

DAYTONA STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2012



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and Presidents who served during the 2011-12 fiscal year are listed below:

	<u>County</u>
Dwight D. Lewis, Chair from 8-25-11	Volusia
Dr. Christina Frederick-Recascino, Vice Chair	Volusia
John W. Tanner, Chair to 8-24-11	Flagler
Donna B. Brosemer to 5-31-12 (1)	Volusia
Bob Davis (2)	Volusia
Lloyd J. Freckleton	Flagler
Mary Ann Haas	Flagler
Betty J. Holness	Volusia
Forough B. Hosseini	Volusia

Dr. Carol W. Eaton, President from August 3, 2011

Frank A. Lombardo, Interim President to August 2, 2011

Notes: (1) Board member resigned on May 31, 2012, and position remained vacant through June 30, 2012.

(2) Appointed as Robert C. Davidson, known as Bob Davis.

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

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

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

DAYTONA STATE COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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 Daytona State College and its officers with administrative and stewardship responsibilities for College operations had:

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Daytona State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, 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 columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Daytona State College and of its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Daytona State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, 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

January 15, 2013

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, 2012, 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 the fiscal years ended June 30, 2012, and June 30, 2011, and its component unit the Daytona State College Foundation, Inc., for the fiscal years ended December 31, 2011, and December 31, 2010.

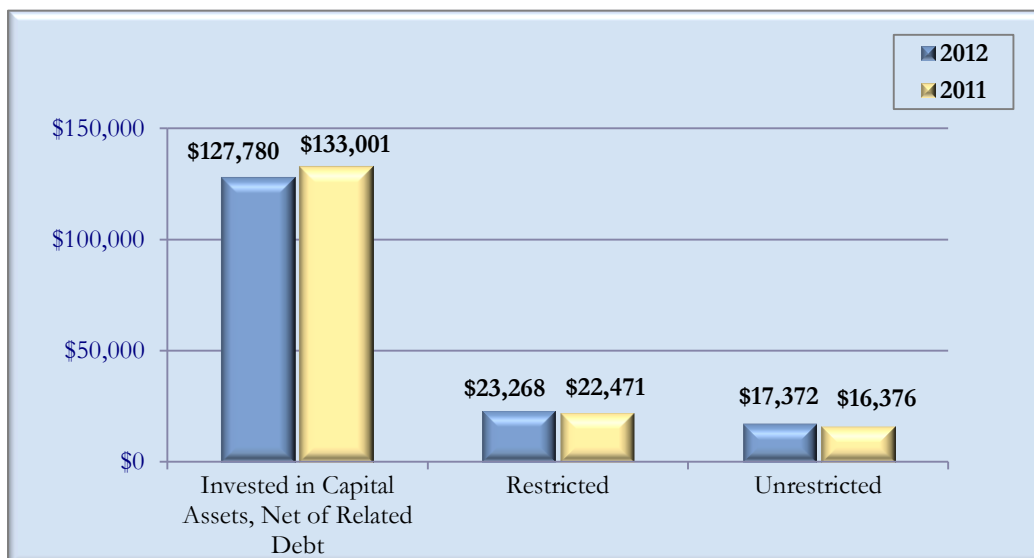
FINANCIAL HIGHLIGHTS

The College’s assets totaled \$219.8 million at June 30, 2012. This balance reflects a \$4.2 million, or 1.9 percent, increase as compared to the 2010-11 fiscal year. While assets grew, liabilities increased by a greater amount of \$7.6 million, or 17.3 percent, totaling \$51.4 million at June 30, 2012, compared to \$43.8 million at June 30, 2011. As a result, the College’s net assets decreased by \$3.4 million, or 2 percent, resulting in a year-end balance of \$168.4 million.

The College’s operating revenues totaled \$31.2 million for the 2011-12 fiscal year, representing a \$1.4 million, or 4.5 percent, increase as compared to the 2010-11 fiscal year due mainly to an 8 percent increase in student tuition rates during the 2011-12 fiscal year and a \$1.3 million increase in Federal contract and grant revenues. Operating expenses totaled \$130.4 million for the 2011-12 fiscal year, a decrease of \$8.5 million, or 6.1 percent, when compared to the 2010-11 fiscal year primarily due to decreases in personnel services and scholarships and waivers expenses.

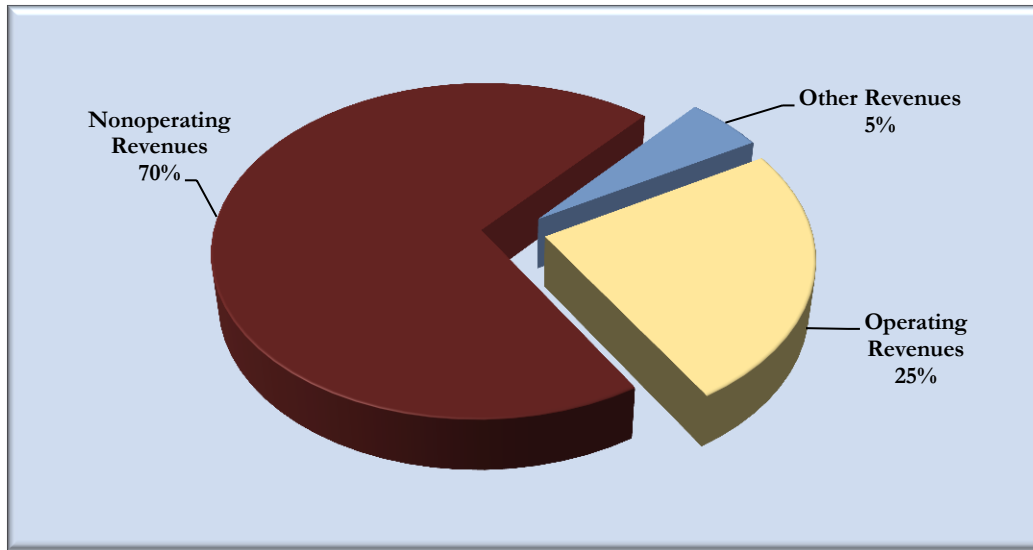
Net assets represent the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2011-12 fiscal year:

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

	Condensed Statement of Net Assets at (In Thousands)			
	<u>College</u>		<u>Component Unit</u>	
	<u>6-30-12</u>	<u>6-30-11</u>	<u>12-31-11</u>	<u>12-31-10</u>
Assets				
Current Assets	\$ 44,589	\$ 33,909	\$ 4,986	\$ 1,507
Capital Assets, Net	141,982	147,589		
Other Noncurrent Assets	<u>33,276</u>	<u>34,175</u>	<u>12,980</u>	<u>17,287</u>
Total Assets	<u>219,847</u>	<u>215,673</u>	<u>17,966</u>	<u>18,794</u>
Liabilities				
Current Liabilities	17,769	10,164	258	243
Noncurrent Liabilities	<u>33,657</u>	<u>33,661</u>	<u> </u>	<u>21</u>
Total Liabilities	<u>51,426</u>	<u>43,825</u>	<u>258</u>	<u>264</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	127,780	133,001		
Restricted	23,268	22,471	17,438	18,468
Unrestricted	<u>17,372</u>	<u>16,376</u>	<u>270</u>	<u>62</u>
Total Net Assets	<u>\$ 168,420</u>	<u>\$ 171,848</u>	<u>\$ 17,708</u>	<u>\$ 18,530</u>
Decrease in Net Assets	<u>\$ (3,428)</u>	-2.0%	<u>\$ (822)</u>	-4.4%

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)

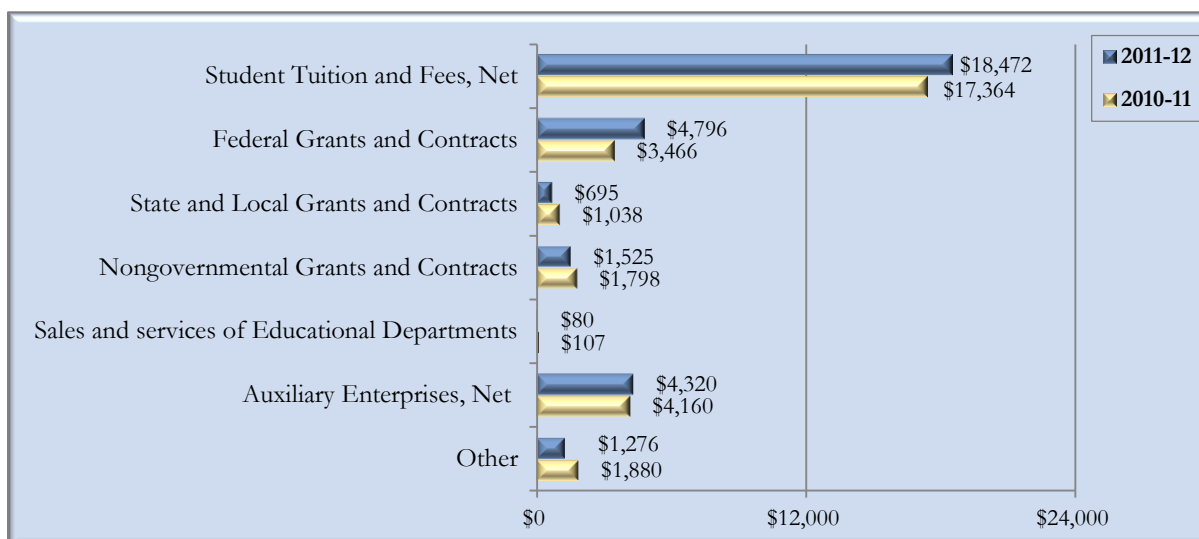
	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 18,472	\$ 17,364	\$	\$
Federal Grants and Contracts	4,796	3,466		
State and Local Grants and Contracts	695	1,038	407	483
Nongovernmental Grants and Contracts	1,525	1,798		
Sales and Services of Educational Departments	80	107		
Auxiliary Enterprises	4,320	4,160		
Other Operating Revenues	1,276	1,880	803	1,177
Total Operating Revenues	31,164	29,813	1,210	1,660
Less, Operating Expenses	130,423	138,898	1,890	2,997
Operating Loss	(99,259)	(109,085)	(680)	(1,337)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	49,057	48,914		
Other Nonoperating Revenues	41,217	52,207	316	1,997
Interest on Capital Asset Related Debt	(768)	(899)		
Other Nonoperating Expenses	(411)		(458)	(9)
Net Nonoperating Revenues (Expenses)	89,095	100,222	(142)	1,988
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(10,164)	(8,863)	(822)	651
State Capital Appropriations	1,974	3,714		
Capital Grants, Contracts, Gifts, and Fees	4,762	4,941		
Increase (Decrease) in Net Assets	(3,428)	(208)	(822)	651
Net Assets, Beginning of Year	171,848	172,056	18,530	17,879
Net Assets, End of Year	\$ 168,420	\$ 171,848	\$ 17,708	\$ 18,530

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 2011-12 and 2010-11 fiscal years:

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



College operating revenue changes were the result of the following factors:

- Student tuition rates increased by 8 percent for the 2011-12 fiscal year, and although enrollment had a small decrease, tuition revenue increased \$1.1 million, or 6.4 percent.
- Federal grants and contracts revenues increased \$1.3 million, or 38.4 percent, due to increases in various Federal program funding.

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.

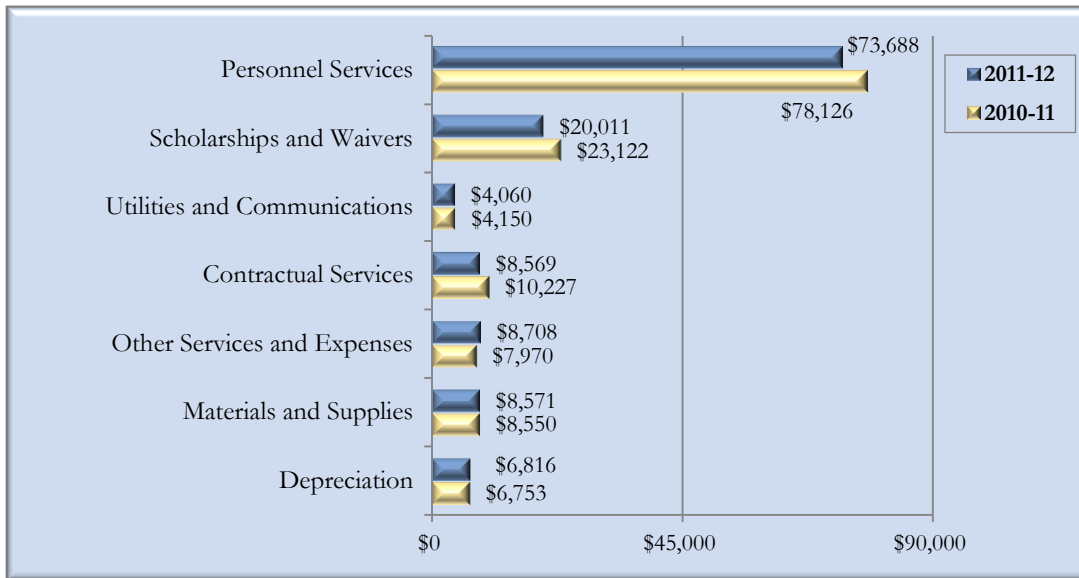
Operating expenses for the College and its component unit for the respective fiscal years are presented in the following table:

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

	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Expenses				
Personnel Services	\$ 73,688	\$ 78,126	\$ 385	\$ 423
Scholarships and Waivers	20,011	23,122	1,033	1,262
Utilities and Communications	4,060	4,150		
Contractual Services	8,569	10,227	20	27
Other Services and Expenses	8,708	7,970	451	1,283
Materials and Supplies	8,571	8,550	1	2
Depreciation	6,816	6,753		
Total Operating Expenses	\$ 130,423	\$ 138,898	\$ 1,890	\$ 2,997

The following chart presents the College’s operating expenses for the 2011-12 and 2010-11 fiscal years:

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



College operating expense changes were the result of the following factors:

- The \$4.4 million decrease in personnel services expenses was due to a statutory change in the Florida Retirement System (FRS) contributions by the College and a reduction in staffing. Statutory changes reduced employer contributions by 3 percent and required employees to contribute 3 percent. This statutory change provided a \$2.8 million reduction in personnel services expenses. Additionally, instructional and adjunct salaries decreased by \$0.6 and \$1 million, respectively, due to a decrease in enrollment of 2,397 full time equivalent (FTE) students, a 14.8 percent decline, in fiscal year 2011-12, resulting in a reduction in the number of instructors.
- Scholarships and waivers decreased \$3.1 million primarily due to the reduction of Federal Pell awards as a result of the decline in student enrollment, as well as more stringent Federal financial aid eligibility requirements for students.
- Contractual services expenses decreased \$1.7 million mainly due to the reduction in the use of temporary employees, which contributed \$0.7 million to the decrease, and a decrease in College sponsorship to the Advanced Technical Center that contributed \$0.7 million to the decrease.

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 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Noncapital Appropriations	\$ 49,057	\$ 48,914
Federal and State Student Financial Aid	39,585	46,707
Gifts and Grants	528	4,500
Investment Income	1,104	940
Other Nonoperating Revenues		60
Interest on Capital Asset-Related Debt	(768)	(899)
Other Nonoperating Expenses	<u>(411)</u>	
Net Nonoperating Revenues	<u>\$ 89,095</u>	<u>\$ 100,222</u>

Nonoperating revenue and expense changes were the result of the following factors:

- Federal and State student financial aid decreased by \$7.1 million, or 15.2 percent, of which approximately \$6 million was Federal Pell grant awards. The decline in Pell grant awards was a result of implementing new Federal regulations, elimination of summer Pell awards, and the College’s drop in enrollment.
- Gifts and Grants nonoperating revenue decreased approximately \$4 million, or 88.3 percent, due to elimination of the State Fiscal Stabilization Funds received as appropriations for the 2010-11 fiscal year.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 1,974	\$ 3,714
Capital Grants, Contracts, Gifts, and Fees	<u>4,762</u>	<u>4,941</u>
Total	<u>\$ 6,736</u>	<u>\$ 8,655</u>

State capital appropriations decreased by \$1.7 million due to a decrease in Public Education Capital Outlay revenues for the 2011-12 fiscal year.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College's cash flows for the 2011-12 and 2010-11 fiscal years is presented in the following table:

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

	2011-12	2010-11
Cash Provided (Used) by:		
Operating Activities	\$ (90,874)	\$ (103,084)
Noncapital Financing Activities	97,377	100,098
Capital and Related Financing Activities	4,859	5,266
Investing Activities	402	581
Net Increase in Cash and Cash Equivalents	11,764	2,861
Cash and Cash Equivalents, Beginning of Year	40,808	37,947
Cash and Cash Equivalents, End of Year	\$ 52,572	\$ 40,808

Major sources of funds came from State noncapital appropriations (\$49.1 million), Federal and State student financial aid (\$39.6 million), Federal direct loan program receipts (\$36.6 million), and net student tuition and fees (\$18.6 million). Major uses of funds were payments to employees (\$59.2 million), Federal direct loan program disbursements (\$36.6 million), payments to providers of goods and services (\$24.8 million), payments for student scholarships (\$20 million), and payments for employee benefits (\$13.1 million).

Cash and cash equivalents increased primarily due to the Daytona State College Foundation, Inc., divesting its holdings in equity and bond funds prior to June 30, 2012, and placing the funds with the College on a temporary basis. The funds were invested in the College's State Board of Administration's PRIME Fund and the State Treasury Special Purpose Investment Account, contributing \$8 million of the \$11.8 million increase in cash and cash equivalents.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$239 million in capital assets, less accumulated depreciation of \$97 million, for net capital assets of \$142 million. Depreciation charges for the current fiscal year totaled \$6.8 million. The following table summarizes the College's capital assets at June 30:

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

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 13,071	\$ 13,071
Buildings	176,796	176,796
Other Structures and Improvements	27,680	27,680
Furniture, Machinery, and Equipment	21,325	20,836
Artwork	132	132
Total	<u>239,004</u>	<u>238,515</u>
Less, Accumulated Depreciation:		
Buildings	55,828	51,598
Other Structures and Improvements	22,242	20,899
Furniture, Machinery, and Equipment	18,952	18,429
Total Accumulated Depreciation	<u>97,022</u>	<u>90,926</u>
Capital Assets, Net	<u>\$ 141,982</u>	<u>\$ 147,589</u>

The College had no construction in progress at June 30, 2012. State appropriations together with local funds are expected to finance the construction of a Flagler campus classroom building and renovation of several College facilities in the upcoming fiscal year. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$16.7 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2012, and June 30, 2011:

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

	<u>2012</u>	<u>2011</u>
SBE Capital Outlay Bonds	\$ 2,910	\$ 3,300
Loans Payable	13,820	14,380
Total	<u>\$ 16,730</u>	<u>\$ 17,680</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, the SBE issued \$53.8 million of the SBE Capital Outlay Refunding Bonds, Series 2011A. Proceeds from the College's portion of the bonds, \$0.6 million, were used to refund \$0.6 million of outstanding SBE Capital Outlay Bonds, Series 2002B. Debt repayments during the 2011-12 fiscal year totaled \$1.5 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Daytona State College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a decrease in State funding is anticipated in the 2012-13 fiscal year. In response to the anticipated decrease in State appropriations, the Board of Trustees approved an increase of the Capital Improvement Fee to the State's maximum level of \$2 per credit hour over the prior year and raised the Baccalaureate tuition rate 5 percent to meet the State's suggested minimum rate of \$91.79 per credit hour effective with the Fall 2012 term. The College's current financial and capital plans indicate that the infusion of

additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services, adhere to strategic initiatives for student success, as well as maintain a balanced budget.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Financial Services, Daytona State College, 1200 West International Speedway Boulevard, Daytona Beach, Florida 32114.

BASIC FINANCIAL STATEMENTS

DAYTONA STATE COLLEGE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2012

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 21,482,762	\$
Restricted Cash and Cash Equivalents	11,392,313	513,856
Accounts Receivable, Net	4,778,988	18,782
Notes Receivable, Net	65,997	
Due from Other Governmental Agencies	6,028,089	
Due from College		4,453,188
Prepaid Expenses	835,231	
Deposits	5,939	
Total Current Assets	44,589,319	4,985,826
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	19,696,374	
Restricted Investments	79,454	12,980,626
Investment in Joint Venture	13,500,000	
Depreciable Capital Assets, Net	128,778,708	
Nondepreciable Capital Assets	13,202,741	
Total Noncurrent Assets	175,257,277	12,980,626
TOTAL ASSETS	\$ 219,846,596	\$ 17,966,452
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,271,470	\$ 59,294
Salary and Payroll Taxes Payable	1,501,123	
Due to Other Governmental Agencies	186,924	
Due to Component Unit	9,576,765	
Deferred Revenue	742,852	165,765
Estimated Insurance Claims Payable	936,000	
Deposits Held for Others	279,956	
Long-Term Liabilities - Current Portion:		
Bonds Payable	355,000	
Loans Payable	775,000	
Notes Payable		33,022
Compensated Absences Payable	1,143,784	
Total Current Liabilities	17,768,874	258,081
Noncurrent Liabilities:		
Bonds Payable	2,555,000	
Loans Payable	13,045,000	
Special Termination Benefits Payable	380,891	
Compensated Absences Payable	9,859,244	
Other Postemployment Benefits Payable	7,817,287	
Total Noncurrent Liabilities	33,657,422	
TOTAL LIABILITIES	51,426,296	258,081

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2012

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 127,780,209	\$
Restricted:		
Nonexpendable:		
Endowment	17,211	5,467,111
Expendable:		
Grants and Loans	4,269,412	11,970,590
Scholarships	92,752	
Capital Projects	18,806,318	
Debt Service	82,251	
Unrestricted	17,372,147	270,670
Total Net Assets	168,420,300	17,708,371
TOTAL LIABILITIES AND NET ASSETS	\$ 219,846,596	\$ 17,966,452

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

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$23,210,571	\$ 18,471,909	\$
Federal Grants and Contracts	4,795,652	
State and Local Grants and Contracts	695,020	406,539
Nongovernmental Grants and Contracts	1,525,495	
Sales and Services of Educational Departments	79,937	
Auxiliary Enterprises	4,320,581	
Other Operating Revenues	1,276,013	803,432
Total Operating Revenues	31,164,607	1,209,971
EXPENSES		
Operating Expenses:		
Personnel Services	73,687,699	385,262
Scholarships and Waivers	20,011,086	1,032,766
Utilities and Communications	4,060,274	
Contractual Services	8,569,102	19,642
Other Services and Expenses	8,708,056	451,513
Materials and Supplies	8,570,234	993
Depreciation	6,816,305	
Total Operating Expenses	130,422,756	1,890,176
Operating Loss	(99,258,149)	(680,205)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	49,057,388	
Federal and State Student Financial Aid	39,584,402	
Gifts and Grants	528,135	5,651
Investment Income	1,104,020	310,947
Net Unrealized and Realized Loss on Investments		(445,843)
Interest on Capital Asset-Related Debt	(768,211)	
Other Nonoperating Expenses	(411,063)	(12,023)
Net Nonoperating Revenues (Expenses)	89,094,671	(141,268)
Loss Before Other Revenues, Expenses, Gains, or Losses	(10,163,478)	(821,473)
State Capital Appropriations	1,973,664	
Capital Grants, Contracts, Gifts, and Fees	4,762,461	
Total Other Revenues	6,736,125	
Decrease in Net Assets	(3,427,353)	(821,473)
Net Assets, Beginning of Year	171,847,653	18,529,844
Net Assets, End of Year	\$ 168,420,300	\$ 17,708,371

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

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 18,600,604
Grants and Contracts	4,594,712
Payments to Suppliers	(24,776,957)
Payments for Utilities and Communications	(4,060,274)
Payments to Employees	(59,196,273)
Payments for Employee Benefits	(13,095,106)
Payments for Scholarships	(20,011,086)
Loans Issued to Students	(1,580,530)
Collection on Loans to Students	2,201,644
Auxiliary Enterprises	5,073,391
Sales and Service of Educational Departments	84,037
Other Receipts	1,291,729
	(90,874,109)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	49,057,388
Federal and State Student Financial Aid	39,584,402
Federal Direct Loan Program Receipts	36,585,165
Federal Direct Loan Program Disbursements	(36,585,165)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	528,135
Other Nonoperating Receipts	8,206,909
	97,376,834
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	2,983,232
Capital Grants and Gifts	4,762,461
Proceeds from Sale of Refunding Bonds	590,052
Purchases of Capital Assets	(1,208,781)
Principal Paid on Capital Debt	(1,500,000)
Interest Paid on Capital Debt	(768,211)
	4,858,753
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	7,000
Investment Income	395,200
	402,200
Net Increase in Cash and Cash Equivalents	11,763,678
Cash and Cash Equivalents, Beginning of Year	40,807,771
Cash and Cash Equivalents, End of Year	\$ 52,571,449

**DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2012**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (99,258,149)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,816,305
Changes in Assets and Liabilities:	
Accounts Receivables, Net	655,407
Notes Receivable, Net	621,114
Due From Other Governmental Agencies	(502,394)
Due From Component Unit	174,203
Deposits	1,155
Prepaid Expenses	633,176
Accounts Payable	(125,482)
Salaries and Payroll Taxes Payable	179,316
Due to Other Governmental Agencies	(103,741)
Deferred Revenue	(1,375,961)
Deposits Held for Others	86,127
Estimated Insurance Claims Payable	169,000
Special Termination Benefits Payable	(344,587)
Compensated Absences Payable	100,397
Other Postemployment Benefits Payable	1,400,005
NET CASH USED BY OPERATING ACTIVITIES	\$ (90,874,109)

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

Unrealized gains on investments were recognized as investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 708,820
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The accompanying notes to financial statements are an integral part of this statement.

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Daytona State College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the District correspond with those of Flagler and Volusia 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 Daytona State College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

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

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- 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 GASB standards of accounting and financial reporting.

The College follows GASB pronouncements and FASB pronouncements issued on or before November 30, 1989, unless 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 (net of unrealized gains or losses on investments), 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

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

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

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash placed with State Treasury Special Purpose Investment Accounts (SPIA) and the State Board of Administration (SBA) Florida PRIME investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the 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, 2012, the College reported as cash equivalents at fair value \$42,160,247 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 A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. 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, 2012, the College reported as cash equivalents \$9,015,513 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, 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 38 days as of June 30, 2012. 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.

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

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

2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); 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 (SBE) Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$79,454 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less,

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments in mutual funds, equity securities, and money market funds held by Daytona State College Foundation, Inc., at December 31, 2011, are reported at fair values as follows:

<u>Investment Type</u>	<u>Average Maturity</u>	<u>Credit Quality</u>	<u>Fair Value</u>
Commonfund Multi-Strategy Equity Fund	(2)	(2)	\$ 5,581,292
Bernstein Intermediate Duration Portfolio	6.65 years	AA- (1)	4,688,141
Ameriprise	(2)	(2)	26,193
Equity Interest in Real Property	(2)	(2)	2,685,000
Total Investments of Component Unit			\$ 12,980,626

Notes: (1) Represents average of credit qualities for those investments within the fund or portfolio that were assigned a credit quality rating. The credit quality ratings were obtained from various agencies including Standard & Poor's and Moody's Investors Services.

(2) Disclosure of maturity and credit quality is not required for these investment types.

The Foundation's investment policy covers endowments and non-endowed investments. Endowment allocations seek no more than 35 percent in equities with the remainder in fixed-income securities and/or cash and cash equivalents. Non-endowment investments allow for cash and cash equivalent investing in money market funds, debt obligations of U.S. corporations and do not allow for investment in securities. The Foundation contracts with qualified investment managers to whom authority is delegated to invest and reinvest assets in accordance with the investment policy. The 35 percent in equities policy, down from an allowable 65 percent in prior years, is being phased in gradually to minimize potential realization of capital losses. The Foundation's investment policies do not place specific limits on maturities or credit quality.

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

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

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

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$2,185,948 allowance for doubtful accounts.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under a short term loan program. Notes receivable are reported net of a \$4,026 allowance for doubtful notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$1,712,483 of Public Education Capital Outlay allocations due from the State for construction of College facilities, and \$3,758,894 of Federal and State contracts and grants reimbursement requests.

6. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The \$9,576,765 reported as due to component unit consists of amounts owed by the College to the Daytona State College Foundation, Inc. (Foundation), pursuant to an agreement to invest Foundation short-term cash on hand in the SPIA and SBA Investment Accounts of the College. The College's financial statements are reported for the fiscal year ended June 30, 2012. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2011. Accordingly, amounts reported by the College as due to component unit on the statement of net assets do not agree with amounts reported by the component unit as due from the College.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 13,070,806	\$	\$	\$ 13,070,806
Artwork	131,935			131,935
Total Nondepreciable Capital Assets	\$ 13,202,741	\$	\$	\$ 13,202,741
Depreciable Capital Assets:				
Buildings	\$ 176,795,643	\$	\$	\$ 176,795,643
Other Structures and Improvements	27,680,349			27,680,349
Furniture, Machinery, and Equipment	20,836,072	1,208,881	720,376	21,324,577
Total Depreciable Capital Assets	225,312,064	1,208,881	720,376	225,800,569
Less, Accumulated Depreciation:				
Buildings	51,597,652	4,230,475		55,828,127
Other Structures and Improvements	20,898,605	1,343,032		22,241,637
Furniture, Machinery, and Equipment	18,429,575	1,242,798	720,276	18,952,097
Total Accumulated Depreciation	90,925,832	6,816,305	720,276	97,021,861
Total Depreciable Capital Assets, Net	\$ 134,386,232	\$ (5,607,424)	\$ 100	\$ 128,778,708

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, include bonds payable, loans payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 3,300,000	\$ 550,000	\$ 940,000	\$ 2,910,000	\$ 355,000
Loans Payable	14,380,000		560,000	13,820,000	775,000
Special Termination Benefits Payable	725,478	57,231	401,818	380,891	
Compensated Absences Payable	10,902,631	447,662	347,265	11,003,028	1,143,784
Other Postemployment Benefits Payable	6,417,282	1,606,697	206,692	7,817,287	
Total Long-Term Liabilities	\$ 35,725,391	\$ 2,661,590	\$ 2,455,775	\$ 35,931,206	\$ 2,273,784

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration (SBA) administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2012:

DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2009A, Refunding	\$ 2,185,000	4 - 5	2019
Series 2010A, Refunding	175,000	4 - 5	2021
Series 2011A, Refunding	550,000	4 - 5	2015
Total	\$ 2,910,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2013	\$ 355,000	\$ 141,670	\$ 496,670
2014	370,000	127,550	497,550
2015	395,000	109,050	504,050
2016	410,000	89,300	499,300
2017	430,000	68,800	498,800
2018-2021	950,000	75,600	1,025,600
Total	\$ 2,910,000	\$ 611,970	\$ 3,521,970

Refunded Debt. On January 5, 2012, the SBE issued \$53,785,000 of SBE Capital Outlay Bonds, Series 2011A. A portion of the bonds were used to advance refund \$28,990,000 of SBE Capital Outlay Bonds, Series 2002B, that were called for redemption on January 6, 2012. The College's portion of the Series 2011A bonds totaled \$550,000 and was used to refund \$590,000 of the Series 2002B bonds. As a result of the refunding, the College had a debt service savings of \$50,167 and obtained an economic gain of \$49,650.

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

Annual requirements to amortize the outstanding loans as of June 30, 2012, are as follows:

**DAYTONA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 775,000	\$ 540,303	\$ 1,315,303
2014	795,000	508,873	1,303,873
2015	840,000	476,692	1,316,692
2016	865,000	442,670	1,307,670
2017	905,000	407,698	1,312,698
2018-2022	5,095,000	1,457,974	6,552,974
2023-2026	4,545,000	371,432	4,916,432
Total	\$ 13,820,000	\$ 4,205,642	\$ 18,025,642

Special Termination Benefits Payable. The Board of Trustees established a severance pay plan for certain College administrative employees. At June 30, 2011, a total of six employees had accrued benefits in the severance pay plan. The plan provided that an eligible employee’s total benefit not exceed an amount equal to twice the employee’s annualized base pay determined as of the date of the employee’s separation from service and the payment must be paid within 60 days of the separation date. During the 2011-12 fiscal year, \$401,818 was paid from the Special Termination Benefits plan for employees that retired. The Board of Trustees, during its December 11, 2011, meeting, terminated further accrual of benefits under this plan after July 1, 2011; however, upon their separation, the three remaining employees will be paid their portion of the remaining plan liability, or \$380,891.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$11,003,028. The current portion of the compensated absences liability, \$1,143,784, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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 College and life insurance benefits through purchased commercial insurance.

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer, defined-benefit plan administered by the College. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College’s health and hospitalization plan for medical, dental, vision, and life insurance coverage. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their

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current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The College does not issue a stand-alone report and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 65 retirees received other postemployment benefits. The College provided required contributions of \$206,692 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$427,432.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 1,058,068
Amortization of Unfunded Actuarial Accrued Liability	<u>505,847</u>
Annual Required Contribution	1,563,915
Interest on Net OPEB Obligation	256,691
Adjustment to Annual Required Contribution	<u>(213,909)</u>
Annual OPEB Cost (Expense)	1,606,697
Contribution Toward the OPEB Cost	<u>(206,692)</u>
Increase in Net OPEB Obligation	1,400,005
Net OPEB Obligation, Beginning of Year	<u>6,417,282</u>
Net OPEB Obligation, End of Year	<u><u>\$ 7,817,287</u></u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 1,872,485	16.2%	\$ 4,931,288
2010-11	1,865,685	20.4%	6,417,282
2011-12	1,606,697	12.9%	7,817,287

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$15,175,419, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$15,175,419 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$45,335,410 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 33.5 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the 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, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent pre-Medicare and 8.5 percent Medicare for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years for pre-Medicare and 6 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

9. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by

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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. The 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 Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee 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 the Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 Investment Plan.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$3,556,550, \$3,975,803, and \$2,706,101, respectively, which were equal to the required contributions for each fiscal year.

There were 204 College participants in the Investment Plan during the 2011-12 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$689,447, which was equal to the required contribution for the 2011-12 fiscal year.

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, 7.92 percent of the participant’s salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee’s salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant’s annuity

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account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 95 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$543,680 and employee contributions totaled \$188,274 for the 2011-12 fiscal year.

Senior Management Service Optional Annuity Program. Section 121.055, Florida Statutes, created the Senior Management Service Optional Annuity Program (Annuity Program) as an optional retirement program for College employees that are members of the FRS Senior Management Service Class.

The Annuity 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. College employees in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 9.49 percent and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

There were 6 College participants during the 2011-12 fiscal year. The College's contributions to the Annuity Program totaled \$87,621 and employee contributions totaled \$28,144 for the 2011-12 fiscal year.

10. JOINT VENTURE

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

The College entered into an agreement with the Flagler and Volusia County District School Boards, pursuant to Section 163.01, Florida Statutes, and Chapter 98-302, Laws of Florida, to construct and operate a charter technical career center. The charter technical career center's corporate name is the Volusia Flagler Advanced Technology Center, Inc., and it does business as the Advanced Technology College (ATC). The ATC is a separate legal entity, and is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, and Section 1002.34, Florida Statutes. Because the sponsoring governments (sponsors) have an on-going financial interest and financial responsibility, the ATC is considered a joint venture. The ATC Board of Directors, which oversees the ATC's operations, has eleven members: one member is the chief executive officer from a sponsor, and is appointed on a rotating basis from each sponsor to a one-year term; six members are appointed by the sponsors (two members are appointed by each sponsor); and four members are elected by the seven appointed board members. The current agreement is effective through June 30, 2013, and may be renewed by written agreement of the sponsors.

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The College's capital contribution was \$13.5 million as provided in the agreement and is reported as an investment in joint venture. The agreement provides a vested interest for each sponsor for the purposes of recouping investments, allocating assets, and assuming liabilities upon termination of the agreement. In the event of termination of the agreement, the capital assets purchased by the ATC will be appraised and sold. The profits will revert to the sponsors based on their proportionate equity in the ATC as defined by the agreement. As of June 30, 2012, the College's proportionate share of profits to be distributed in the event of termination of the agreement was 29.4 percent.

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

The agreement requires participants to make a pro-rata contribution for annual operating costs. Additionally, should enrollment at the ATC exceed expectations, sponsors must make additional pro-rata contributions as required by the agreement. The agreement provides that these commitments are exclusive of the College's obligation to pay occupancy costs of the facility. In prior years annual required contributions by each sponsor were adjusted annually to cover the estimated annual operating costs of the ATC. In September 2009, the Flagler and Volusia County District School Boards informed the College that, due to budgetary constraints, they would not be contributing funds for the operation of the ATC. As a result, the College discontinued all secondary-level instructional, academic support and student services and replaced these secondary-level educational activities with traditional dual-enrollment instructional programs and related College academic programs. The College's operating costs of the ATC for the 2011-12 fiscal year were \$3,487,655.

The ATC is accounted for as a proprietary joint venture. A summary of financial information for the fiscal year ended June 30, 2012, the most recent year for which audited information is available, is shown below:

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Condensed Statement of Net Assets

Assets:	
Current Assets	\$ 297,387
Noncurrent Assets	<u>723,242</u>
Total Assets	<u>1,020,629</u>
Liabilities:	
Current Liabilities	297,387
Noncurrent Liabilities	<u>723,242</u>
Total Liabilities	<u>1,020,629</u>
Net Assets:	
Restricted	<u> </u>
Total Net Assets	<u>\$ 0</u>

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

Total Revenues	\$ 3,487,655
Total Expenses	<u>3,487,655</u>
Decrease in Net Assets	
Net Assets, Beginning of the Year	<u> </u>
Net Assets, End of Year	<u>\$ 0</u>

11. JOINT PARTICIPATION AGREEMENT

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

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

Daytona State College has been designated as the fiscal agent and, in accordance with the agreement, will act for the benefit of both Colleges. Daytona State College will serve as the owner of record of the digital antenna, transmission lines, and associated equipment acquired with various Federal and State grants. However, the

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Federal government retains a ten-year lien on equipment purchased with Federal funds that commences from the date of completion of the project. The lien is effective through September 30, 2013.

12. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million to February 29, 2012, and up to \$90 million from March 1, 2012. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Life insurance coverage is provided through purchased commercial insurance.

Self-Insured Program. The Board has established an individual self-insured program to provide group health, prescription drug, dental, and vision insurance coverage for its employees, retirees, former employees, and their dependents. The College's liability was limited by excess reinsurance to \$175,000 per insured person for the 2011-12 fiscal year. The plan is provided by an insurance company licensed by the Florida Department of Financial Services, Office of Insurance Regulation. The College contributes employee premiums as a fringe benefit. Employee dependent coverage is by payroll deduction and coverage for retirees, former employees, and their dependents is by prepaid premium.

The College reports a liability when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The liability includes an amount for claims that have been incurred, but not reported, and an amount for claims administration expense. Because the actual claims liability depends on such complex factors as inflation, change in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. The College reevaluates the claims liability periodically and the claims liability totaled \$936,000 as of June 30, 2012. Amounts held by the College in excess of the estimated insurance claims liability at June 30, 2012, totaled \$1,550,093 and are classified as insurance claim deposits. The College will use these amounts to pay claims incurred in future fiscal years.

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

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Fiscal Year	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	End of Fiscal Year
2010-11	\$ 772,000	\$ 6,596,239	\$ (6,601,239)	\$ 767,000
2011-12	767,000	7,040,785	(6,871,785)	936,000

13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on 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	\$ 47,717,371
Public Services	1,288,407
Academic Support	9,233,369
Student Services	12,535,879
Institutional Support	19,140,441
Operation and Maintenance of Plant	13,402,155
Scholarships and Waivers	20,011,086
Depreciation	6,816,305
Auxiliary Enterprises	<u>277,743</u>
Total Operating Expenses	<u>\$ 130,422,756</u>

14. RELATED PARTY TRANSACTIONS

On July 24, 2007, the College purchased 22 condominium units for \$2,685,000 using funds provided by the Daytona State College Foundation, Inc. (Foundation). The condominiums were purchased to become dormitories for the College's student athletes. As a part of the purchase, the College and Foundation executed a "Real Property Investment Agreement" disclosing that the Foundation was funding the purchase of real property as an investment. The agreement further provided the "College agrees that the Foundation's return on its investment (in the form of rental income received from College student athletes, via the College) shall be a minimum of a five (5) percent, rate of return per year on the investment, or the greater of the annual rate of return on the Commonfund - Multi-Strategy Bond fund, one year rate, to a maximum of 7% per year." Per the agreement, the property was deeded in the College's name, while the Foundation retained a 100 percent equity interest in the real property. In the event that any of the units are sold, all sale proceeds are to be paid to the

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JUNE 30, 2012

Foundation. If sales do not cover the Foundation's initial investment, the College will attempt to raise funds to match any investment shortfall.

The two parties also entered into a lease agreement, whereby the College leased to the Foundation the condominiums for one year, renewable annually for a total of 20 years. The purpose of the lease was to provide the Foundation with fiscal governance of its investment in the real property in the para material with the Real Property Investment Agreement. The lease provided for an initial lease payment of \$197,057 to the Foundation, and the maintenance, repairs, and operating expenses were to be paid by the Foundation from the rental payments. Major renovations, such as re-roofing; HVAC replacement; replacement of furniture and appliances; and renovations or remodeling to the units are the responsibility of the Foundation. The Foundation funds a replacement and repair reserve account in the amount of \$30,000 per year. The College has control of the account, and may withdraw such funds as may be necessary to pay for any major renovation, replacements, or repairs. Upon expiration of the lease and all renewals, any funds remaining in this account will be remitted to the College. In its December 31, 2011, audited financial statements, the Foundation reported the \$2,685,000 as restricted investments on its statement of net assets. The College does not report the condominiums as assets.

15. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

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Statement of Current Unrestricted Funds Net Assets

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 21,482,762
Accounts Receivable, Net	3,773,039
Due from Other Governmental Agencies	2,118,972
Prepaid Expenses	680,501
Deposits	4,494

Total Current Assets	<u>28,059,768</u>
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Noncurrent Assets:

Investment in Joint Venture	<u>13,500,000</u>
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TOTAL ASSETS	<u>\$ 41,559,768</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 1,747,269
Salary and Payroll Taxes Payable	1,373,320
Due to Other Governmental Agencies	186,924
Deferred Revenue	742,852
Estimated Insurance Claims Payable	936,000
Deposits Held for Others	50
Compensated Absences Payable	1,143,784

Total Current Liabilities	<u>6,130,199</u>
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Noncurrent Liabilities:

Special Termination Benefits Payable	380,891
Compensated Absences Payable	9,859,244
Other Postemployment Benefits Payable	7,817,287

TOTAL LIABILITIES	<u>24,187,621</u>
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TOTAL NET ASSETS	<u>17,372,147</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,559,768</u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Assets**

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$23,210,571	\$ 15,307,484
Federal Grants and Contracts	135,381
State and Local Grants and Contracts	46,398
Nongovernmental Grants and Contracts	767,675
Sales and Services of Educational Departments	79,937
Auxiliary Enterprises	4,312,397
Other Operating Revenues	<u>1,173,279</u>
Total Operating Revenues	<u>21,822,551</u>

EXPENSES

Operating Expenses:

Personnel Services	68,533,190
Scholarships and Waivers	735,102
Utilities and Communications	3,854,117
Contractual Services	7,106,570
Other Services and Expenses	7,765,442
Materials and Supplies	<u>4,642,353</u>
Total Operating Expenses	<u>92,636,774</u>
Operating Loss	<u>(70,814,223)</u>

NONOPERATING REVENUES (EXPENSES)

State Noncapital Appropriations	47,857,389
Investment Income	843,493
Nonoperating Expenses	<u>(166,789)</u>

Net Nonoperating Revenues 48,534,093

Loss Before Other Revenues, Expenses, Gains, or Losses	(22,280,130)
Transfers to/from Other Funds	<u>23,276,542</u>

Increase in Net Assets	996,412
Net Assets, Beginning of Year	<u>16,375,735</u>
Net Assets, End of Year	<u>\$ 17,372,147</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 14,077,390	\$ 14,077,390	0%	\$ 44,538,067	31.6%
7/1/2009		16,681,182	16,681,182	0%	49,772,674	33.5%
7/1/2011		15,175,419	15,175,419	0%	45,335,410	33.5%

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$15.2 million was lower than the July 1, 2009, liability of \$16.7 million as a result of the following:

- Demographic assumptions (rates of withdrawal, retirement, disability and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate health care costs between ages.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.



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

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

We have audited the financial statements of Daytona State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, 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*.

Our **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*** 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
January 15, 2013