

LAKE-SUMTER STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

	<u>County</u>
Timothy Morris, Vice Chair to 7-16-12, Chair from 7-17-12 (1)	Lake
Richard P. Bowersox, Vice Chair from 7-17-12	Lake
Margo S. Odom, Chair to 7-16-12 (1)	Lake
Raymond Scott Blankenship	Lake
Marcia M. Butler (1)	Sumter
Kelly L. Flores	Sumter
Emily A. Lee	Lake
Kelly S. Rice	Sumter
Vacancy (2)	Sumter

Dr. Charles R. Mojock, President

- Notes: (1) Board member served beyond the end of term, May 31, 2013.
(2) Position remained vacant from July 1, 2011, through June 30, 2013.

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 Kayren P. Jost, CPA, and the audit was supervised by Brenda C. Racis, 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) 412-2869.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**LAKE-SUMTER 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 Lake-Sumter 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, 2013. 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

Report on the Financial Statements

We have audited the accompanying financial statements of Lake-Sumter 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake-Sumter State College and of its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Lake-Sumter 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* in considering the Lake-Sumter State College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
October 7, 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, 2013, 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, 2013, and June 30, 2012, and its component unit, the Lake-Sumter State College Foundation, Inc., for the fiscal years ended December 31, 2012, and December 31, 2011.

COLLEGE AND COMPONENT UNIT NAME CHANGES

The College's Board of Trustees approved the name change from Lake-Sumter Community College to Lake-Sumter State College on June 19, 2012, pursuant to Section 1001.60(2)(b), Florida Statutes. The Foundation's Board of Directors approved the name change from Lake-Sumter Community College Foundation, Inc., to Lake-Sumter State College Foundation, Inc., on January 16, 2013.

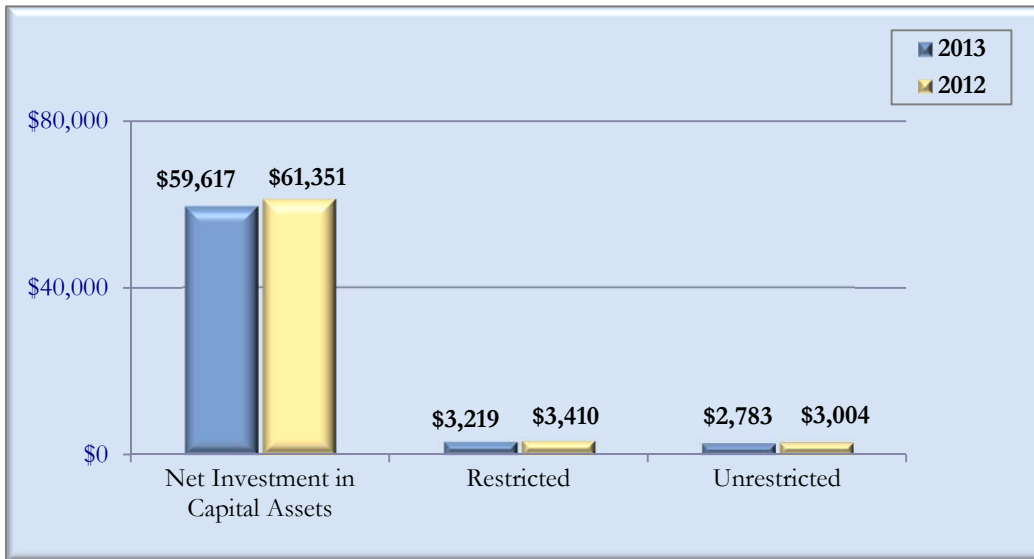
FINANCIAL HIGHLIGHTS

The College's assets totaled \$70.2 million at June 30, 2013. This balance reflects a \$1.6 million, or 2.2 percent, decrease as compared to the 2011-12 fiscal year, resulting primarily from a decrease in capital assets due to depreciation. Liabilities increased by \$0.6 million, or 13.7 percent, totaling \$4.6 million at June 30, 2013, compared to \$4 million at June 30, 2012. As a result, the College's net position decreased by \$2.1 million, resulting in a year-end balance of \$65.6 million.

The College's operating revenues totaled \$7.1 million for the 2012-13 fiscal year, representing a 2.2 percent decrease as compared to the 2011-12 fiscal year due mainly to a decrease in net student tuition and fees. Operating expenses totaled \$29 million for the 2012-13 fiscal year, representing a decrease of 1.6 percent as compared to the 2011-12 fiscal year due mainly to a decrease in scholarships and waivers.

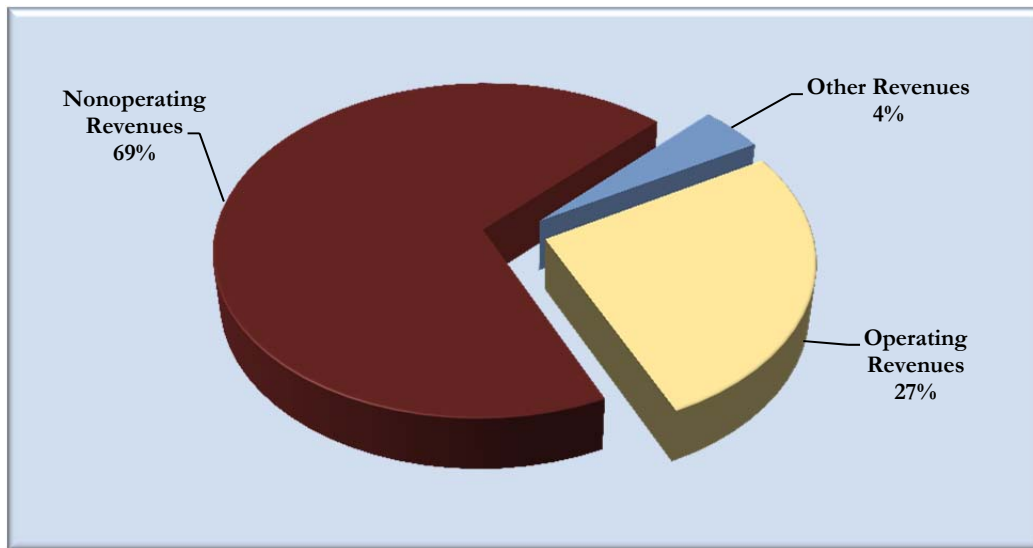
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2012-13 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 position; the statement of revenues, expenses, and changes in net position; 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:

- Lake-Sumter 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.
- Lake-Sumter 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 POSITION

The statement of net position reflects the assets and liabilities of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets, less liabilities, equals net position, which is one indicator of the College's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College's financial condition.

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

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Assets				
Current Assets	\$ 7,431	\$ 7,052	\$ 8,720	\$ 7,615
Capital Assets, Net	59,852	61,616		
Other Noncurrent Assets	2,900	3,110	5,079	5,034
Total Assets	<u>70,183</u>	<u>71,778</u>	<u>13,799</u>	<u>12,649</u>
Liabilities				
Current Liabilities	2,585	2,002	300	92
Noncurrent Liabilities	1,979	2,011	580	601
Total Liabilities	<u>4,564</u>	<u>4,013</u>	<u>880</u>	<u>693</u>
Net Position				
Net Investment in Capital Assets	59,617	61,351		
Restricted	3,219	3,410	12,467	11,273
Unrestricted	2,783	3,004	452	683
Total Net Position	<u>\$ 65,619</u>	<u>\$ 67,765</u>	<u>\$ 12,919</u>	<u>\$ 11,956</u>

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

The statement of revenues, expenses, and changes in net position presents the College's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the activities of the College and its component unit for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Operating Revenues	\$ 7,108	\$ 7,271	\$ 1,750	\$ 1,926
Less, Operating Expenses	29,017	29,492	1,515	1,380
Operating Income (Loss)	(21,909)	(22,221)	235	546
Net Nonoperating Revenues	18,602	18,892	999	103
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,307)	(3,329)	1,234	649
Other Revenues	1,161	1,316		
Net Increase (Decrease) In Net Position	(2,146)	(2,013)	1,234	649
Net Position, Beginning of Year	67,765	69,778	11,956	11,320
Adjustments to Beginning Net Position (1)			(271)	(13)
Net Position, Beginning of Year, as Restated	67,765	69,778	11,685	11,307
Net Position, End of Year	<u>\$ 65,619</u>	<u>\$ 67,765</u>	<u>\$ 12,919</u>	<u>\$ 11,956</u>

Note: (1) Prior period adjustment reflects a change to account for funds that were held for others and an overstatement of the prior fiscal year ending balance for the component unit. See additional explanation in Note No. 2 to financial statements.

Operating Revenues

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

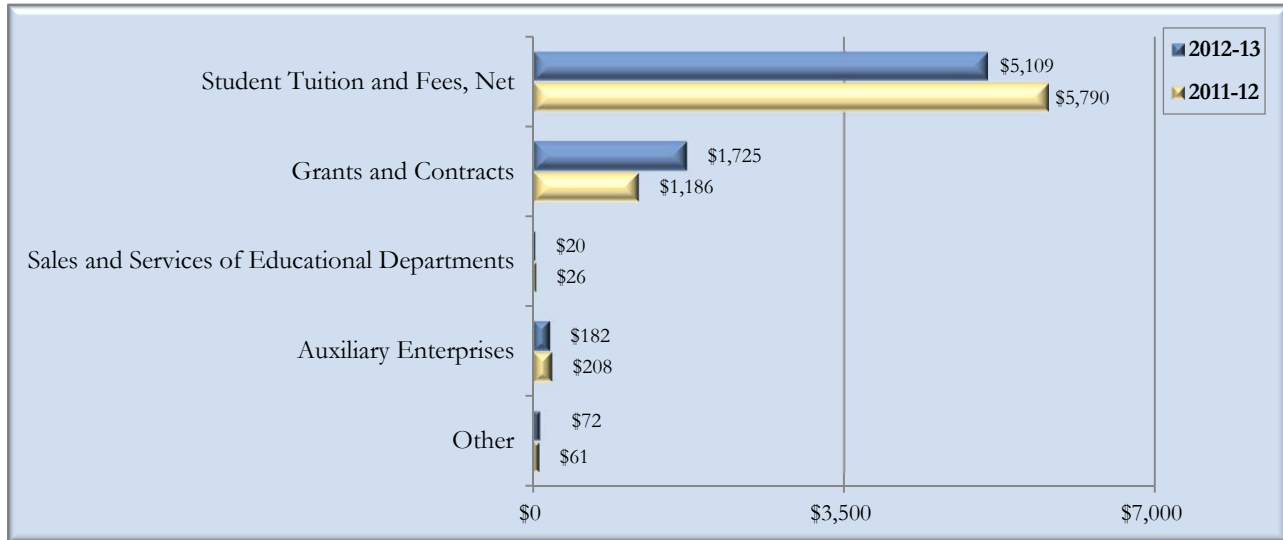
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Net Tuition and Fees	\$ 5,109	\$ 5,790	\$	\$
Grants and Contracts	1,725	1,186		
Sales and Services of Educational Departments	20	26		
Auxiliary Enterprises	182	208		
Other	72	61	1,750	1,926
Total Operating Revenues	<u>\$ 7,108</u>	<u>\$ 7,271</u>	<u>\$ 1,750</u>	<u>\$ 1,926</u>

The following chart presents the College’s operating revenues for the 2012-13 and 2011-12 fiscal years:

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



College operating revenue changes were the result of the following factors: student tuition and fees decreased \$0.7 million due to the increase in scholarship allowance, and grants and contracts revenues increased \$0.5 million due to an increase in county contracts and nongovernmental contract program support from the component unit. Overall, College operating revenues decreased \$0.2 million, or 2.2 percent.

Operating Expenses

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

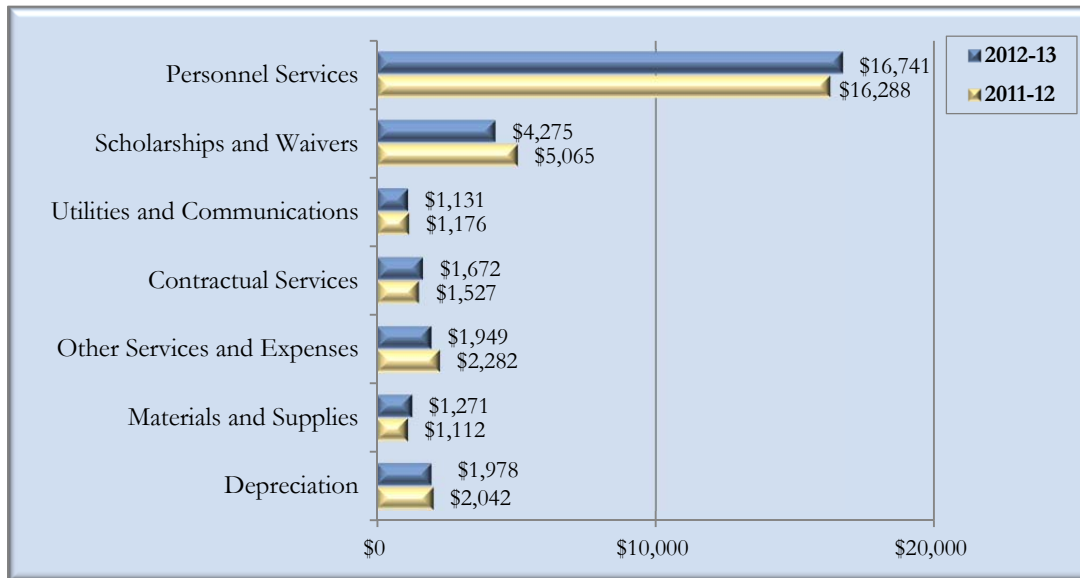
The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Personnel Services	\$ 16,741	\$ 16,288	\$ 294	\$ 265
Scholarships and Waivers	4,275	5,065	1,090	1,043
Utilities and Communications	1,131	1,176		
Contractual Services	1,672	1,527		
Other Services and Expenses	1,949	2,282	131	72
Materials and Supplies	1,271	1,112		
Depreciation	1,978	2,042		
Total Operating Expenses	\$ 29,017	\$ 29,492	\$ 1,515	\$ 1,380

The following chart presents the College’s operating expenses for the 2012-13 and 2011-12 fiscal years:

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



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

- Personnel Services increased \$0.5 million, or 2.8 percent, due in part to the hiring of additional faculty and staff resulting from the start-up of the College’s new baccalaureate program.
- Scholarship and waivers decreased 15.6 percent, due to a \$0.2 million, or 3 percent, decrease in scholarships and waivers awarded and a \$0.6 million, or 19.5 percent, increase in scholarship allowances.
- Other services and expenses decreased \$0.3 million, or 14.6 percent, due mainly to a \$0.4 million decrease in repairs for maintenance of buildings and equipment.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

**Nonoperating Revenues (Expenses): College
For the Fiscal Years Ended
(In Thousands)**

	06-30-13	06-30-12
State Noncapital Appropriations	\$ 11,016	\$ 11,030
Federal and State Student Financial Aid	6,733	6,993
Gifts and Grants	812	860
Investment Income	51	59
Interest on Capital Asset-Related Debt	(13)	(15)
Other Nonoperating Revenues	3	(35)
Net Nonoperating Revenues	\$ 18,602	\$ 18,892

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 2012-13 and 2011-12 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College		
For the Fiscal Years Ended		
(In Thousands)		
	<u>06-30-13</u>	<u>06-30-12</u>
State Capital Appropriations	\$ 160	\$ 468
Capital Grants, Contracts, Gifts, and Fees	<u>1,001</u>	<u>848</u>
Total	<u>\$ 1,161</u>	<u>\$ 1,316</u>

The decrease of \$0.3 million in State capital appropriations was due mainly to a reduction in Public Education Capital Outlay appropriations. The increase of \$0.2 million in capital grants, contracts, gifts, and fees is largely due to an increase in student capital improvement fees collected.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The 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.

The following summarizes the College's cash flows for the 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows: College		
For the Fiscal Years Ended		
(In Thousands)		
	<u>06-30-13</u>	<u>06-30-12</u>
Cash Provided (Used) by:		
Operating Activities	\$ (19,545)	\$ (20,048)
Noncapital Financing Activities	18,172	18,923
Capital and Related Financing Activities	853	1,087
Investing Activities	<u>51</u>	<u>59</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(469)	21
Cash and Cash Equivalents, Beginning of Year	<u>9,253</u>	<u>9,232</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,784</u>	<u>\$ 9,253</u>

Major sources of funds came from State noncapital appropriations (\$11 million), Federal and State student financial aid (\$6.7 million), net student tuition and fees (\$4.9 million), grants and contracts (\$1.7 million), Federal direct loan receipts (\$1.2 million), and capital grants and gifts (\$1 million).

Major uses of funds were for payments to employees and payments for employee benefits (\$16.6 million), payments to suppliers (\$4.8 million), payments for scholarships (\$4.3 million), Federal direct loan disbursements (\$1.2 million), and payments for utilities and communications (\$1.1 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$86.2 million in capital assets, less accumulated depreciation of \$26.4 million, for net capital assets of \$59.9 million. Depreciation charges for the current fiscal year totaled \$2 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

Capital Assets	2013	2012
Land	\$ 6,515	\$ 6,515
Works of Art	12	12
Buildings	52,011	53,617
Other Structures and Improvements	771	901
Furniture, Machinery, and Equipment	543	571
Capital Assets, Net	\$ 59,852	\$ 61,616

The College had no major construction contract commitments at June 30, 2013. State capital appropriations together with local funds are expected to finance future construction, renovation, and purchase of land and facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2013, the College had \$0.2 million in outstanding State Board of Education (SBE) capital outlay bonds. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2013, and June 30, 2012:

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

	2013	2012
SBE Capital Outlay Bonds	\$ 235	\$ 265
Loan Payable	17	68
Total	\$ 252	\$ 333

During the 2012-13 fiscal year, there were no bond sales and debt repayments totaled \$81,456. A loan balance of \$16,744 was outstanding at June 30, 2013, and is shown as a current liability in the Statement of Net Position. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. There was a slight upturn in the State's economy and, therefore, the College has been allocated more operational support from the State for the

2013-14 fiscal year. This influx of dollars to the operating fund allowed the Board of Trustees to hold to a tuition rate increase of 1.0 percent to take effect beginning with the Fall 2013 term. There is a continuing weakness in the level of support from the State in the 2013-14 fiscal year for capital projects and maintenance of facilities, which impacts the College's ability over time to provide proper maintenance of its facilities.

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 Richard M. Scott, Senior Vice President for Business Affairs, Lake-Sumter State College, 9501 U.S. Highway 441, Leesburg, Florida 34788-8751.

BASIC FINANCIAL STATEMENTS

LAKE-SUMTER STATE COLLEGE A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET POSITION June 30, 2013

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 5,436,784	\$ 3,142,282
Restricted Cash and Cash Equivalents	447,286	
Investments		5,575,537
Accounts Receivable, Net	287,205	
Due from Other Governmental Agencies	982,125	
Due from Component Unit	130,574	
Inventories	50,256	
Prepaid Expenses	96,842	2,514
Total Current Assets	7,431,072	8,720,333
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,899,642	
Restricted Investments		4,147,114
Depreciable Capital Assets, Net	53,324,761	
Nondepreciable Capital Assets	6,526,943	
Other Noncurrent Assets		931,999
Total Noncurrent Assets	62,751,346	5,079,113
TOTAL ASSETS	70,182,418	13,799,446
LIABILITIES		
Current Liabilities:		
Accounts Payable	885,745	16,239
Salary and Payroll Taxes Payable	996,360	
Retainage Payable	1,243	
Due to Other Governmental Agencies	131,035	
Due to Component Unit	11,102	
Unearned Revenue	211,178	
Deposits Held for Others	114,778	263,102
Long-Term Liabilities - Current Portion:		
Bonds Payable	35,000	
Loan Payable	16,744	20,521
Compensated Absences Payable	181,761	
Total Current Liabilities	2,584,946	299,862
Noncurrent Liabilities:		
Bonds Payable	200,000	
Loan Payable		580,661
Compensated Absences Payable	1,647,145	
Other Postemployment Benefits Payable	131,771	
Total Noncurrent Liabilities	1,978,916	580,661
TOTAL LIABILITIES	4,563,862	880,523

**LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013**

	College	Component Unit
NET POSITION		
Net Investment in Capital Assets	\$ 59,616,704	\$
Restricted:		
Nonexpendable:		
Endowment		4,147,114
Expendable:		
Grants and Loans	220,956	
Scholarships	51,820	6,721,675
Capital Projects	2,943,154	1,597,929
Debt Service	2,686	
Unrestricted	2,783,236	452,205
TOTAL NET POSITION	\$ 65,618,556	\$ 12,918,923

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

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$3,376,141	\$ 5,109,399	\$
Federal Grants and Contracts	77,468	
State and Local Grants and Contracts	563,772	
Nongovernmental Grants and Contracts	1,083,498	
Sales and Services of Educational Departments	19,626	
Auxiliary Enterprises	182,275	
Other Operating Revenues	72,112	1,749,937
Total Operating Revenues	7,108,150	1,749,937
EXPENSES		
Operating Expenses:		
Personnel Services	16,741,082	294,360
Scholarships and Waivers	4,275,130	1,090,115
Utilities and Communications	1,131,514	
Contractual Services	1,671,743	
Other Services and Expenses	1,949,070	130,925
Materials and Supplies	1,270,906	
Depreciation	1,977,913	
Total Operating Expenses	29,017,358	1,515,400
Operating Income (Loss)	(21,909,208)	234,537
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	11,016,603	
Federal and State Student Financial Aid	6,732,961	
Gifts and Grants	812,024	
Investment Income	50,925	257,982
Net Realized and Unrealized Gains on Investments		741,158
Interest on Capital Asset-Related Debt	(13,378)	
Other Nonoperating Revenues	3,000	
Net Nonoperating Revenues	18,602,135	999,140
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,307,073)	1,233,677
State Capital Appropriations	159,540	
Capital Grants, Contracts, Gifts, and Fees	1,000,661	
Total Other Revenues	1,160,201	
Increase (Decrease) in Net Position	(2,146,872)	1,233,677
Net Position, Beginning of Year	67,765,428	11,956,452
Adjustment to Beginning Net Position		(271,206)
Net Position, Beginning of Year, as Restated	67,765,428	11,685,246
Net Position, End of Year	\$ 65,618,556	\$ 12,918,923

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

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 4,925,080
Grants and Contracts	1,734,168
Payments to Suppliers	(4,775,142)
Payments for Utilities and Communications	(1,131,514)
Payments to Employees	(13,360,387)
Payments for Employee Benefits	(3,284,984)
Payments for Scholarships	(4,293,394)
Auxiliary Enterprises	192,038
Sales and Service of Educational Departments	19,626
Other Receipts	429,198
	(19,545,311)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	11,016,603
Federal and State Student Financial Aid	6,732,961
Federal Direct Loan Program Receipts	1,173,263
Federal Direct Loan Program Disbursements	(1,195,806)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	162,233
Other Nonoperating Receipts	283,339
	18,172,593
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	151,029
Capital Grants and Gifts	1,000,661
Purchases of Capital Assets	(204,017)
Principal Paid on Capital Debt	(81,456)
Interest Paid on Capital Debt	(13,378)
	852,839
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	50,925
	50,925
Net Cash Provided by Operating Activities	(19,545,311)
Net Cash Provided by Noncapital Financing Activities	18,172,593
Net Cash Provided by Capital and Related Financing Activities	852,839
CASH FLOWS FROM INVESTING ACTIVITIES	50,925
Net Cash Provided by Investing Activities	50,925
Net Decrease in Cash and Cash Equivalents	(468,954)
Cash and Cash Equivalents, Beginning of Year	9,252,666
Cash and Cash Equivalents, End of Year	\$ 8,783,712

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (21,909,208)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,977,913
Changes in Assets and Liabilities:	
Receivables, Net	(212,904)
Inventories	8,241
Prepaid Expenses	127,523
Accounts Payable	298,983
Salaries Payable	71,086
Unearned Revenue	68,430
Compensated Absences Payable	876
Other Postemployment Benefits Payable	23,749
NET CASH USED BY OPERATING ACTIVITIES	\$ (19,545,311)

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

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Lake-Sumter State College¹, 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 Lake and Sumter 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. 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 Lake-Sumter State College Foundation, Inc.² (Foundation), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is 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, 2012.

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.

¹ The College's Board of Trustees approved the name change from Lake-Sumter Community College to Lake-Sumter State College on June 19, 2012, pursuant to Section 1001.60(2)(b), Florida Statutes.

² The Foundation's Board of Directors approved the name change from Lake-Sumter Community College Foundation, Inc., to Lake-Sumter State College Foundation, Inc., on January 16, 2013.

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 entity wide reporting including the following components:

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

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 follows GASB standards of accounting and financial reporting.

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.

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

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

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated its scholarship allowance by identifying within student accounts receivable system amounts paid by student aid for tuition and fees. 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 the State Treasury Special Purpose Investment Account (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, 2013, the College reported as cash equivalents at fair value \$1,586,474 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+ by Standard & Poor's and had an effective duration of 2.65 years at June 30, 2013. 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, 2013, the College reported as cash equivalents \$43,741 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, 2013, 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 40 days as of June 30, 2013. 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

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; works of art; 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, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. PRIOR PERIOD ADJUSTMENTS

Component Unit

The temporarily restricted net position of the Foundation was adjusted to account for \$271,206 in funds that were held for others and an overstatement of the prior fiscal year ending balance. The correction has no effect on the results of the current year's activities.

3. INVESTMENTS

Component Unit Investments

Investments held by the Foundation at December 31, 2012, are reported at fair value as follows:

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Investment Type	Fair Value	Maturities in Years	
		1 - 5	6 - 10
Investment in Debt Obligations:			
United States Government Obligations	\$ 1,569,970	\$ 674,957	\$ 895,013
Federal Agency Obligations	175,076		175,076
Corporate Bonds	2,451,398	1,857,784	593,614
Total Investment in Debt Obligations	4,196,444	<u>\$ 2,532,741</u>	<u>\$ 1,663,703</u>
Other Investments:			
Equities	5,526,207		
Total Component Unit Investments	<u>\$ 9,722,651</u>		

The following risks apply to the Foundation's investment in debt securities:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit investment maturities except with respect to cash equivalents, which must have a maximum average maturity of less than one year. The Foundation manages its exposure to fair value losses from increasing interest rates through the segmented time distribution method.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy limits its fixed income investments to an overall weighted average credit rating of "A" or better by Moody's Investor Service (Moody's) or Standard & Poor's. No more than 15 percent of the fixed income portion of the portfolio shall be rated below investment grade (below Baa/BBB). All commercial paper investments must have a minimum rating of A1/P1 by Standard & Poor's and Moody's, respectively. Obligations of the United States Government and obligations explicitly guaranteed by the United States Government are not considered to have credit risk. At December 31, 2012, the Foundation's investments in bonds and notes had credit quality ratings by nationally-recognized rating agencies ranging from Aa2 to Aaa by Moody's and from A to AAA by Standard & Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Foundation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Lending of the Foundation's portfolio of securities is expressly prohibited by the Foundation's investment policy. While the brokerage and trust accounts are in the Foundation's name, the securities are actually held in the trust department or agent's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. The Foundation's investment policy limits investments in any one company to no more than 7 percent of the equity portion of its portfolio and no more than 10 percent of the fixed income portion of its portfolio, and the equity portion of the portfolio must maintain a minimum of 20 positions, with no position of any one issuer exceeding 8 percent of the manager's total portfolio. Securities issued by the United States Government or its agencies are not subject to these limitations. The policy also

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

provides that no more than 5 percent of the portfolio may be invested in commercial paper of any one issuer, and no more than \$3,000,000 in bank certificates of deposit of any single issuer, unless the investments are fully collateralized by United States Treasury or agency securities. The policy further limits investments in any one economic sector to no more than 25 percent for the fixed income portion of the portfolio. Additionally, no more than 10 percent of the equity portion of the portfolio may be in American Depository Receipts, and no more than 60 percent of the fixed income portion of the portfolio may be invested in either corporate or mortgage-backed securities.

4. 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 \$134,345 allowance for doubtful accounts.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount consists of \$982,125 of grant allocations primarily due from Federal and state grants.

6. DUE FROM AND TO COMPONENT UNIT

The \$130,574 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid and program support. The \$11,102 reported as due to component unit mainly consists of amounts owed by the College to the Foundation for reimbursement of expenses for the College's 50th anniversary event.

The College's financial statements are reported for the fiscal year ended June 30, 2013. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2012. Accordingly, amounts reported by the College as due from and to component unit on the statement of net position do not agree with amounts reported by the component unit as due from and to the College.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

**LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 6,514,755	\$	\$	\$ 6,514,755
Works of Art	12,188			12,188
Total Nondepreciable Capital Assets	\$ 6,526,943	\$	\$	\$ 6,526,943
Depreciable Capital Assets:				
Buildings	\$ 70,716,509	\$	\$	\$ 70,716,509
Other Structures and Improvements	4,644,444			4,644,444
Furniture, Machinery, and Equipment	4,164,928	213,349	40,029	4,338,248
Total Depreciable Capital Assets	79,525,881	213,349	40,029	79,699,201
Less, Accumulated Depreciation:				
Buildings	17,100,332	1,604,998		18,705,330
Other Structures and Improvements	3,742,788	131,224		3,874,012
Furniture, Machinery, and Equipment	3,593,436	241,691	40,029	3,795,098
Total Accumulated Depreciation	24,436,556	1,977,913	40,029	26,374,440
Total Depreciable Capital Assets, Net	\$ 55,089,325	\$ (1,764,564)	\$	\$ 53,324,761

8. UNEARNED REVENUE

Unearned revenue includes Kid’s College and Sumter Workforce Partnership Program Projects moneys received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2013, the College reported the following amounts as unearned revenue:

Description	Amount
Kid's College	\$ 161,178
Sumter Workforce Partnership Program Project	50,000
Total Unearned Revenue	\$ 211,178

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 265,000	\$	\$ 30,000	\$ 235,000	\$ 35,000
Loans Payable	68,200		51,456	16,744	16,744
Compensated Absences Payable	1,828,030	217,830	216,954	1,828,906	181,761
Other Postemployment Benefits Payable	108,022	47,000	23,251	131,771	
Total Long-Term Liabilities	\$ 2,269,252	\$ 264,830	\$ 321,661	\$ 2,212,421	\$ 233,505

**LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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, 2013:

Bond Type	Amount Outstanding	Interest Rate (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2005B	<u>\$ 235,000</u>	5.0	2020

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2014	\$ 35,000	\$ 11,750	\$ 46,750
2015	40,000	10,000	50,000
2016	40,000	8,000	48,000
2017	40,000	6,000	46,000
2018	45,000	4,000	49,000
2019-2020	35,000	2,750	37,750
Total	<u>\$ 235,000</u>	<u>\$ 42,500</u>	<u>\$ 277,500</u>

Component Unit - Note Payable. As of December 31, 2012, the Foundation had a note payable in the amount of \$601,182, with a 4.25 percent interest rate payable in monthly installments of \$3,870, with a balloon payment of \$532,435, due December 31, 2015, and secured by real property. The property has been rented to the College. Scheduled principal payments are as follows:

Fiscal Year Ending December 31	Loan Payment Principal
2013	\$ 21,225
2014	22,145
2015	<u>557,812</u>
Total	<u>\$ 601,182</u>

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State 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, 2013, the estimated liability for compensated

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$1,828,906. The current portion of the compensated absences liability, \$181,761, is the amount expected to be paid in the coming fiscal year.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit plan (Plan) administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issues a stand-alone annual report for the Plan, 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 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 2012-13 fiscal year, 41 retirees received postemployment healthcare benefits, and 25 retirees received postemployment life insurance benefits. The College provided required contributions of \$23,251 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 \$129,433, which represents 1.2 percent of covered payroll.

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:

LAKE-SUMTER STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 34,926
Amortization of Unfunded Actuarial Accrued Liability	<u>11,354</u>
Annual Required Contribution	46,280
Interest on Net OPEB Obligation	4,321
Adjustment to Annual Required Contribution	<u>(3,601)</u>
Annual OPEB Cost (Expense)	47,000
Contribution Toward the OPEB Cost	<u>(23,251)</u>
Increase in Net OPEB Obligation	23,749
Net OPEB Obligation, Beginning of Year	<u>108,022</u>
Net OPEB Obligation, End of Year	<u><u>\$ 131,771</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, 2013, and for the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010-11	\$ 24,124	22.7%	\$ 69,525
2011-12	46,743	17.6%	108,022
2012-13	47,000	49.5%	131,771

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$340,619, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$340,619 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$10,583,031 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.2 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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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, and was used to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. This method was selected because it produced the lowest OPEB liability and annual cost. 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, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 10.5 percent for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years. 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, 2013, was 24 years.

10. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. 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 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
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, 2011, June 30, 2012, and June 30, 2013, totaled \$761,764, \$499,421, and \$559,111, respectively, which were equal to the required contributions for each fiscal year.

There were 67 College participants in the Investment Plan during the 2012-13 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$226,559, which was equal to the required contribution for the 2012-13 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.

LAKE-SUMTER STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 eight 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, 5.64 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 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 31 College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled \$91,257 and employee contributions totaled \$53,160 for the 2012-13 fiscal year.

11. 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 \$90 million to February 28, 2013, and up to \$125 million from March 1, 2013. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, dental, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

12. 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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 7,902,544
Public Services	47,841
Academic Support	2,811,217
Student Services	3,371,966
Institutional Support	5,076,850
Operation and Maintenance of Plant	3,540,098
Scholarships and Waivers	4,275,130
Depreciation	1,977,913
Auxiliary Enterprises	13,799
Total Operating Expenses	<u><u>\$ 29,017,358</u></u>

13. 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 position, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net position. To meet this requirement, statements of net position and revenues, expenses, and changes in net position for the current unrestricted funds are presented, as follows:

LAKE-SUMTER STATE COLLEGE
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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2013

Statement of Current Unrestricted Funds Net Position

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,134,332
Accounts Receivable, Net	285,937
Due from Other Governmental Agencies	793
Due from Component Unit	35,552
Inventories	50,256
Prepaid Expenses	96,842

TOTAL ASSETS

6,603,712

LIABILITIES

Current Liabilities:

Accounts Payable	780,704
Salary and Payroll Taxes Payable	726,708
Due to Other Governmental Agencies	130,107
Due to Component Unit	11,102
Unearned Revenue	211,178
Compensated Absences Payable	181,761

Total Current Liabilities

2,041,560

Noncurrent Liabilities:

Compensated Absences Payable	1,647,145
Other Postemployment Benefits Payable	131,771

TOTAL LIABILITIES

3,820,476

TOTAL NET POSITION

\$ 2,783,236

LAKE-SUMTER STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship		
Allowances of \$3,376,141	\$	4,204,585
Governmental Grants and Contracts		398,512
Nongovernmental Grants and Contracts		425,464
Sales and Services of Educational Departments		19,626
Auxiliary Enterprises		182,275
Other Operating Revenues		56,015

Total Operating Revenues		<u>5,286,477</u>
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EXPENSES

Operating Expenses:

Personnel Services		15,548,630
Utilities and Communications		1,131,514
Contractual Services		1,385,323
Other Services and Expenses		1,011,469
Materials and Supplies		859,563

Total Operating Expenses		<u>19,936,499</u>
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Operating Loss		<u>(14,650,022)</u>
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NONOPERATING REVENUES

State Noncapital Appropriations		11,016,603
Investment Income		38,542

Nonoperating Revenues		<u>11,055,145</u>
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**Loss Before Other Revenues,
Expenses, Gains, or Losses**

		(3,594,877)
Capital Grants, Contracts, Gifts, and Fees		325,528
Transfers from Other Funds		3,048,056

Decrease in Net Position		(221,293)
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Net Position, Beginning of Year		<u>3,004,529</u>
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Net Position, End of Year	\$	<u><u>2,783,236</u></u>
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**LAKE-SUMTER 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	\$	\$ 253,536	\$ 253,536	0%	\$ 8,781,354	2.9%
7/1/2009		236,672	236,672	0%	9,101,375	2.6%
7/1/2011		340,619	340,619	0%	9,336,046	3.6%

Note: (1) The actuarial cost method used to estimate the actuarial accrued liability is the projected unit credit method.

**LAKE-SUMTER 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 \$340,619, was significantly higher than the July 1, 2009, liability of \$236,672 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 healthcare 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*

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lake-Sumter 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 7, 2013, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free 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*.

Purpose of this Report

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
October 7, 2013