

SOUTH FLORIDA STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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

| | <u>County</u> |
|---|---------------|
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| Kris Y. Rider | Highlands |

Dr. Norman L. Stephens, Jr., President

Note: (1) Board member served beyond the end of term, May 31, 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 Yuling Liu, CPA, and the audit was supervised by David A. Blanton, 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.

**SOUTH FLORIDA 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 South Florida 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. The results of our operational audit of the College are included in our report No. 2014-010.

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

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 South Florida 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 South Florida 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 South Florida 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 South Florida State College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
October 28, 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 South Florida State College Foundation, Inc., for the fiscal years ended December 31, 2012, and December 31, 2011.

NAME CHANGES

The College's Board of Trustees approved the name change from South Florida Community College to South Florida State College effective July 1, 2012, pursuant to Section 1001.60(2)(b), Florida Statutes. Likewise, the Foundation's Board of Trustees approved the name change from South Florida Community College Foundation, Inc., to South Florida State College Foundation, Inc., effective July 1, 2012.

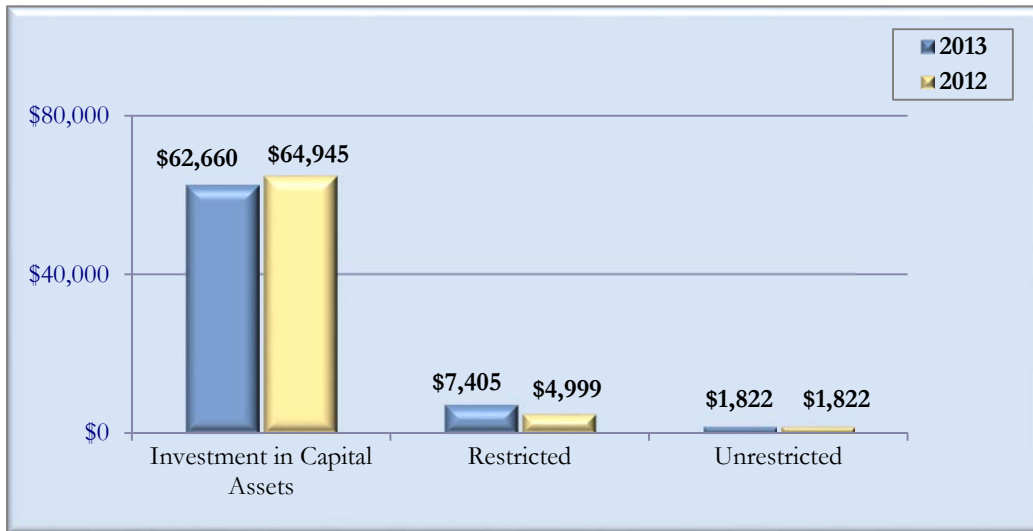
FINANCIAL HIGHLIGHTS

The College's assets totaled \$75.9 million at June 30, 2013. This balance reflects a \$287 thousand increase as compared to the 2011-12 fiscal year, resulting primarily from an increase in cash and cash equivalents and due from other governmental agencies resulting from State capital appropriations. Liabilities increased by \$166 thousand, or 4.3 percent, resulting primarily from an increase in accounts payable for goods and services. As a result, the College's net position increased by \$121 thousand, resulting in a year-end balance of \$71.9 million.

The College's operating revenues totaled \$4.1 million for the 2012-13 fiscal year, essentially unchanged compared to the 2011-12 fiscal year. Operating expenses totaled \$30.6 million for the 2012-13 fiscal year, representing a decrease of 1 percent as compared to the 2011-12 fiscal year due mainly to reductions in scholarships and waivers and depreciation.

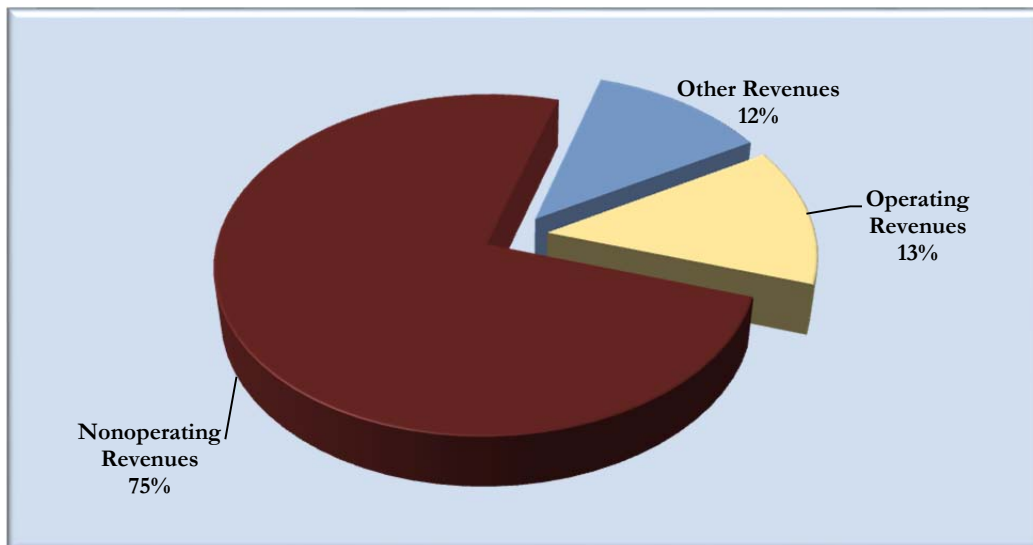
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

**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:

- South Florida 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.
- South Florida 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 equal net position, which is one indicator of the College's current financial condition. The changes in net position that occurs 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 | \$ 10,181 | \$ 8,839 | \$ 4,242 | \$ 3,816 |
| Capital Assets, Net | 62,660 | 64,945 | 1,264 | 1,336 |
| Other Noncurrent Assets | 3,108 | 1,878 | 5,272 | 4,736 |
| Total Assets | 75,949 | 75,662 | 10,778 | 9,888 |
| Liabilities | | | | |
| Current Liabilities | 1,712 | 1,458 | 144 | 120 |
| Noncurrent Liabilities | 2,350 | 2,438 | | |
| Total Liabilities | 4,062 | 3,896 | 144 | 120 |
| Net Position | | | | |
| Investment in Capital Assets | 62,660 | 64,945 | 1,264 | 1,336 |
| Restricted | 7,405 | 4,999 | 8,841 | 7,924 |
| Unrestricted | 1,822 | 1,822 | 529 | 508 |
| Total Net Position | \$ 71,887 | \$ 71,766 | \$ 10,634 | \$ 9,768 |

Current and other noncurrent assets increased by \$2.6 million due primarily to the recognition of Public Education Capital Outlay (PECO) funding for the construction of the Fire Science program infrastructure. The College's capital assets decreased \$2.3 million, as a result of current year depreciation expense.

The Foundation's current assets increased by \$426 thousand while the noncurrent assets increased by \$464 thousand. The changes were primarily the result of increased donations and returns on investments.

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 | \$ 4,064 | \$ 4,069 | \$ 236 | \$ 233 |
| Less, Operating Expenses | 30,645 | 30,960 | 1,351 | 1,335 |
| Operating Loss | (26,581) | (26,891) | (1,115) | (1,102) |
| Net Nonoperating Revenues | 22,994 | 23,408 | 1,981 | 1,187 |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | (3,587) | (3,483) | 866 | 85 |
| Other Revenues | 3,708 | 925 | | |
| Net Increase (Decrease) In Net Position | 121 | (2,558) | 866 | 85 |
| Net Position, Beginning of Year | 71,766 | 73,621 | 9,768 | 9,683 |
| Adjustments to Beginning Net Position (1) | | 703 | | |
| Net Position, Beginning of Year, as Restated | 71,766 | 74,324 | 9,768 | 9,683 |
| Net Position, End of Year | \$ 71,887 | \$ 71,766 | \$ 10,634 | \$ 9,768 |

Note: (1) Capitalization of Data Software per GASB Statement No. 51.

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.

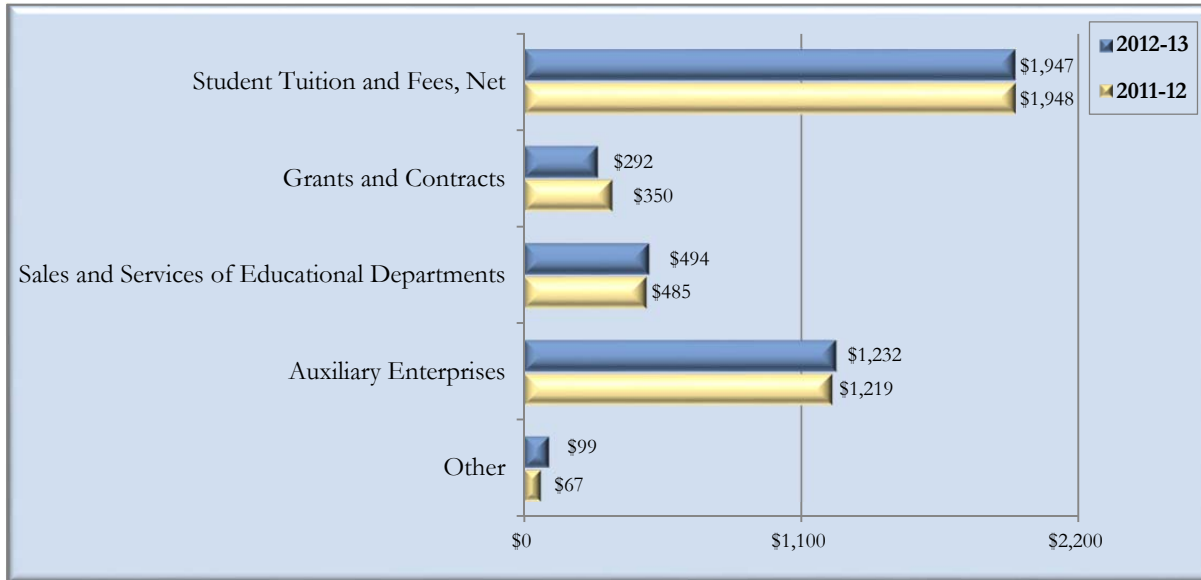
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective fiscal years ended:

**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 | \$ 1,947 | \$ 1,948 | \$ | \$ |
| Grants and Contracts | 292 | 350 | | |
| Sales and Services of Educational Departments | 494 | 485 | | |
| Auxiliary Enterprises | 1,232 | 1,219 | | |
| Other | 99 | 67 | 236 | 233 |
| Total Operating Revenues | \$ 4,064 | \$ 4,069 | \$ 236 | \$ 233 |

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

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



Operating revenues remained relatively consistent with the prior fiscal year.

Operating Expenses

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

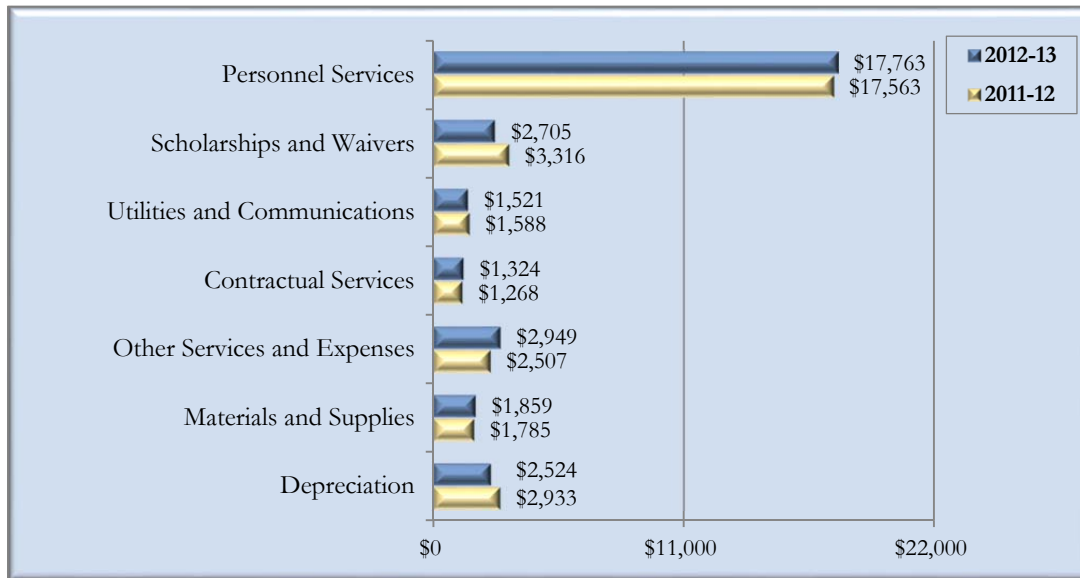
The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended:

**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 | \$ 17,763 | \$ 17,563 | \$ | \$ |
| Scholarships and Waivers | 2,705 | 3,316 | 679 | 650 |
| Utilities and Communications | 1,521 | 1,588 | | |
| Contractual Services | 1,324 | 1,268 | | |
| Other Services and Expenses | 2,949 | 2,507 | 417 | 413 |
| Materials and Supplies | 1,859 | 1,785 | 183 | 202 |
| Depreciation | 2,524 | 2,933 | 72 | 70 |
| Total Operating Expenses | \$ 30,645 | \$ 30,960 | \$ 1,351 | \$ 1,335 |

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:

- There was an overall increase to the personnel services expenses of \$200 thousand primarily due to a two percent raise to employees.
- Scholarships and waivers decreased by \$611 thousand primarily due to a decrease in Federal Pell Grant awards.
- Other services and expenses increased by \$442 thousand due to an increase in repair and maintenance activities.
- Depreciation expense decreased by \$409 thousand due to a significant amount of assets in the Other Structures and Improvements category becoming fully depreciated in the prior fiscal year.

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)**

| | <u>6-30-13</u> | <u>6-30-12</u> |
|---|-------------------------|-------------------------|
| State Noncapital Appropriations | \$ 15,322 | \$ 15,323 |
| Federal and State Student Financial Aid | 5,757 | 6,062 |
| Gifts and Grants | 1,887 | 1,993 |
| Investment Income | 22 | 23 |
| Other Nonoperating Revenues | 7 | 7 |
| Other Nonoperating Expenses | <u>(1)</u> | |
| Net Nonoperating Revenues | <u><u>\$ 22,994</u></u> | <u><u>\$ 23,408</u></u> |

Net nonoperating revenues decreased by \$414 thousand, primarily due to the following:

- Federal and State student financial aid decreased \$305 thousand primarily due to a decline in the number of students eligible for assistance.
- Gifts and grants decreased by \$106 thousand primarily as a result of a decrease in grants.

Other Revenues, Expenses, Gains, or Losses

This category is mainly 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>6-30-13</u> | <u>6-30-12</u> |
|--|------------------------|----------------------|
| State Capital Appropriations | \$ 3,327 | \$ 547 |
| Capital Grants, Contracts, Gifts, and Fees | <u>381</u> | <u>378</u> |
| Total Other Revenues | <u><u>\$ 3,708</u></u> | <u><u>\$ 925</u></u> |

State capital appropriations increased \$2.8 million primarily due to the increase in PECO funding from the State for construction of the Fire Science program infrastructure.

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
(In Thousands)**

| | <u>2012-13</u> | <u>2011-12</u> |
|--|------------------------|------------------------|
| Cash Provided (Used) by: | | |
| Operating Activities | \$(23,877) | \$(23,582) |
| Noncapital Financing Activities | 22,949 | 23,121 |
| Capital and Related Financing Activities | 1,177 | 650 |
| Investing Activities | <u>22</u> | <u>23</u> |
| Net Increase in Cash and Cash Equivalents | 271 | 212 |
| Cash and Cash Equivalents, Beginning of Year | <u>8,415</u> | <u>8,203</u> |
| Cash and Cash Equivalents, End of Year | <u><u>\$ 8,686</u></u> | <u><u>\$ 8,415</u></u> |

Major sources of funds came from State noncapital appropriations (\$15.3 million), Federal and State student financial aid (\$5.8 million), net student tuition and fees (\$1.9 million), gifts and grants received for other than capital or endowment purposes (\$1.9 million), auxiliary enterprises (\$1.2 million), and State capital appropriations (\$1 million). Major uses of funds were for payments to employee salaries and benefits (\$17.8 million), payments to suppliers (\$6.1 million), payments for scholarships (\$2.7 million), and payments for utilities and communications (\$1.5 million).

The College's overall liquidity was enhanced during the reporting year as cash and cash equivalents increased by \$271 thousand from the prior fiscal year. The College experienced an increase in cash used by operating activities totaling \$295 thousand primarily as a result of increases in payments to employees and suppliers. Noncapital financing activities decreased by \$172 thousand primarily due to the reduction of Federal and State student financial aid. Cash provided by capital and related financing activities increased by \$527 thousand due to an increase in PECO funding.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$101 million in capital assets, less accumulated depreciation of \$38.3 million, for net capital assets of \$62.7 million. Depreciation charges for the current fiscal year totaled \$2.5 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)**

| <u>Capital Assets</u> | <u>2013</u> | <u>2012</u> |
|-------------------------------------|-------------------------|-------------------------|
| Land | \$ 2,477 | \$ 2,477 |
| Artwork | 528 | 487 |
| Buildings | 56,923 | 58,795 |
| Other Structures and Improvements | 1,739 | 2,245 |
| Furniture, Machinery, and Equipment | 196 | 178 |
| Data Software, Depreciable | 215 | 142 |
| Data Software, Perpetual Licenses | 579 | 535 |
| Construction in Progress | <u>3</u> | <u>86</u> |
| Capital Assets, Net | <u><u>\$ 62,660</u></u> | <u><u>\$ 64,945</u></u> |

DEBT ADMINISTRATION

As of June 30, 2013, the long-term liabilities consisted of accrued liabilities for compensated absences payable and other postemployment benefits payable. Otherwise, the College had no long-term debt at fiscal year-end. Additional information about the College's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The 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 modest increase in State funding is anticipated for the 2013-14 fiscal year. In the 2013-14 fiscal year legislative appropriations, the College received a \$0.6 million, or 4 percent, increase from recurring State general revenue and lottery funding. In an effort to hold down the cost of tuition to the students, the Board of Trustees elected to maintain the same tuition rate charged for the 2012-13 fiscal year in the 2013-14 fiscal year. The College's current operational and capital plans indicate the infusion of additional financial resources from the increase in State appropriations will be adequate to maintain its present level of services.

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 Anita Kovacs, CPA, Controller, South Florida State College, 600 W College Drive, Avon Park, FL 33825.

BASIC FINANCIAL STATEMENTS

**SOUTH FLORIDA 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 | \$ 5,084,221 | \$ 876,031 |
| Restricted Cash and Cash Equivalents | 493,375 | |
| Investments | | 3,335,414 |
| Accounts Receivable, Net | 259,596 | 14,051 |
| Due from Other Governmental Agencies | 3,931,080 | |
| Due from Component Unit | 98,283 | |
| Inventories | 46,833 | |
| Prepaid Expenses | 268,160 | 16,470 |
| Total Current Assets | 10,181,548 | 4,241,966 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | 3,108,369 | 1,028,723 |
| Restricted Investments | | 4,243,708 |
| Depreciable Capital Assets, Net | 59,073,187 | 946,076 |
| Nondepreciable Capital Assets | 3,586,779 | 317,720 |
| Total Noncurrent Assets | 65,768,335 | 6,536,227 |
| TOTAL ASSETS | 75,949,883 | 10,778,193 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 345,469 | 138,071 |
| Salary and Payroll Taxes Payable | 683,152 | |
| Unearned Revenue | 250,858 | 275 |
| Deposits Held for Others | 207,509 | 5,400 |
| Long-Term Liabilities - Current Portion: | | |
| Compensated Absences Payable | 225,431 | |
| Total Current Liabilities | 1,712,419 | 143,746 |
| Noncurrent Liabilities: | | |
| Compensated Absences Payable | 2,134,397 | |
| Other Postemployment Benefits Payable | 215,890 | |
| Total Noncurrent Liabilities | 2,350,287 | |
| TOTAL LIABILITIES | 4,062,706 | 143,746 |

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

| | College | Component Unit |
|------------------------------|----------------------|---------------------------|
| NET POSITION | | |
| Investment in Capital Assets | \$ 62,659,966 | \$ 1,263,796 |
| Restricted: | | |
| Nonexpendable: | | |
| Endowment | | 5,021,548 |
| Expendable: | | |
| Grants and Loans | 110,603 | |
| Scholarships | 154,282 | 3,819,581 |
| Capital Projects | 7,140,446 | |
| Unrestricted | 1,821,880 | 529,522 |
| TOTAL NET POSITION | \$ 71,887,177 | \$ 10,634,447 |

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

SOUTH FLORIDA 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

| | <u>College</u> | <u>Component Unit</u> |
|--|----------------------|---------------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net of Scholarship Allowances of \$3,355,640 | \$ 1,947,052 | \$ |
| Federal Grants and Contracts | 274,813 | |
| State and Local Grants and Contracts | 367 | |
| Nongovernmental Grants and Contracts | 16,097 | |
| Sales and Services of Educational Departments | 494,116 | |
| Auxiliary Enterprises | 1,232,278 | |
| Other Operating Revenues | 98,917 | 236,201 |
| Total Operating Revenues | <u>4,063,640</u> | <u>236,201</u> |
| EXPENSES | | |
| Operating Expenses: | | |
| Personnel Services | 17,763,229 | |
| Scholarships and Waivers | 2,704,692 | 679,402 |
| Utilities and Communications | 1,521,176 | |
| Contractual Services | 1,323,547 | |
| Other Services and Expenses | 2,949,067 | 416,670 |
| Materials and Supplies | 1,858,692 | 182,913 |
| Depreciation | 2,524,307 | 71,835 |
| Total Operating Expenses | <u>30,644,710</u> | <u>1,350,820</u> |
| Operating Loss | <u>(26,581,070)</u> | <u>(1,114,619)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State Noncapital Appropriations | 15,322,323 | |
| Federal and State Student Financial Aid | 5,756,704 | |
| Gifts and Grants | 1,886,383 | 1,241,137 |
| Investment Income | 21,964 | 740,362 |
| Other Nonoperating Revenues | 7,401 | 63 |
| Loss on Disposal of Capital Assets | (114) | |
| Other Nonoperating Expenses | (1,091) | |
| Net Nonoperating Revenues | <u>22,993,570</u> | <u>1,981,562</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | <u>(3,587,500)</u> | <u>866,943</u> |
| State Capital Appropriations | 3,327,102 | |
| Capital Grants, Contracts, Gifts, and Fees | 381,351 | |
| Total Other Revenues | <u>3,708,453</u> | |
| Increase in Net Position | 120,953 | 866,943 |
| Net Position, Beginning of Year | 71,766,224 | 9,767,504 |
| Net Position, End of Year | <u>\$ 71,887,177</u> | <u>\$ 10,634,447</u> |

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

SOUTH FLORIDA 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 | \$ 1,941,025 |
| Grants and Contracts | 334,816 |
| Payments to Suppliers | (6,145,056) |
| Payments for Utilities and Communications | (1,521,176) |
| Payments to Employees | (14,421,360) |
| Payments for Employee Benefits | (3,357,847) |
| Payments for Scholarships | (2,704,692) |
| Auxiliary Enterprises | 1,210,827 |
| Sales and Service of Educational Departments | 494,116 |
| Other Receipts | 292,215 |
| Net Cash Used by Operating Activities | (23,877,132) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State Noncapital Appropriations | 15,322,323 |
| Federal and State Student Financial Aid | 5,756,704 |
| Gifts and Grants Received for Other Than Capital or Endowment Purposes | 1,886,383 |
| Federal Direct Loan Program Receipts | 738,451 |
| Federal Direct Loan Program Disbursements | (738,451) |
| Other Nonoperating Disbursements | (16,213) |
| Net Cash Provided by Noncapital Financing Activities | 22,949,197 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| State Capital Appropriations | 1,027,930 |
| Capital Grants and Gifts | 340,852 |
| Proceeds from Sale of Capital Assets | 7,401 |
| Purchases of Capital Assets | (198,935) |
| Net Cash Provided by Capital and Related Financing Activities | 1,177,248 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment Income | 21,964 |
| Net Cash Provided by Investing Activities | 21,964 |
| Net Increase in Cash and Cash Equivalents | 271,277 |
| Cash and Cash Equivalents, Beginning of Year | 8,414,688 |
| Cash and Cash Equivalents, End of Year | \$ 8,685,965 |

**SOUTH FLORIDA 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 | \$ (26,581,070) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 2,524,307 |
| Changes in Assets and Liabilities: | |
| Receivables | 26,342 |
| Inventories | (13,749) |
| Prepaid Expenses | (15,254) |
| Accounts Payable | 208,552 |
| Salary and Payroll Taxes Payable | (13,103) |
| Unearned Revenue | (10,282) |
| Compensated Absences Payable | (55,163) |
| Other Postemployment Benefits Payable | 52,288 |
| | \$ (23,877,132) |

**SUPPLEMENTAL DISCLOSURE OF NONCASH
CAPITAL FINANCING ACTIVITIES**

Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ (114)

Donation of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows. \$ 40,500

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

**SOUTH FLORIDA 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 South Florida 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 eight 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 DeSoto, Hardee, and Highlands 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 South Florida State College Foundation, Inc. (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.

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

¹ On September 28, 2011, the College's Board of Trustees approved the name change from South Florida Community College to South Florida State College effective July 1, 2012, pursuant to Section 1001.60(2)(b), Florida Statutes.

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

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

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net 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 FASB standards of accounting and financial reporting for not-for-profit organizations.

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.

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 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

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

charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against tuition and fees.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash placed with the State 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 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 purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2013, the College reported as cash equivalents \$7,225,201 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 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; artwork; data software; construction in progress; 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 \$65,000 for other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Data Software – 5 years
- Other Structures and Improvements

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

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

Land, buildings, and equipment of the College’s component unit are stated at cost except for donated property which is stated at fair market value at the date of the donation, and is net of accumulated depreciation of \$862,088. The College’s component unit depreciates buildings and equipment using the straight-line method.

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

2. DEFICIT NET POSITION IN INDIVIDUAL FUNDS

The College reported an unrestricted net position which included a deficit in the current funds – unrestricted net position, as shown below.

| Fund | Net Position |
|------------------------------|---------------------|
| Current Funds - Unrestricted | \$ (176,766) |
| Auxiliary Funds | 1,998,646 |
| Total | \$ 1,821,880 |

3. INVESTMENTS

Investments held by the College’s component unit (Foundation) totaled \$7,579,122 at December 31, 2012. The investments are reported at fair value and consist of equity investments, money market funds, United States government securities, corporate bonds, common stocks, real estate, cash value of life insurance policies, and mutual funds.

4. ACCOUNTS RECEIVABLE

Accounts receivable of \$259,596 represent amounts for student fee deferments, various student services provided by the College, uncollected vending machine commissions, unused credit memos, and grant reimbursements due from third parties. These receivables are expected to be collected in full.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$3,773,515 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

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

6. DUE FROM COMPONENT UNIT

The College reported a due from component unit of \$98,283, which represents expenses made by the College that will be reimbursed by the Foundation. The College's financial statements are reported for the fiscal year ended June 30, 2013. The component unit's financial statements are reported for the fiscal year ended December 31, 2012. Accordingly, although the College reported an amount due from the component unit on the statement of net position, the component unit did not report an amount due to the College.

7. INVENTORIES

Inventories consist of items for resale by the Hotel Jacaranda, the Cafeteria, the Museum of Florida Art and Culture store, and the purchasing department, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

8. CAPITAL ASSETS

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

| Description | Beginning Balance | Additions | Reductions | Ending Balance |
|--|----------------------|-----------------------|------------------|----------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 2,477,518 | \$ | \$ | \$ 2,477,518 |
| Artwork | 486,853 | 40,500 | | 527,353 |
| Data Software, Perpetual Licenses | 535,029 | 44,000 | | 579,029 |
| Construction in Progress | 85,882 | 2,880 | 85,883 | 2,879 |
| Total Nondepreciable Capital Assets | \$ 3,585,282 | \$ 87,380 | \$ 85,883 | \$ 3,586,779 |
| Depreciable Capital Assets: | | | | |
| Buildings | \$ 81,103,844 | \$ | \$ | \$ 81,103,844 |
| Other Structures and Improvements | 12,821,393 | | | 12,821,393 |
| Furniture, Machinery, and Equipment | 2,701,756 | 118,035 | 141,771 | 2,678,020 |
| Data Software, Depreciable | 683,989 | 119,903 | | 803,892 |
| Total Depreciable Capital Assets | 97,310,982 | 237,938 | 141,771 | 97,407,149 |
| Less, Accumulated Depreciation: | | | | |
| Buildings | 22,309,752 | 1,871,327 | | 24,181,079 |
| Other Structures and Improvements | 10,575,896 | 506,429 | | 11,082,325 |
| Furniture, Machinery, and Equipment | 2,523,904 | 99,761 | 141,657 | 2,482,008 |
| Data Software, Depreciable | 541,760 | 46,790 | | 588,550 |
| Total Accumulated Depreciation | 35,951,312 | 2,524,307 | 141,657 | 38,333,962 |
| Total Depreciable Capital Assets, Net | \$ 61,359,670 | \$ (2,286,369) | \$ 114 | \$ 59,073,187 |

9. ART COLLECTIONS

In addition to the Museum of Florida Art and Culture (MOFAC) collection, which is capitalized and not depreciated, the College has the McDearman collection that it does not capitalize. The MOFAC collection adheres to the College's policy to: (a) maintain them for public exhibition, education, or research; (b) protect, keep

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

unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit noncapitalized collections like the McDearman collection to be charged to operations at the time of purchase rather than capitalized.

10. UNEARNED REVENUE

Unearned revenue includes prepayments of cultural program sales and donations as well as grant moneys for which expenses have yet to be incurred. As of June 30, 2013, the College reported the following amounts as unearned revenues:

| <u>Description</u> | <u>Amount</u> |
|--|-------------------|
| Cultural Program - Advance Sales and Donations | \$ 226,477 |
| Grant Related | 15,029 |
| Other | 9,352 |
| Total Unearned Revenue | \$ 250,858 |

11. LONG-TERM LIABILITIES

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

| <u>Description</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|---------------------------------------|--------------------------|-------------------|-------------------|-----------------------|------------------------|
| Compensated Absences Payable | \$ 2,414,991 | \$ 170,268 | \$ 225,431 | \$ 2,359,828 | \$ 225,431 |
| Other Postemployment Benefits Payable | 163,602 | 84,369 | 32,081 | 215,890 | |
| Total Long-Term Liabilities | \$ 2,578,593 | \$ 254,637 | \$ 257,512 | \$ 2,575,718 | \$ 225,431 |

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 absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$2,359,828. The current portion of the compensated absences liability, \$225,431, 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).

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

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit 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 issue 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 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 2012-13 fiscal year, 23 retirees received other postemployment healthcare benefits, and 28 retirees received postemployment life insurance benefits. The College provided required contributions of \$32,081 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 \$146,306, 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:

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

| Description | Amount |
|---|-------------------|
| Normal Cost (Service Cost for One Year) | \$ 57,908 |
| Amortization of Unfunded Actuarial Accrued Liability | 20,996 |
| Interest on Normal Cost and Amortization | 4,374 |
| Annual Required Contribution | 83,278 |
| Interest on Net OPEB Obligation | 6,544 |
| Adjustment to Annual Required Contribution | (5,453) |
| Annual OPEB Cost (Expense) | 84,369 |
| Contribution Toward the OPEB Cost | (32,081) |
| Increase in Net OPEB Obligation | 52,288 |
| Net OPEB Obligation, Beginning of Year | 163,602 |
| Net OPEB Obligation, End of Year | \$ 215,890 |

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:

| Fiscal Year | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------|---------------------|---|------------------------|
| 2010-11 | \$ 58,891 | 61.9% | \$ 107,196 |
| 2011-12 | 79,619 | 29.2% | 163,602 |
| 2012-13 | 84,369 | 38.0% | 215,890 |

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$629,875 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$629,875 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$12,708,104 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 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

**SOUTH FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
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 to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy plus inflation. 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 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years for pre-Medicare and 5 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, 2013, was 24 years.

12. 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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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 \$1,082,997, \$758,104, and \$820,798 respectively, which were equal to the required contributions for each fiscal year.

There were 70 College participants in the Investment Plan during the 2012-13 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$176,196, 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.

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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 seven College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled \$24,028 and employee contributions totaled \$12,509 for the 2012-13 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 6.30 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 was one College participant during the 2012-13 fiscal year. The College's contributions to the Annuity Program totaled \$6,934 and employee contributions totaled \$3,302 for the 2012-13 fiscal year.

13. RISK MANAGEMENT PROGRAMS

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

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

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 health and hospitalization, life, 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.

Board member bonds, coverage for the trucks and trailers used in the truck-driving classes offered by the College, and bonds for employees who are notaries are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net 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 | \$ 7,926,371 |
| Academic Support | 2,644,148 |
| Student Services | 3,388,108 |
| Institutional Support | 4,652,484 |
| Operation and Maintenance of Plant | 5,517,010 |
| Scholarships and Waivers | 2,704,692 |
| Depreciation | 2,524,307 |
| Auxiliary Enterprises | 1,287,590 |
| Total Operating Expenses | \$ 30,644,710 |

**SOUTH FLORIDA 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 | \$ | \$ 537,140 | \$ 537,140 | 0% | \$ 12,037,972 | 4.5% |
| 7/1/2009 | | 498,262 | 498,262 | 0% | 11,899,341 | 4.2% |
| 7/1/2011 | | 629,875 | 629,875 | 0% | 12,829,820 | 4.9% |

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

**SOUTH FLORIDA 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 \$629,875 was significantly higher than the July 1, 2009, liability of \$498,262 as a result of the following factors:

- 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.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 South Florida 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 28, 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, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to College management in our operational audit report No. 2014-010.

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 28, 2013