years for the College's self-insured program:

Fiscal Year	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	End of Fiscal Year
2008-09	\$ 675,703	\$ 6,204,923	\$ (6,200,626)	\$ 680,000
2009-10	\$ 680,000	\$ 6,678,898	\$ (6,586,898)	\$ 772,000

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JUNE 30, 2010**

15. LITIGATION

The College is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the College’s legal counsel and management, should not materially affect the College’s financial position.

16. SCHEDULE OF STATE REVENUE SOURCES

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

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

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

<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 41,056,898
Education Enhancement Trust Fund (Lottery)	5,626,890
Gross Receipts Tax (Public Education Capital Outlay)	3,412,684
Bright Futures Scholarship Program	2,653,790
Florida Student Assistance Grants	2,542,122
Motor Vehicle License Tax (Capital Outlay and Debt Service)	594,534
Restricted Contracts and Grants	473,106
Other State Sources	94,281
Total	<u>\$ 56,454,305</u>

17. 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,

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JUNE 30, 2010**

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	\$ 54,615,703
Public Services	2,682,904
Academic Support	10,915,916
Student Services	12,679,506
Institutional Support	13,985,208
Operation and Maintenance of Plant	10,728,407
Scholarships and Fellowships	20,048,125
Depreciation	6,939,218
Auxiliary Enterprises	949,215
Total Operating Expenses	\$ 133,544,202

18. RELATED PARTY TRANSACTIONS

Real Property Investment Agreement. On July 24, 2007, the College purchased 22 condominium units for \$2,685,000 using funds provided by the Daytona State College Foundation, Inc. (Foundation). The condominiums were purchased to become dormitories for the College’s student athletes. As a part of the purchase, the College and Foundation executed a “Real Property Investment Agreement” disclosing that the Foundation was funding the purchase of real property as an investment. The agreement further provided the “College agrees that the Foundation’s return on its investment (in the form of rental income received from College student athletes, via the College) shall be a minimum of a five (5) percent, rate of return per year on the investment, or the greater of the annual rate of return on the Commonfund - Multi-Strategy Bond fund, one year rate, to a maximum of 7% per year.” Per the agreement, the property was deeded in the College’s name, while the Foundation retained a 100 percent equity interest in the real property. In the event that any of the units are sold, all sale proceeds are to be paid to the Foundation. If sales do not cover the Foundation’s initial investment, the College will attempt to raise funds to match any investment shortfall.

The two parties also entered into a lease agreement, whereby the College leased to the Foundation the condominiums for one year, renewable annually for a total of 20 years. The purpose of the lease was to provide the Foundation with fiscal governance of its investment in the real property in the para material with the Real Property Investment Agreement. The lease provided for an initial lease payment of \$197,057 to the Foundation, and the maintenance, repairs, and operating expenses were to be paid by the Foundation from the rental payments. Major renovations, such as re-roofing; HVAC replacement; replacement of furniture and appliances; and renovations or remodeling to the units are the responsibility of the Foundation. The Foundation funds a replacement and repair reserve account in the amount of \$30,000 per year. The College has control of the account, and may withdraw such funds as may be necessary to pay for any major renovation, replacements, or repairs. Upon expiration of the lease and all renewals, any funds remaining in this account will be remitted to the College. In its December 31, 2009, audited financial statements, the

DAYTONA STATE COLLEGE
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JUNE 30, 2010

Foundation reported the \$2,685,000 as restricted investments on its statement of net assets. The College does not report the condominiums as assets.

Radiology Imaging Associates. On April 16, 2009, the Board of Trustees approved an agreement with Radiology Imaging Associates (RIA), a Florida limited liability partnership. A member of the Board of Trustees is a partner and director of RIA. Under the terms of the agreement, the College functions as the fiscal agent for the RIA self-insurance health plan. Pursuant to the agreement, the College received reimbursement for a percentage of the salaries of College accounting personnel assigned to providing services to RIA. For the 2009-10 fiscal year, the College received \$13,577. The Board of Trustees terminated the agreement with RIA effective February 1, 2011.

**DAYTONA STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (2) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 14,077,390	\$ 14,077,390	0%	\$ 44,538,067	31.6%
7/1/2009	\$	\$ 16,681,182	\$ 16,681,182	0%	\$ 49,772,674	33.5%

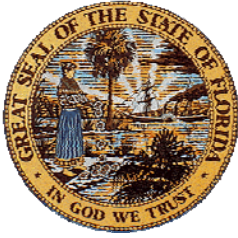
- Notes: (1) The initial OPEB actuarial calculation was performed as of July 1, 2007, for the College as it implemented the provisions of GASB Statement No. 45.
- (2) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the unfunded actuarial liabilities.

**DAYTONA STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$16.7 million was \$2.6 million, or 18.5 percent, higher than the July 1, 2007, liability of \$14.1 million. The following contributed to this increase:

- A \$2.1 million increase from expected growth of liabilities and demographic changes over the two years;
- Claims costs increased as expected by \$3.9 million with no increase in required retiree contributions;
- Updated medical trend and mortality assumptions resulted in a \$1.7 million increase;
- A decrease of \$3.8 million from a reduced post-65 medical participation assumption; and
- Increased withdrawal rates resulted in a decrease of \$1.3 million.



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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 Daytona 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, 2010, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as described in the **FINDINGS AND RECOMMENDATIONS** section of this report, we identified certain deficiencies in internal control over financial reporting that we consider, in combination, to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted a certain additional matter that is described in the **FINDINGS AND RECOMMENDATIONS** section of this report.

Management's response to the findings discussed in the **FINDINGS AND RECOMMENDATIONS** section is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

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
February 14, 2011

FINDINGS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCY

(Combination of Control Deficiencies in Finding Nos. 1 through 4)

Finding No. 1: Financial Reporting

One of the principal ways that a college documents accountability for the public resources it receives is to report its financial position and activities in its annual financial statements. As such, College personnel should ensure that the financial statements are accurate and include all required disclosures so users, such as the Board of Trustees (Board), the President, College management, and other interested parties, can appropriately evaluate College operations and assess the College's financial condition. To promote understanding and consistency in presentation, the College is required to prepare annual financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

State Board of Education Rule 6A-14.072, Florida Administrative Code, requires the College to keep financial records according to the Florida Department of Education publication, *Accounting Manual for Florida's Public Community Colleges* (Accounting Manual). Further, Florida colleges utilize the Financial Accounting and Reporting Manual (FARM), published by the National Association of College and University Business Officers for further technical assistance. Accounting Manual, Section 4, provides that the agency fund is "used to account for resources held by a college as custodian or fiscal agent for others." FARM, Section 302.06, provides that in an agency fund "...resources are held by an institution acting as a custodian or fiscal agent. The resources are deposited with the institution for safekeeping, to be used or withdrawn by the depositor at will. These funds may be held on behalf of students, faculty, staff organizations, or some other third party."

During the 2009-10 fiscal year, the College began acting as fiscal agent for two organizations pursuant to agreements approved by the Board. One agreement was with Radiology Imaging Associates (RIA), a Florida limited liability partnership. RIA is one of the service providers under the College's self-insurance program. The other agreement was with the Community Cultural Foundation, Inc. (CCF), a Florida not-for-profit corporation, formerly known as the Daytona Beach International Festival. Neither organization had been designated by the Board as an affiliated entity or a direct-support organization. Under terms of the agreements, the College provided accounting services to these entities, and accepted and deposited funds, and disbursed funds, on behalf of these entities. These entities' activities were not College activities and, therefore, in accordance with GAAP, should have been reported in the College's agency fund. Our review of these agreements, the College's accounting records, and the College's financial statements disclosed the following:

- The RIA agreement, Section 3.2, Accounting Services, stated that the College shall provide accounting services for RIA. Also, Section 4.0, Separation of Assets and Liabilities, stated that the College shall segregate the financial activities of the parties in the College's performance of fiscal services. These provisions indicate the College was the fiscal agent, and the RIA activity should have been recorded and reported in the College agency fund. However, the College recorded the RIA activities in its auxiliary fund, contrary to GAAP. Subsequent to our audit inquiry, we were provided correspondence issued by the Controller, dated June 10, 2010, to accounting personnel stating the College was acting as a fiscal agent for RIA. On June 21, 2010, the College transferred the assets of \$246,553 for this organization from the auxiliary fund to the agency fund and reduced revenues and expenses by \$1,165,746 and \$919,193, respectively, and subsequently properly reported the RIA activities on the College's 2009-10 fiscal year financial statements.

- The CCF agreement in effect from August 1, 2009, to June 30, 2010, provided under Section 1, Governance and Administration, that CCF was to govern activities related to the administration of international festival cultural arts and events. Section 4, Fundraising Services, of the agreement provided that funds received as gifts by CCF shall be deposited with the College's Foundation, and transferred to the College's restricted current fund. Accordingly, the College recorded all transactions of the CCF in the restricted current fund rather than the agency fund, contrary to GAAP. As a result of recording CCF related transactions in the restricted current fund, the College's 2009-10 fiscal year financial statements incorrectly included revenues and expenses, in the amount of \$1,108,195 each, related to CCF activities. We extended our audit procedures to determine the adjustments necessary to correct these misstatements, and College personnel accepted these adjustments. However, our extended procedures cannot substitute for management's responsibility to implement control procedures over financial reporting.

Recommendation: **The College should strengthen internal controls to ensure the accuracy of financial accounting and reporting of agency funds in conformity with GAAP.**

Finding No. 2: Contract Approval

College Policy No. 5.08, Signing Authority (Policy), states that the Board shall constitute the contracting agent of the College. This Policy also states that the Board shall approve all contracts, and delegate authority for the preliminary negotiations and signing (document execution). The Policy provides that the President may negotiate and sign contracts when the amount of consideration (payments) does not exceed the Category II threshold amount under Section 287.017, Florida Statutes, which was \$50,000 during the 2009-10 fiscal year, and subsequently increased to \$65,000 effective July 1, 2010.

On August 20, 2009, the Board approved the original CCF agreement, as discussed in finding No. 1, to be in effect through June 30, 2010. On September 1, 2010, the President and the Chairman of the CCF Board of Directors executed an Extension Agreement extending the contract "from August 1, 2010, until such time as the Renewal Agreement is approved and executed, or until October 30, 2010, whichever occurs first." Payments to the performers made by the College for the CCF's September 2010 American Music Festival exceeded the category II threshold amount of \$65,000. The contract extension was not presented to the Board for approval until October 21, 2010, when the Board voted to terminate its agreement with CCF. Although College personnel provided us with a legal opinion, dated October 18, 2010, from the College's legal counsel indicating that past practice relieves the President of the obligation to obtain Board approval under a "custom and usage" theory, the specific language of Board Policy No. 5.08 provides that the Board is the contracting agent of the College and should approve all contracts.

Recommendation: **The College should strengthen internal controls to ensure that contracts exceeding established thresholds are submitted to the Board for approval in accordance with College Policy No. 5.08.**

Finding No. 3: Authority for Payments

Section 7, Escrow Account, of the original and extended CCF agreement, as discussed in finding Nos. 1 and 2, provided that the College would subsidize CCF's personnel expense for the first six months of the agreement. Thereafter, CCF was to deposit and maintain with the College an amount equal to the greater of an estimated three months personnel expense, or \$40,000. This Section also stated that after the initial six-month period, "all future non-personnel expenditures will be limited to the balance of funds on deposit with the College in excess of this three (3) month reserve." Furthermore, the agreement obligated CCF to provide the College financial resources necessary

to fund CCF operations. However, as of June 30, 2010, the College's accounting records disclosed that the College had paid \$435,978 for CCF operating expenses in excess of funds CCF provided to the College.

Subsequent to June 30, 2010, the College continued to pay CCF expenses for the American Music Festival (AMF), a series of musical performances scheduled for the Labor Day weekend in Daytona Beach. Although sufficient cash was not deposited with the College to pay the fee deposits required by the performers, ranging from \$750 to \$250,000, College accounting records indicated that the College disbursed \$472,500 in July and \$148,250 in August to secure commitments from the performers. The College disbursed the remaining amounts owed to performers, totaling \$621,750, in September. Based on the College's accounting records, the above described payments and other CCF operating expenses paid by the College, totaling \$471,067, resulted in \$1,512,657 of College payments for CCF purposes in excess of CCF funds on deposit with the College as of December 15, 2010.

The terms of the original and extended agreement limited payments by the College for CCF expenses to the amount of CCF funds on deposit with the College. As a result, payments by the College in excess of the CCF deposited funds are contrary to terms of the agreement with CCF. Furthermore, we are unaware of any legal authority for the College to pay the expenses of another organization, such as CCF, without specific Board approval.

Recommendation: The College should improve its procedures for monitoring and affecting compliance with contract provisions to ensure that College resources are used only as specifically authorized by contract terms, as approved by the Board, for a valid public purpose of the College. Additionally, the College should continue its efforts to collect the amount of CCF expenses paid by the College in excess of CCF funds deposited with the College.

Finding No. 4: Dr. Philip Benjamin Matching Grant Program

Section 1011.85, Florida Statutes, created the Dr. Philip Benjamin Matching Grant Program (Program). Under the Program, a college may receive matching State funds for funds raised from private sources through the college's direct-support organization. The State and private funds are to be used for scientific and technical equipment; scholarships, loans, or need-based grants; or other activities as specified in Section 1011.85(11), Florida Statutes. The matching ratio for donations that are specifically designated to support scholarships is \$1 of State funds to \$1 of private funds, while the matching ratio for other donations is \$4 of State funds to \$6 of private funds.

The Florida Department of Education (FDOE) developed the "Private Contributions for Matching Purposes" form (i.e., Program certification form) used to certify that the donated funds for the Dr. Philip Benjamin Matching Program have been received and deposited in a separate account set up for the Program. The form provides for recording amounts of eligible contributions received for the uses specified in Section 1011.85(11), Florida Statutes. State Board of Education (SBE) Rule 6A-14.0914(2)(a), Florida Administrative Code, defines eligible contributions as "an unconditional transfer of cash or other assets to an entity in a voluntary nonreciprocal transfer by another entity" and further provides that "Exchange transactions, in which each party received goods or services of approximately equal value, are not contributions."

The College, in its Program certification form submitted in February 2010, included \$272,744 of funds that had been donated to the Community Cultural Foundation, Inc. (CCF), remitted to the College through the Daytona State College Foundation, Inc. (Foundation), and subsequently reported in the College's restricted current fund (see discussion in finding No. 1). Subsequently, in September 2010, the College submitted an "Estimate of Anticipated Private Contributions" form that included an additional \$149,290 of funds the CCF remitted to the College through the Foundation that reportedly had been donated for the Dr. Philip Benjamin Matching Program, bringing the

cumulative total to \$422,034. Although requested, we were not provided documentation evidencing that the donors of these funds specifically provided that the donations be used pursuant to Section 1011.85, Florida Statutes. Further, College records showed that the \$422,034 of funds were used to offset College funds expended on behalf of CCF for operating expenses (see discussion in finding No. 3). As such, the \$422,034 of funds the CCF remitted to the College constituted repayments of debt, or exchange transactions, and not eligible contributions for matching purposes under SBE Rule 6A-14.01914(2)(a), Florida Administrative Code.

Although State matching funds had not been received as of the time of our review in January 2011, the \$422,034 of funds remitted to the College by the CCF and reported by the College as eligible contributions could have inappropriately generated \$281,356 of State matching funds. Subsequent to our inquiry, on January 7, 2011, the College submitted an updated Program certification form to FDOE that excluded all CCF funds previously reported as eligible contributions. Correspondence accompanying the updated Program certification form indicated this matter was to be presented to the Board on January 20, 2011.

Recommendation: The College should establish procedures to ensure that only eligible contributions are reported for matching grant purposes under Section 1011.85, Florida Statutes.

ADDITIONAL MATTER

Finding No. 5: Conflict of Interest

Section 112.313, Florida Statutes, establishes standards of conduct for public officers and employees. Section 112.313(7)(a), Florida Statutes, states that “no public officer or employee of an agency shall have or hold any employment or contractual relationship with any business entity or any agency which... is doing business with, an agency of which he or she is an officer or employee...” As discussed in finding No. 1, the College entered into an agreement to provide accounting and fiscal services to Radiology Imaging Associates (RIA). The intent of the agreement between RIA and the College is to establish a purchasing alliance to procure medical service providers for each party’s health benefit plan. Our review disclosed that a College Board member is a partner and managing director of RIA. As such, the contractual arrangement between the College and RIA may have resulted in a conflict of interest in violation of Section 112.313(7)(a), Florida Statutes.

In response to our inquiry, College personnel provided a letter from the College’s attorney, dated June 3, 2010, stating this arrangement did not constitute an ethical conflict but that the Board member should abstain from any vote relating to the agreement as required by Section 112.3143, Florida Statutes. However, abstention from voting does not cure a violation of Section 112.313(7)(a), Florida Statutes.

Recommendation: The College should refer the above-cited possible conflict of interest to the Commission on Ethics for a determination of whether this contractual arrangement represents a violation of Section 112.313(7)(a), Florida Statutes.

RELATED INFORMATION

On November 4, 2010, the College entered into an agreement with a certified public accounting firm to provide professional services related to the College's contractual relationship with the CCF. The professional services expected to be provided to the College include financial analysis and forensic accounting and, possibly, expert testimony and consulting.

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

EXHIBIT A
MANAGEMENT'S RESPONSE



Office of the President

February 11, 2011

Mr. David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1459

RE: Daytona State College Financial Audit
For Period Ended: June 30, 2010

Dear Mr. Martin:

Daytona State College has reviewed the list of preliminary and tentative findings and recommendations in the financial audit for the Fiscal Year Ended June 30, 2010. The College concurs with the findings and has aggressively moved forward to implement control mechanisms to comply with the recommendations rendered.

The College would like to reiterate that the administration is currently implementing a corrective action plan to address the deficiencies noted through the enhancement of procedures in accordance with the recommendations disclosed during the audit review. These procedures are designed to strengthen internal controls to inform and educate staff of appropriate documentation and approval processes on all financial matters. An independent review and approval process has also been implemented to ensure compliance with all State and Federal laws and College policy.

Improving the overall compliance by individual departments within the College is an ongoing process and the College will continue with education and monitoring efforts to ensure that there is not a re-occurrence of these findings in a subsequent audit. Given the above, the College offers the enclosed response to the findings disclosed during the audit.

Sincerely,

Frank Lombardo
Interim President

Enclosure

cc: District Board of Trustees

Daytona State College
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EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 1: Financial Reporting

Recommendation: The College should strengthen internal controls to ensure the accuracy of financial accounting reporting of agency funds in conformity with GAAP.

College Response: The College concurs with the finding and recommendation and has implemented internal control procedures to restructure the review and approval process for the creation of new cost centers, chart of accounts and object codes for the College. Additionally, departmental training sessions will be conducted to educate staff relative to the reporting requirements and updates for all funds, restricted, unrestricted, or agency in accordance with GAAP, GASB, Accounting Manual for Florida's Public Community Colleges, and the Financial Accounting Reporting Manual (FARM) and all other Federal and State regulatory requirements.

Finding No. 2: Contract Approval

Recommendation: The College should strengthen internal controls to ensure that contracts exceeding established thresholds are submitted to the Board for approval in accordance with College Policy No. 5.08.

College's Response: The College concurs with the finding and recommendation for the expenditure of funds based on contracts. The College shall strictly comply with Board Policy 5.08 for all purchase orders and contracts in excess of the limits set forth therein. The expenditure of any funds in excess of the limits set forth in Board Policy 5.08 shall require Board approval at a regular or special called meeting. The College shall cease and desist of the custom and usage of any past practice not in strict compliance with the Board Policy. To ensure compliance, any expenditure in excess of the limits shall require the written approval of the President and the Chief Financial Officer, with the appropriate documentation from the Board authorizing the expenditure. In addition, the responses set forth in findings 1, 3, and 4 shall strengthen the internal controls in this area.

Finding No. 3: Authority for Payments

Recommendation: The College should improve its procedures for monitoring and affecting compliance with contract provisions to ensure that College resources are used only as specifically authorized by contract terms, as approved by the Board, for a valid public purpose of the College. Additionally, the College should continue its efforts to collect the amount of CCF expenses paid by the College in excess of CCF funds deposited with the College.

College's Response: The College concurs with the finding and recommendation on the authority for payments. At the request of the Interim President in consultation with the Board Chair, the College made an organizational change to establish the position of Internal Auditor to report directly to the Board of Trustees as set forth in 1012.855(1)(b), Florida Statutes. The new position description and the person selected for the position will be presented to the Board of

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Trustees for approval at its next meeting on February 17, 2011. This organizational addition, other personnel changes, and the response set forth in Finding No. 2 shall ensure compliance for the expenditure of funds. These changes will also establish the necessary checks and balances for the College. Additionally, the Chair of the Board of Trustees currently sits on a CCF task force, whose purpose is to implement procedures to collect outstanding pledges and satisfy the debt of CCF. The College is now in the process of submitting confirmation forms to verify any and all documented or undocumented donor pledges and will exhaust all efforts to collect said amounts until such time that the Board and Interim President approve the cessation of such efforts.

Finding No. 4: Dr. Philip Benjamin Matching Grant Program

Recommendation: The College should establish procedures to ensure that only eligible contributions are reported for matching grant purposes under Section 1011.85, Florida Statutes.

College's Response: The College concurs with the finding and recommendation. The internal control enhancements adopted for Finding No. 1 will apply to all Foundation and Accounting Department staff to ensure that both organizations are responsible for the certification of match eligible contributions, and are abreast of the requirements set forth in the SBE Rules governing each State Matching Program. To enhance the current process in place, the College has developed a Matching Criteria Worksheet with language extracted from the SBE Rule. This worksheet will be incorporated into each new Foundation donor agreement with the Chief Financial Officer of the College and the Foundation Vice President signing off on the categorization of the donation as match eligible. This document will be maintained in the donor's file as permanent record in the Foundation. All current files will be examined by the Foundation Vice President to ensure that appropriate documentation exists to support the categorization of donor match eligible contributions.

Finding No. 5: Conflict of Interest

Recommendation: The College should refer the above-cited possible conflict of interest to the Commission on Ethics for a determination of whether this contractual arrangement represents a violation of Section 112.313(7) (a), Florida Statutes.

College's Response: The College, by and through counsel, referred this additional matter to the Commission on Ethics on February 8, 2011. The College and Radiology Imaging Associates terminated the agreement referenced in Finding No. 5 effective February 1, 2011, and the College has ceased performing any accounting or administrative services. The parties may or may not continue to use the existing separate health care plans, but will do so without any contractual obligation of agreement.

END OF PRELIMINARY AND TENTATIVE FINDINGS RESPONSE