

INDIAN RIVER STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2011



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

	<u>County</u>
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Tomas Rene Perez, Vice Chair (1)	Indian River
Werner Bols (2)	Martin
Vicki H. Davis	Martin
Cheryl L. Kirton (1)	Okeechobee
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Jane E. Rowley	St. Lucie
Linda T. Syfrett (1)	Okeechobee

Dr. Edwin R. Massey, President

- Notes: (1) Board members served beyond the end of their term, May 31, 2010.
(2) Board members served beyond the end of their term, May 31, 2011.

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

The audit team leader was Mark Smith, CPA, and the audit was supervised by Tim L. Tucker, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us 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.

INDIAN RIVER 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

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

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

Audit Objectives and Scope

Our audit objectives were to determine whether Indian River State College and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2011. 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.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Indian River State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. 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 column. 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 Indian River State College and of its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 28, 2012

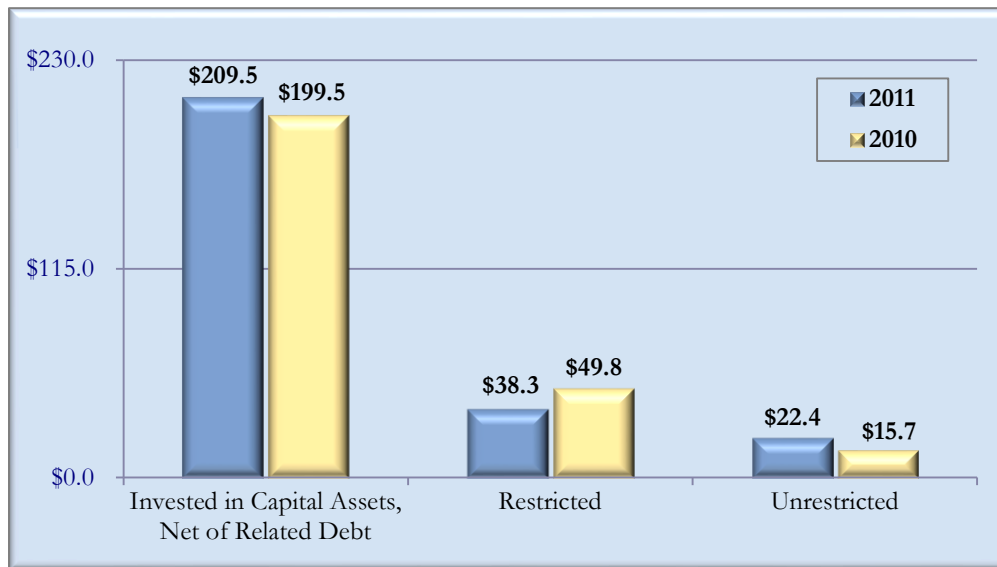
MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for fiscal years ended June 30, 2010, and June 30, 2011, and it’s component unit, Indian River State College Foundation, Inc., for the fiscal years ended March 31, 2010, and March 31, 2011.

FINANCIAL HIGHLIGHTS

The College’s comparative total net assets by category totaling \$270.2 million and \$265 million for the fiscal years ended June 30, 2011, and June 30, 2010 are shown in the following graph:

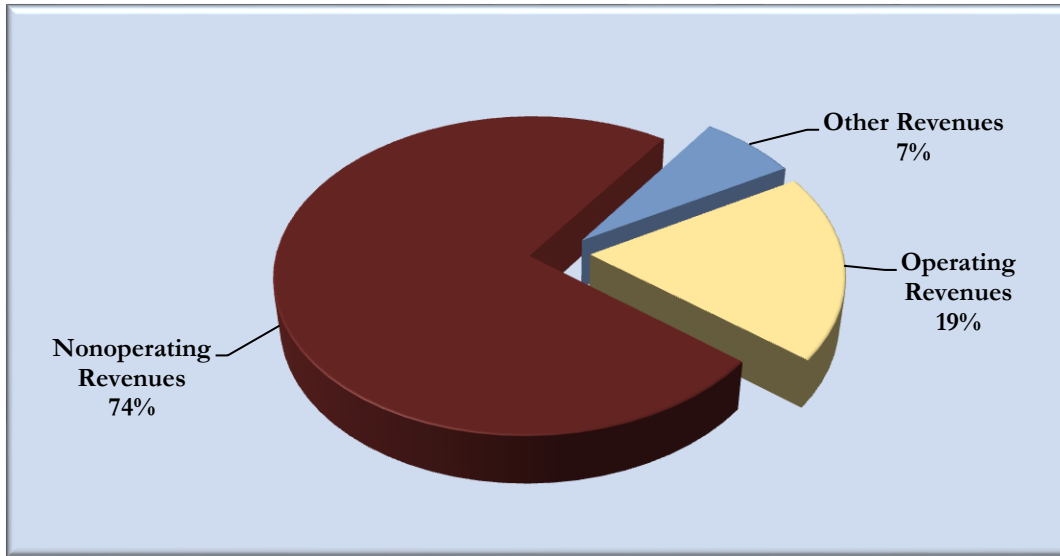
**Net Assets: College
(In Millions)**



The College’s financial position, as a whole, improved during the 2010-11 fiscal year as the College’s revenues and other support exceeded expenses, creating an increase in the College’s net assets of \$5.1 million, or 1.9 percent, from the prior fiscal year. This was due to a \$8.8 million increase in cash and investments, a \$1.1 million increase in inventory for resale and prepaid expenses, and a \$10.1 million increase in invested in capital assets, net of accumulated depreciation, offset by a \$12.4 million decrease in due from other governmental agencies and a \$3 million increase in current liabilities, long-term capital leases payable, and compensated absences payable.

The College’s revenues by category totaling \$123.8 million for the 2010-11 fiscal year are shown in the following chart:

Total Revenues: College



Nonoperating revenues comprise 74 percent of total revenues, which represent State noncapital appropriations, gifts and grants, and investment income. Operating revenues, representing 19 percent of total revenues, include student fees, grants and contracts, as well as auxiliary service operations. Other revenues comprise 7 percent of total revenues and include State capital appropriations and capital gifts, grants, contracts and fees.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

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

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

**Condensed Statement of Net Assets at
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Assets				
Current Assets	\$ 50,842	\$ 56,940	\$ 30,110	\$ 25,061
Capital Assets, Net	212,734	202,652	2,668	2,690
Other Noncurrent Assets	<u>28,606</u>	<u>24,785</u>	<u>29,905</u>	<u>29,199</u>
Total Assets	<u>292,182</u>	<u>284,377</u>	<u>62,683</u>	<u>56,950</u>
Liabilities				
Current Liabilities	11,800	9,422	2,564	2,893
Noncurrent Liabilities	<u>10,220</u>	<u>9,867</u>	<u>1,842</u>	<u>1,962</u>
Total Liabilities	<u>22,020</u>	<u>19,289</u>	<u>4,406</u>	<u>4,855</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	209,484	199,507	707	615
Restricted	38,318	49,835	48,510	48,857
Unrestricted	<u>22,360</u>	<u>15,746</u>	<u>9,060</u>	<u>2,623</u>
Total Net Assets	<u>\$ 270,162</u>	<u>\$ 265,088</u>	<u>\$ 58,277</u>	<u>\$ 52,095</u>
Increase in Net Assets	<u>\$ 5,074</u>	1.9%	<u>\$ 6,182</u>	11.9%

Total net assets increased by \$5.1 million, or 1.9 percent. This was primarily due to an increase in capital assets, net of \$10.1 million offset by a decrease in current and noncurrent assets of \$2.3 million and an increase in current and noncurrent liabilities of \$2.7 million.

Additional detail on changes in net capital assets and construction commitments is located in the "Capital Assets and Debt Administration" section of this MD&A and the notes to the financial statements.

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)**

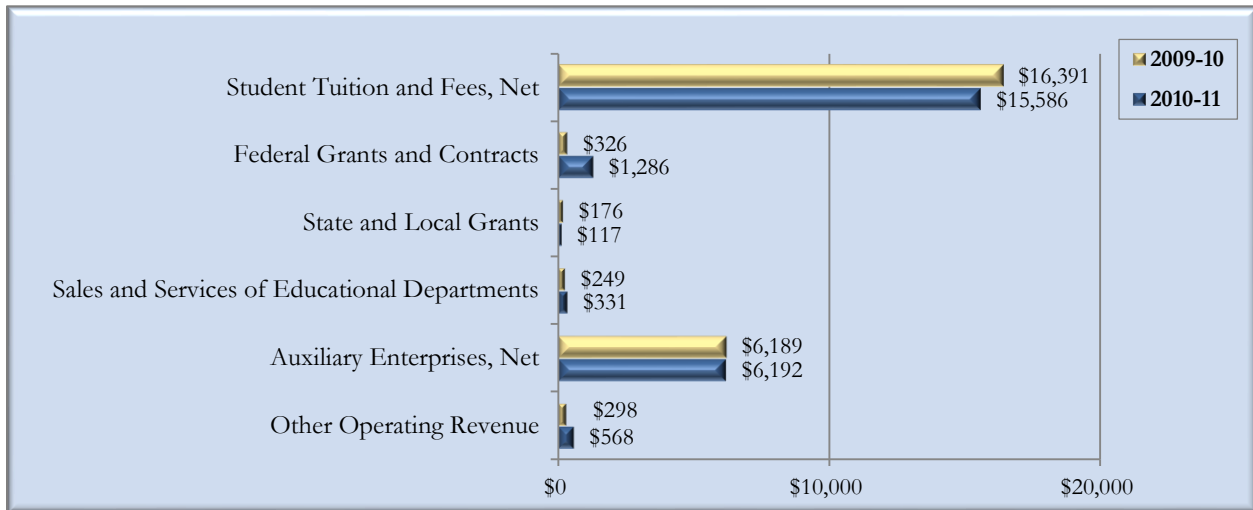
	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 15,586	\$ 16,391	\$	\$
Federal Grants and Contracts	1,286	326		
State and Local Grants and Contracts	117	176	111	80
Nongovernmental Grants and Contracts			2,780	2,676
Sales and Services of Educational Departments	331	249		
Auxiliary Enterprises, Net of Scholarship Allowances	6,192	6,189		
Other Operating Revenues	568	298		
Total Operating Revenues	24,080	23,629	2,891	2,756
Less, Operating Expenses	118,584	111,105	5,067	4,539
Operating Loss	(94,504)	(87,476)	(2,176)	(1,783)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	44,225	41,976		
Other Nonoperating Revenues	47,227	41,569	7,645	12,565
Nonoperating Expenses	(157)	(207)	(122)	(128)
Net Nonoperating Revenues (Expenses)	91,295	83,338	7,523	12,437
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(3,209)	(4,138)	5,347	10,654
State Capital Appropriations	3,558	1,969	140	142
Capital Grants, Contracts, Gifts, and Fees	4,725	4,011		
Additions to Permanent Endowments			695	314
Increase in Net Assets	5,074	1,842	6,182	11,110
Net Assets, Beginning of Year	265,088	263,246	52,095	40,985
Net Assets, End of Year	\$ 270,162	\$ 265,088	\$ 58,277	\$ 52,095

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 2010-11 and 2009-10 fiscal years:

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



College operating revenues increased \$0.5 million, or 1.9 percent, primarily as a result of the following factors:

- Net student tuition and fee revenues decreased by \$0.8 million, or 4.9 percent, due to a \$3.4 million, or 28.6 percent, increase in scholarship allowances offset by an average 8.5 percent increase in resident credit program tuition rates over the prior year. The scholarship allowance is a required accounting entry to ensure that amounts received to satisfy student tuition and fees will be reported as revenue only once under the nonoperating revenues section of the statement of revenues, expenses, and changes in net assets.
- Federal and other operating grants and contracts increased by \$0.9 million, or 179 percent, primarily due to an increase in Federal grants.

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.

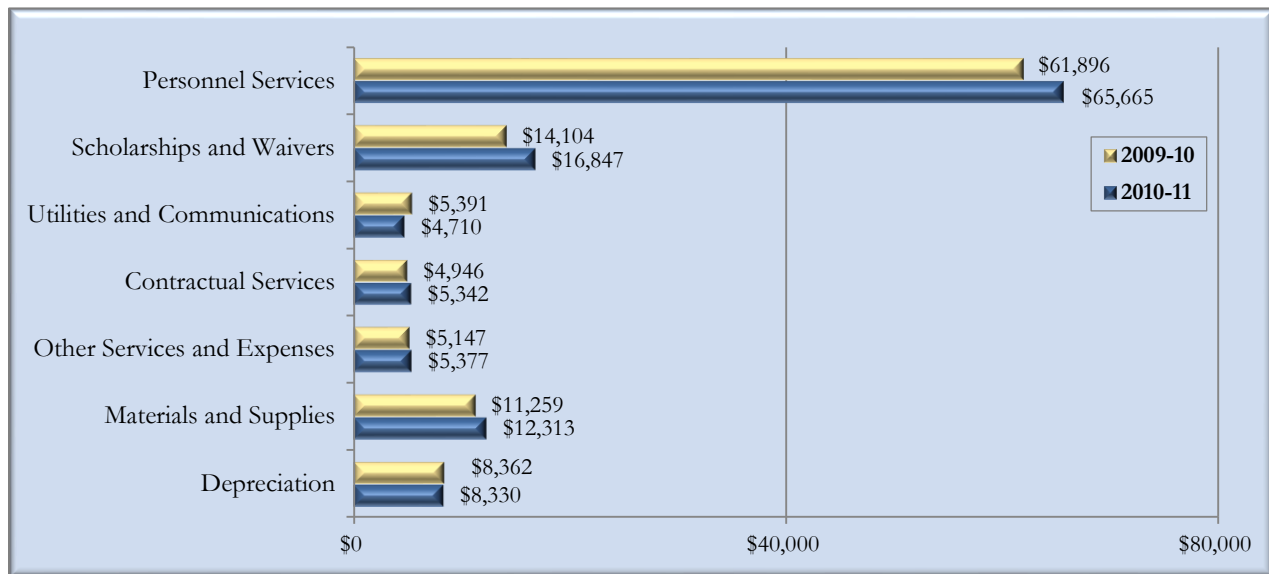
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Operating Expenses				
Personnel Services	\$ 65,665	\$ 61,896	\$ 272	\$ 262
Scholarships and Waivers	16,847	14,104	1,820	2,167
Utilities and Communications	4,710	5,391		
Contractual Services	5,342	4,946		
Other Services and Expenses	5,377	5,147	2,735	1,966
Materials and Supplies	12,313	11,259		
Depreciation	8,330	8,362	240	144
Total Operating Expenses	\$118,584	\$111,105	\$ 5,067	\$ 4,539

The following chart presents the College’s operating expenses for the 2010-11 and 2009-10 fiscal years:

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



College operating expenses increased by \$7.5 million, or 6.7 percent, as a result of the following factors:

- Personnel services (salary and benefits) expenditures increased \$3.8 million, or 6.1 percent, due to additional full-time faculty and staff positions to support enrollment increases in existing College programs; the addition of three new baccalaureate degree programs in Digital Media, Biology, and Human Services; and a 3 percent salary increase for all full-time College employees.
- Scholarships and waivers increased by \$2.7 million, or 19.4 percent, primarily due to increases in Federal Pell grants corresponding with increases in enrollment of students with financial need.
- Materials and supplies increased \$1.1 million, or 9.4 percent, primarily due to classroom furniture and technology equipment renovations, repair and maintenance projects, and increased educational materials and supplies expenses to support increased student enrollment.

- Utilities and Communications expenses decreased \$0.7 million, or 12.6 percent, primarily due to the College implementing a number of College-wide energy cost reduction measures and switching to an Internet bandwidth provider with a lower fee structure.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital 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 2010-11 and 2009-10 fiscal years:

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

	<u>2010-11</u>	<u>2009-10</u>
State Noncapital Appropriations	\$ 44,225	\$ 41,976
Gifts and Grants	46,604	40,681
Investment Income	378	252
Unrealized Gain on Investments	245	636
Interest on Capital Asset-Related Debt	(146)	(149)
Other Nonoperating Expenses	<u>(11)</u>	<u>(58)</u>
Net Nonoperating Revenues	<u>\$ 91,295</u>	<u>\$ 83,338</u>

Net nonoperating revenues increased overall by \$8 million, or 9.5 percent, compared to the prior year. This net increase is primarily due to the following:

- State noncapital appropriations increased by \$2.2 million, or 5.4 percent, compared to the prior fiscal year due to a net overall increase of \$2.2 million in the College Program Fund for general revenue and performance based incentive funding.
- Gifts and Grants increased by \$5.9 million, or 14.6 percent, primarily due to increased Federal Pell grants awards as student enrollment and students with higher calculated financial need increased.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

	<u>2010-11</u>	<u>2009-10</u>
State Capital Appropriations	\$ 3,558	\$ 1,969
Capital Grants, Contracts, Gifts, and Fees	<u>4,725</u>	<u>4,011</u>
Total	<u>\$ 8,283</u>	<u>\$ 5,980</u>

Net other revenues, expenses, gains, and losses increased overall by \$2.3 million, or 38.5 percent, as compared to the prior year. This net increase is primarily due to the following:

- State capital appropriations increased by \$1.6 million, or 80.7 percent, primarily due to an increase in Public Education Capital Outlay (PECO) revenues.
- Capital grants, contracts, gifts, and fees increased \$0.7 million, or 17.8 percent, primarily due to increased student capital improvement fee revenues as student enrollment increased.

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 2010-11 and 2009-10 fiscal years is presented in the following table:

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

	<u>2010-11</u>	<u>2009-10</u>
Cash Provided (Used) by:		
Operating Activities	\$ (86,104)	\$ (82,219)
Noncapital Financing Activities	90,819	82,599
Capital and Related Financing Activities	3,426	(2,294)
Investing Activities	<u>453</u>	<u>(11,532)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,594	(13,446)
Cash and Cash Equivalents, Beginning of Year	<u>18,067</u>	<u>31,513</u>
Cash and Cash Equivalents, End of Year	<u>\$ 26,661</u>	<u>\$ 18,067</u>

The College's cash and cash equivalents increased by \$8.6 million as a result of the following factors:

- The net cash used by operating activities increased \$3.9 million (decrease to cash) compared to the prior fiscal year. The major change in cash inflows from operating activities was a \$0.7 million reduction in payments to utilities and communication suppliers as the College further continued energy conservation measures and switched to an Internet bandwidth provider with a lower fee structure; and a \$0.4 million increase in cash from auxiliary enterprises. The major changes in cash outflows from operating activities were a \$2.7 million increase in payments made for student aid and scholarships; a \$3.2 million increase in payments made for employee salaries and benefits.
- The net cash provided by noncapital financing activities increased \$8.2 million (increase to cash) compared to the prior fiscal year. This increase in cash inflows was primarily due to increases in both Federal Pell grant receipts and College Program Fund appropriations.
- The net cash provided by capital and related financing activities increased \$5.7 million (increase to cash) compared to the prior fiscal year. Cash inflows comprised of the following: a \$7.7 million increase in cash receipts of previously authorized and encumbered PECO funds as construction commenced on two new buildings and a \$0.5 million increase in student capital improvement fee cash receipts due to increased enrollment. These inflows were offset by increased cash outflows of \$2.7 million for capital asset purchases of land, furniture, and equipment.
- The net cash provided by investing activities increased \$12 million (increase to cash) compared to the prior fiscal year. Cash inflows increased primarily as a result of the purchase of investments of \$12.2 million in the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the College had \$304.1 million in capital assets, less accumulated depreciation of \$91.4 million, for net capital assets of \$212.7 million. Depreciation charges for the current fiscal year totaled \$8.3 million. The following table summarizes the College’s capital assets at June 30:

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

<u>Capital Assets</u>	<u>2011</u>	<u>2010</u>
Land	\$ 21,278	\$ 20,060
Buildings	164,445	169,130
Other Structures and Improvements	2,415	2,804
Furniture, Machinery, and Equipment	5,778	5,662
Assets under Capital Lease and Leasehold Improvements	380	106
Construction in Progress	18,438	4,890
Total	\$ 212,734	\$202,652

Capital asset additions during the year include the following:

- Land additions consisted of purchased land parcels located adjacent to the Main campus (\$1.2 million).
- Building additions consisted of multiple projects completed and closed in the 2010-11 fiscal year and were primarily funded by the Gross Receipts Tax (PECO) funds and local capital improvement fees. Building additions included the renovation of the new student health Center in “U” Building (\$0.8 million) and the Student Affairs and Campus Coalition Government offices in the Koblegard Student Union (\$0.2 million) both at the Fort Pierce Campus.
- Furniture, machinery, and equipment additions consisted of various network security appliances; network and technology infrastructure; refreshment of computer technology; instructional audio and video equipment; and furniture, office, and maintenance equipment to support the opening and use of new buildings. Some highlights include renovated instructional classrooms and new lab equipment to support the three new Baccalaureate degree programs in Digital Media, Biology, and Human Services as well as the existing Computer Science, Office Technology, and Engineering Technician programs and a new distance learning and interactive television instructional video backup server.
- Construction in progress additions included the Brown Center for Innovation and Entrepreneurship at the main campus (\$9.9 million); and the Science, Technology, Engineering, and Mathematics (STEM) Building at the St. Lucie West campus (\$3.4 million). As projects are completed, construction in progress is transferred to building or other structures & improvements asset classes as appropriate.
- Additions to assets under capital lease and leasehold improvements include a motor pool vehicle lease and maintenance program.

The College has construction contract commitments totaling \$17 million to be satisfied in the coming years. Major projects include the construction of the Brown Center for Innovation and Entrepreneurship at the main campus; and the Science, Technology; Engineering; and Mathematics (STEM) Building at the St. Lucie West campus. Additional information about the College’s capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$3.2 million in long-term debt outstanding. The following table summarizes the College’s and its component unit’s long-term debt by type for the respective fiscal years ended:

**Long-Term Debt
For the Fiscal Years Ended
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
SBE Capital Outlay Bonds	\$ 2,865	\$ 3,145	\$	\$
Capital Lease	385			
Student Revenue Housing Bonds			1,962	2,075
Total	\$ 3,250	\$ 3,145	\$ 1,962	\$ 2,075

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2010-11 fiscal year, the College entered into a capital lease arrangement totaling \$399 thousand for the lease and maintenance of College motor pool vehicles. There were no new SBE bonds issued. Debt repayments and reductions totaled \$280 thousand for the SBE bonds and \$14 thousand for capital leases payable. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Indian River State College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, and elimination of Federal ARRA funding, a decrease in State funding was anticipated for the 2011-12 fiscal year. Because of the anticipated funding decrease, the Board of Trustees increased the tuition rate for credit programs an average of 8.5 percent to take effect beginning with the Fall 2011 term and approved utilizing fund balance reserves in the College's 2011-12 fiscal year operating budget. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates and utilization of fund balance reserves will be necessary to maintain its present level of services to ensure student success.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 12,784,936	\$ 2,112,685
Restricted Cash and Cash Equivalents	5,126,142	
Investments		23,536,669
Accounts Receivable	1,385,408	920
Contributions Receivable		176,495
Notes Receivable, Net	13,990	
Due from Other Governmental Agencies	28,375,261	
Due from Component Unit	12,260	
Inventories	2,308,445	
Prepaid Expenses	815,910	
Deposits - Other	19,789	
Prepaid Tuition		4,283,296
Total Current Assets	<u>50,842,141</u>	<u>30,110,065</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	8,749,898	
Investments	13,999,684	27,968,244
Restricted Investments	5,856,270	
Contributions Receivable		1,558,931
Depreciable Capital Assets, Net	173,018,218	2,387,053
Nondepreciable Capital Assets	39,715,796	281,407
Other Assets		377,511
Total Noncurrent Assets	<u>241,339,866</u>	<u>32,573,146</u>
TOTAL ASSETS	<u>\$ 292,182,007</u>	<u>\$ 62,683,211</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,597,719	\$ 8,643
Salary and Payroll Taxes Payable	2,294,054	
Retainage Payable	876,552	
Due to Other Governmental Agencies	2,410	
Deferred Revenue	4,972,496	
Deposits Held for Others	1,358,017	2,435,864
Long-Term Liabilities - Current Portion:		
Bonds Payable	295,000	119,631
Capital Leases Payable	69,386	
Compensated Absences Payable	333,958	
Total Current Liabilities	<u>11,799,592</u>	<u>2,564,138</u>
Noncurrent Liabilities:		
Bonds Payable	2,570,000	1,842,148
Capital Leases Payable	315,278	
Compensated Absences Payable	7,106,288	
Other Postemployment Benefits Payable	228,509	
Total Noncurrent Liabilities	<u>10,220,075</u>	<u>1,842,148</u>
TOTAL LIABILITIES	<u>22,019,667</u>	<u>4,406,286</u>

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 209,484,350	\$ 706,681
Restricted:		
Nonexpendable:		
Endowment		20,010,982
Expendable:		
Grants and Loans	4,090,317	
Scholarships	554,252	20,604,579
Capital Projects	33,569,878	
Debt Service	103,194	1,961,779
Other		5,932,986
Unrestricted	22,360,349	9,059,918
Total Net Assets	270,162,340	58,276,925
TOTAL LIABILITIES AND NET ASSETS	\$ 292,182,007	\$ 62,683,211

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

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$15,110,842	\$ 15,585,801	\$
Federal Grants and Contracts	1,285,578	
State and Local Grants and Contracts	116,626	110,789
Nongovernmental Grants and Contracts		2,780,180
Sales and Services of Educational Departments	331,444	
Auxiliary Enterprises, Net of Scholarship Allowances of \$3,439,302	6,192,179	
Other Operating Revenues	568,446	
Total Operating Revenues	<u>24,080,074</u>	<u>2,890,969</u>
EXPENSES		
Operating Expenses:		
Personnel Services	65,664,915	272,137
Scholarships and Waivers	16,847,428	1,819,526
Utilities and Communications	4,710,066	
Contractual Services	5,342,188	
Other Services and Expenses	5,376,871	2,735,391
Materials and Supplies	12,312,765	
Depreciation	8,330,107	239,736
Total Operating Expenses	<u>118,584,340</u>	<u>5,066,790</u>
Operating Loss	<u>(94,504,266)</u>	<u>(2,175,821)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	44,225,377	
Gifts and Grants	46,604,666	
Investment Income	377,604	1,100,570
Unrealized Gain on Investments	244,517	5,631,828
Other Nonoperating Revenues		912,809
Interest on Capital Asset-Related Debt	(146,357)	(121,935)
Other Nonoperating Expenses	(10,600)	
Net Nonoperating Revenues	<u>91,295,207</u>	<u>7,523,272</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(3,209,059)</u>	<u>5,347,451</u>
State Capital Appropriations	3,557,832	140,073
Capital Grants, Contracts, Gifts, and Fees	4,725,074	
Additions to Permanent Endowments		694,488
Total Other Revenues	<u>8,282,906</u>	<u>834,561</u>
Increase in Net Assets	<u>5,073,847</u>	<u>6,182,012</u>
Net Assets, Beginning of Year	265,088,493	52,094,913
Net Assets, End of Year	<u>\$ 270,162,340</u>	<u>\$ 58,276,925</u>

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

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 15,427,145
Grants and Contracts	881,309
Payments to Suppliers	(23,439,095)
Payments for Utilities and Communications	(4,710,066)
Payments to Employees	(52,636,568)
Payments for Employee Benefits	(12,711,854)
Payments for Scholarships	(16,847,428)
Loans Issued to Students	(14,205)
Collection on Loans to Students	215
Auxiliary Enterprises, Net	6,300,088
Sales and Service of Educational Departments	331,444
Other Receipts	1,314,608
	(86,104,407)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	44,225,377
Direct Loan Program Receipts	9,129,495
Direct Loan Program Disbursements	(9,129,495)
Gifts and Grants Received for Other Than Endowment Purposes	46,594,066
	90,819,443
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	16,412,599
Capital Grants and Contracts	4,725,074
Proceeds from Sale of Capital Assets	11,065
Purchases of Capital Assets	(17,281,908)
Principal Paid on Capital Debt and Leases	(294,270)
Interest Paid on Capital Debt and Leases	(146,357)
	3,426,203
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(422,051)
Proceeds from Sales and Maturities of Investments	497,031
Investment Income	377,604
	452,584
Net Increase in Cash and Cash Equivalents	8,593,823
Cash and Cash Equivalents, Beginning of Year	18,067,153
	\$ 26,660,976
Cash and Cash Equivalents, End of Year	\$ 26,660,976

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (94,504,266)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,330,107
Changes in Assets and Liabilities:	
Receivables, Net	(684,288)
Inventories	(407,271)
Other Assets	(723,316)
Accounts Payable	1,328,619
Salary and Payroll Taxes Payable	37,778
Deferred Revenue	98,656
Deposits Held for Others	140,859
Compensated Absences Payable	222,799
Other Postemployment Benefits Payable	55,916
NET CASH USED BY OPERATING ACTIVITIES	\$ (86,104,407)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 244,517

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

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the 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 activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2011.

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

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

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

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

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

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

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

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 and auxiliary revenue.

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, funds invested with the State Board of Administration (SBA) Florida Prime Investment Pool and the State Treasury Special Purpose Investment Account (SPIA). 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 the State Treasury SPIA and SBA Florida PRIME investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2011, the College reported as cash equivalents at fair value \$4,036,796 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 2.13 years at June 30, 2011. 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 SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2011, the College reported as cash equivalents of \$4,349,751 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The 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, 2011, 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 31 days as of June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital lease and leasehold improvements. These assets are capitalized and recorded at cost at the date of acquisition or at estimated

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5, 7, or 10 years
 - Furniture – 7 or 10 years
- Assets Under Capital Lease and Leasehold Improvements – 4 or 10 years

Land, buildings, and equipment of the College's component unit are stated at cost except for donated property which is stated at fair market value at the date of the donation, and is net of accumulated depreciation of \$3,148,948. The College's component unit depreciates buildings and equipment using the straight-line method over estimated life ranging from 3 to 40 years.

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, capital leases 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.

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

The College's investments at June 30, 2011, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 974,381
State Board of Administration Debt Service Accounts	103,194
Certificates of Deposit (CD)	2,067,852
Mutual Funds	<u>16,710,527</u>
Total College Investments	<u>\$ 19,855,954</u>

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

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2011, the College reported investments at fair value of \$974,381 in Fund B. The investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. The weighted-average life (WAL) of Fund B at June 30, 2011, was 7.16 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2011. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The College reported investments at fair value totaling \$103,194 at June 30, 2011, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Other Investments

The College reported other investments at fair value totaling \$18,778,379 at June 30, 2011. The following risks apply to other College investments:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates of debt instruments will adversely affect the fair value of an investment. The College’s investment policy limits interest rate risk by requiring that investment maturities shall not be greater than seven years from the date of purchase. To limit volatility and provide maximum diversification in the short term portfolio no more than 33 percent of the portfolio may have maturities greater than three years and no more than 15 percent greater than five years. To provide sufficient liquidity and capital preservation, no less than 10 percent of the portfolio shall be invested in cash and cash equivalents. As of June 30, 2011, investments in the Federated United States Government Securities Fund mutual fund amounting to \$6,317,350 had a weighted average maturity of 2 years. Investment in Ridgeworth United States Government Securities Ultra-Short Bond Fund mutual fund amounting to \$10,393,177 had a weighted average maturity of 3.42 years. Investments in certificates of deposits ranged in maturities from July 2011 to May 2012.

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover that value of investments or collateral securities that are in the possession of an outside party. The College’s investment policy addresses this by requiring that all securities purchased shall be properly designated as an asset of the College and held in safe keeping by a third party custodial bank or institution. Further, the policy states that no withdrawal of securities, in whole or in part, shall be made from safekeeping except those designated within the Investment Management and Custodial Agreement between the Custodian and the College. Investments of \$18,778,379 are all held by the safekeeping agent in the name of the College.

Component Unit Investments. Investments held by the College’s component unit at March 31, 2011, are reported at fair value as follows:

<u>Investment Type</u>	<u>Component Unit</u>
Equities	\$ 45,262,989
Fixed Income Investments	<u>6,241,924</u>
Total	<u>\$ 51,504,913</u>

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

3. ACCOUNTS RECEIVABLE

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

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$21,551,426 of Public Education Capital Outlay allocations due from the State and \$3,948,500 of Federal grant funds due from the Economic Development Administration, United States Department of Commerce, to the College for construction of College facilities.

5. DUE FROM COMPONENT UNIT

The College recorded an amount of \$12,260 representing scholarships that will be reimbursed by the Indian River State College Foundation, Inc. (Foundation), pursuant to agreements between the College and the Foundation to support College grants providing faculty with financial support to strengthen academic programs. The College's financial statements are reported for the fiscal year ended June 30, 2011. The College's component unit's financial statements are reported as of March 31, 2011. Accordingly, although the College reported an amount as due from the component unit on the statement of net assets, the component unit has not reported an amount due to the College.

6. INVENTORIES

Inventories consist of items for resale by the campus bookstore and items for resale by the Cosmetology department, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 20,060,158	\$ 1,217,904	\$	\$ 21,278,062
Construction in Progress	4,889,583	14,637,696	1,089,545	18,437,734
Total Nondepreciable Capital Assets	\$ 24,949,741	\$ 15,855,600	\$ 1,089,545	\$ 39,715,796
Depreciable Capital Assets:				
Buildings	\$ 228,259,014	\$ 1,039,833	\$	\$ 229,298,847
Other Structures and Improvements	11,419,314	49,714		11,469,028
Furniture, Machinery, and Equipment	21,288,305	2,168,451	811,019	22,645,737
Assets Under Capital Lease and Leasehold Improvements	589,236	398,934		988,170
Total Depreciable Capital Assets	261,555,869	3,656,932	811,019	264,401,782
Less, Accumulated Depreciation:				
Buildings	59,128,596	5,725,526		64,854,122
Other Structures and Improvements	8,615,628	437,877		9,053,505
Furniture, Machinery, and Equipment	15,626,168	2,041,324	799,954	16,867,538
Assets Under Capital Lease and Leasehold Improvements	483,019	125,380		608,399
Total Accumulated Depreciation	83,853,411	8,330,107	799,954	91,383,564
Total Depreciable Capital Assets, Net	\$ 177,702,458	\$ (4,673,175)	\$ 11,065	\$ 173,018,218

8. DEFERRED REVENUE

Deferred revenue primarily consist of \$3,948,500 of a Federal grant awarded to significantly enhance the Brown Center for Innovation and Entrepreneurship building project from the Economic Development Administration, United States Department of Commerce since no grant revenue was earned during the fiscal year.

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2011, include bonds payable, capital leases payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 3,145,000	\$	\$ 280,000	\$ 2,865,000	\$ 295,000
Capital Lease Payable		398,934	14,270	384,664	69,386
Compensated Absences Payable	7,217,447	1,146,985	924,186	7,440,246	333,958
Other Postemployment Benefits Payable	172,593	134,335	78,419	228,509	
Total Long-Term Liabilities	\$ 10,535,040	\$ 1,680,254	\$ 1,296,875	\$ 10,918,419	\$ 698,344

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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, 2011:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2003A	\$ 1,495,000	3.00 - 4.25	2023
Series 2005R	<u>1,370,000</u>	5.0	2017
Total	<u>\$ 2,865,000</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2012	\$ 295,000	\$ 125,706	\$ 420,706
2013	305,000	112,856	417,856
2014	325,000	99,388	424,388
2015	335,000	84,838	419,838
2016	360,000	69,588	429,588
2017-2021	900,000	169,256	1,069,256
2022-2023	<u>345,000</u>	<u>22,313</u>	<u>367,313</u>
Total	<u>\$ 2,865,000</u>	<u>\$ 683,945</u>	<u>\$ 3,548,945</u>

Bonds Payable – Component Unit. A summary of the long-term obligations of the component unit as of March 31, 2011, is as follows:

Student Housing Revenue Bonds, Series 1993, Secured by Property With a Cost of \$3,574,000 and Leases, \$19,696 Monthly Payment Including Interest at 5.94 percent Per Annum, With a Final Balloon Payment Due August 1, 2012	<u>\$1,961,779</u>
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Capital Lease Payable. Vehicles in the amount of \$398,934 are being acquired under a capital lease agreement. The average interest rate is 7.56 percent. Capital lease payments for the 2010-11 fiscal year totaled \$14,271. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2011, are as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Fiscal Year Ending June 30	Amount
2012	\$ 105,287
2013	105,287
2014	105,287
2015	105,287
2016	82,566
Total Minimum Payments	503,714
Less, Amount Representing Interest	119,050
Present Value of Minimum Payments	\$ 384,664

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, 2011, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$7,440,246. Of the total liability for compensated absences, \$333,958 is considered the current portion of the compensated absences leave liability that is expected to be paid in the coming fiscal year and represents payments for employees in the Deferred Retirement Option Program.

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

Plan Description. The College contributes to an agent, multiple-employer defined benefit plan administered by the Consortium for postemployment healthcare benefits and has a single-employer defined benefit plan for life insurance benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College’s healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the plans 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 plans 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 and the Consortium do not issue a stand-alone report for the plans and the plans are not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to 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

**INDIAN RIVER STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

OPEB obligation, and the plans are financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 125 retirees received postemployment healthcare benefits and 25 retirees received life insurance benefits. The College provided required contributions of \$78,419 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 totaling, \$579,897.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 75,150
Amortization of Unfunded Actuarial Accrued Liability	<u>59,760</u>
Annual Required Contribution	134,910
Interest on Net OPEB Obligation	5,178
Adjustment to Annual Required Contribution	<u>(5,753)</u>
Annual OPEB Cost (Expense)	134,335
Contribution Toward the OPEB Cost	<u>(78,419)</u>
Increase in Net OPEB Obligation	55,916
Net OPEB Obligation, Beginning of Year	<u>172,593</u>
Net OPEB Obligation, End of Year	<u><u>\$ 228,509</u></u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation as of June 30, 2011, and for the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008-09	\$ 110,535	58.8%	\$ 101,515
2009-10	137,833	48.4%	172,593
2010-11	134,335	58.4%	228,509

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$1,740,587, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,740,587 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$39,762,337 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.4 percent.

INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs 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 actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the College's 2010-11 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which represents estimates for a typical unfunded plan. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 7.6 percent for the 2010-11 fiscal year, reduced by 0.1 to 0.3 percent per year, to an ultimate rate of 4.5 percent after 16 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, 2011, was 26 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

**INDIAN RIVER STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
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 0.03 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 to the Plan, for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$3,342,964, \$3,328,663, and \$4,547,411, 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 160 College participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$738,571.

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

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

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

There were 22 College participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$253,147.

11. CONSTRUCTION COMMITMENTS

The College’s major construction commitments at June 30, 2011, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Fort Pierce/Main Campus:			
Brown Center for Innovation and Entrepreneurship Science, Techonology, Engineering and Mathematics (STEM) Building	\$ 17,012,751	\$ 10,826,810	\$ 6,185,941
	<u>13,206,710</u>	<u>2,373,730</u>	<u>10,832,980</u>
Total	<u>\$ 30,219,461</u>	<u>\$ 13,200,540</u>	<u>\$ 17,018,921</u>

12. OPERATING LEASE COMMITMENTS

The College leased building space, a vehicle, and six copiers under operating leases, which expires between years 2012 and 2013. These leased assets and the related commitments are not reported on the College’s statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Fiscal Year Ending June 30	Amount
2012	\$ 168,623
2013	150,928
Total Minimum Payments Required	\$ 319,551

13. RISK MANAGEMENT PROGRAMS

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

Life insurance is obtained through a commercial carrier.

14. 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.

**INDIAN RIVER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 38,558,306
Education Enhancement Trust Fund (Lottery)	5,556,344
Restricted Contracts and Grants	2,710,200
Bright Futures Scholarship Program	2,503,685
Gross Receipts Tax (Public Education Capital Outlay)	2,439,895
Florida Student Assistance Grants	1,868,017
Motor Vehicle License Tax (Capital Outlay and Debt Service)	617,937
Special Appropriation - Other	
Critical Jobs	504,788
Workforce Development (Disabled)	105,940
Total	<u>\$ 54,865,112</u>

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 43,489,454
Public Services	706,033
Academic Support	7,843,224
Student Services	9,430,019
Institutional Support	7,966,694
Operation and Maintenance of Plant	15,341,988
Scholarships and Fellowships	16,891,054
Depreciation	8,330,107
Auxiliary Enterprises	8,585,767
Total Operating Expenses	<u>\$ 118,584,340</u>

16. RELATED PARTY TRANSACTIONS

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

**INDIAN RIVER STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

The College approved lease agreements with the Foundation for the use of classroom and office space at the Indian River Academy in Fort Pierce at total annual rents of \$118,455 during the 2010-11 fiscal year.

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

**INDIAN RIVER STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLANS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 1,552,591	\$ 1,552,591	0%	\$ 36,553,257	4.2%
7/1/2009	\$	\$ 1,740,587	\$ 1,740,587	0%	\$ 38,172,643	4.6%

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

**INDIAN RIVER STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, actuarial accrued liability (AAL) of \$1,740,587 was significantly higher (12.1 percent) than the July 1, 2007 AAL of \$1,552,591 for the following reasons:

- Increases due to the expected growth of liabilities over time and demographic changes were \$259 thousand.
- Updated claims costs and contributions and a revised medical trend assumption also increased AAL by \$75 thousand.
- These increases were partially offset by a decrease in AAL of \$146 thousand resulting from revised participation and mortality assumptions.



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

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

We have audited the financial statements of Indian River State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2011, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 28, 2012