

LAKE-SUMTER COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2012



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 2011-12 fiscal year are listed below:

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Jon A. Simpson to 12-07-11 (1)	Sumter
Vacancy (2)	Sumter

Dr. Charles R. Mojock, President

- Notes: (1) Board member served beyond the end of term, May 31, 2011.
 (2) Position remained vacant from July 1, 2011, through June 30, 2012.

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) 922-2263.

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

**LAKE-SUMTER COMMUNITY 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 Community College and its officers with administrative and stewardship responsibilities for College operations had:

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

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

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2013-041.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Lake-Sumter Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

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

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

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

Respectfully submitted,



David W. Martin, CPA
February 18, 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS

The management’s discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2012, and June 30, 2011, and its component unit, the Lake-Sumter Community College Foundation, Inc., for the fiscal years ended December 31, 2011, and December 31, 2010.

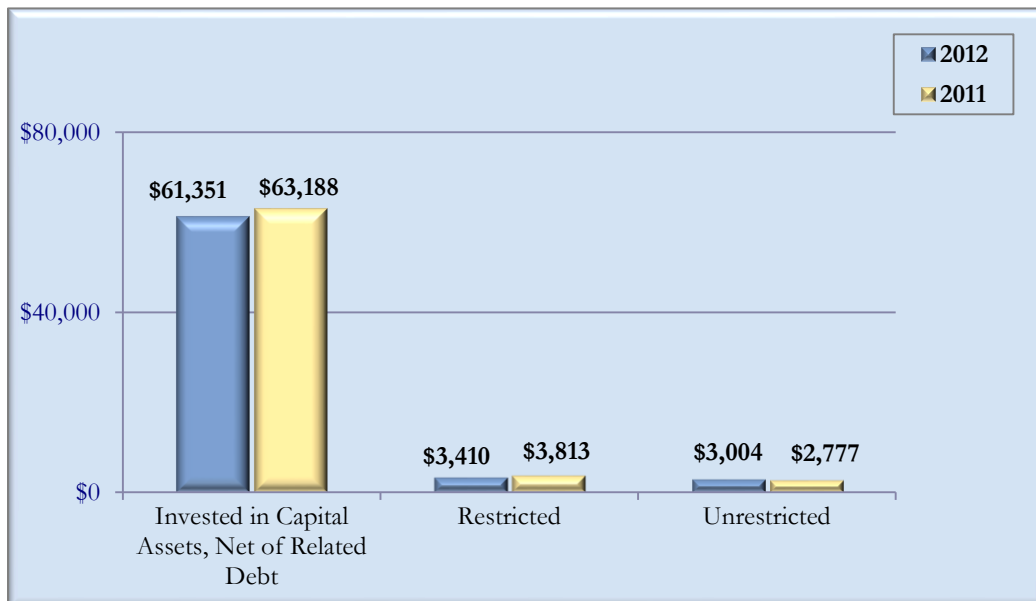
FINANCIAL HIGHLIGHTS

The College’s assets totaled \$71.8 million at June 30, 2012. This balance reflects a \$2.6 million, or 3.5 percent, decrease as compared to the 2010-11 fiscal year, resulting from a reduction in the amount due from other governmental agencies and a reduction in depreciable capital assets. Liabilities decreased by \$0.6 million, or 12.7 percent, totaling \$4 million at June 30, 2012, as compared to \$4.6 million at June 30, 2011. As a result, the College’s net assets decreased by \$2 million, resulting in a year-end balance of \$67.8 million.

The College’s operating revenues totaled \$7.3 million for the 2011-12 fiscal year, representing a 10.2 percent increase as compared to the 2010-11 fiscal year due mainly to an increase in student tuition and fees. Operating expenses totaled \$29.5 million for the 2011-12 fiscal year, representing a decrease of 1.2 percent as compared to the 2010-11 fiscal year due mainly to a reduction in other services and expenses.

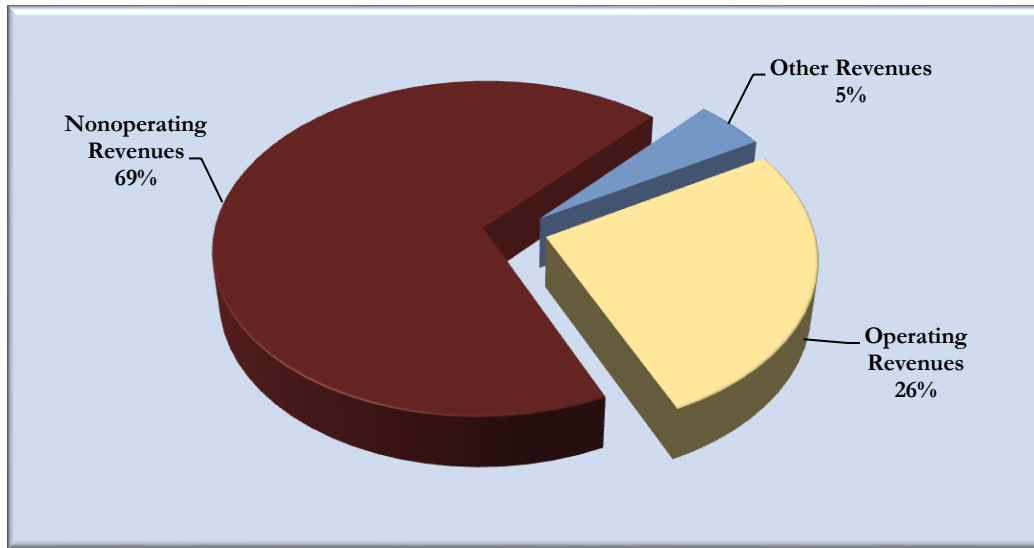
Net assets represent the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

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



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

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

- Lake-Sumter Community 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 Community College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

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

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

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

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

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

	Condensed Statement of Net Assets at (In Thousands)			
	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Assets				
Current Assets	\$ 7,052	\$ 7,778	\$ 7,615	\$ 7,226
Capital Assets, Net	61,616	63,483		
Other Noncurrent Assets	3,110	3,116	5,034	4,751
Total Assets	<u>71,778</u>	<u>74,377</u>	<u>12,649</u>	<u>11,977</u>
Liabilities				
Current Liabilities	2,002	2,628	92	37
Noncurrent Liabilities	2,011	1,971	601	620
Total Liabilities	<u>4,013</u>	<u>4,599</u>	<u>693</u>	<u>657</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	61,351	63,188		
Restricted	3,410	3,813	11,273	10,712
Unrestricted	3,004	2,777	683	608
Total Net Assets	<u>\$ 67,765</u>	<u>\$ 69,778</u>	<u>\$ 11,956</u>	<u>\$ 11,320</u>
Increase (Decrease) in Net Assets	<u>\$ (2,013)</u>	-2.9%	<u>\$ 636</u>	5.6%

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

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

	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 5,790	\$ 4,998	\$	\$
Federal Grants and Contracts	78	65		
State and Local Grants and Contracts	361	534		
Nongovernmental Grants and Contracts	747	628		
Sales and Services of Educational Departments	26	35		
Auxiliary Enterprises	208	219		
Other Operating Revenues	61	120	1,926	1,173
Total Operating Revenues	7,271	6,599	1,926	1,173
Less, Operating Expenses	29,492	29,841	1,380	2,714
Operating Income (Loss)	(22,221)	(23,242)	546	(1,541)
Nonoperating Revenues				
State Noncapital Appropriations	11,030	10,811		
Other Nonoperating Revenues	7,862	8,600	103	1,053
Net Nonoperating Revenues	18,892	19,411	103	1,053
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,329)	(3,831)	649	(488)
State Capital Appropriations	468	950		
Capital Grants, Contracts, Gifts, and Fees	848	747		
Increase (Decrease) in Net Assets	(2,013)	(2,134)	649	(488)
Net Assets, Beginning of Year	69,778	71,912	11,320	11,808
Adjustment to Beginning Net Assets (1)			(13)	
Net Assets, Beginning of Year, as Restated	69,778	71,912	11,307	11,808
Net Assets, End of Year	\$ 67,765	\$ 69,778	\$ 11,956	\$ 11,320

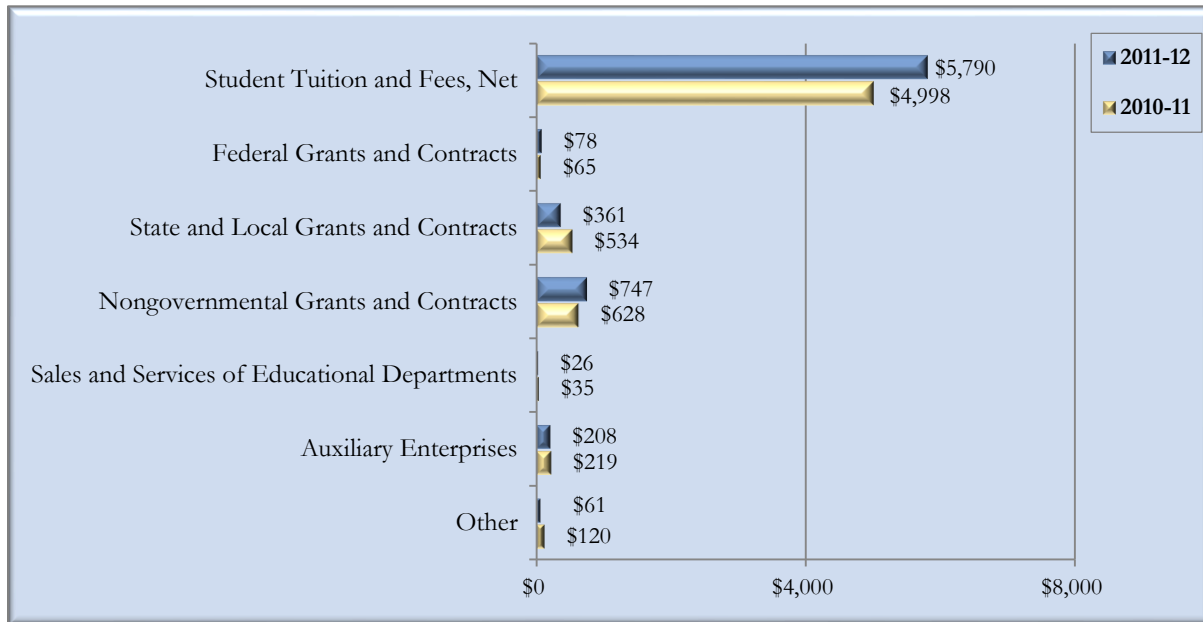
Note: (1) Prior period adjustment reflects a change to account for funds that were held for others and an overstatement of the prior ending balances. See additional explanation in note No. 2 to financial statements.

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

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



College operating revenue changes were the result of the following factors: student tuition and fees net of scholarship allowances increased due to the \$0.4 million decrease in the scholarship allowance and a student tuition rate increase of 8.6 percent from the previous year. Based on these two factors, net tuition revenues increased \$0.8 million, or 15.8 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 assets and has displayed the functional classification in the notes to financial statements.

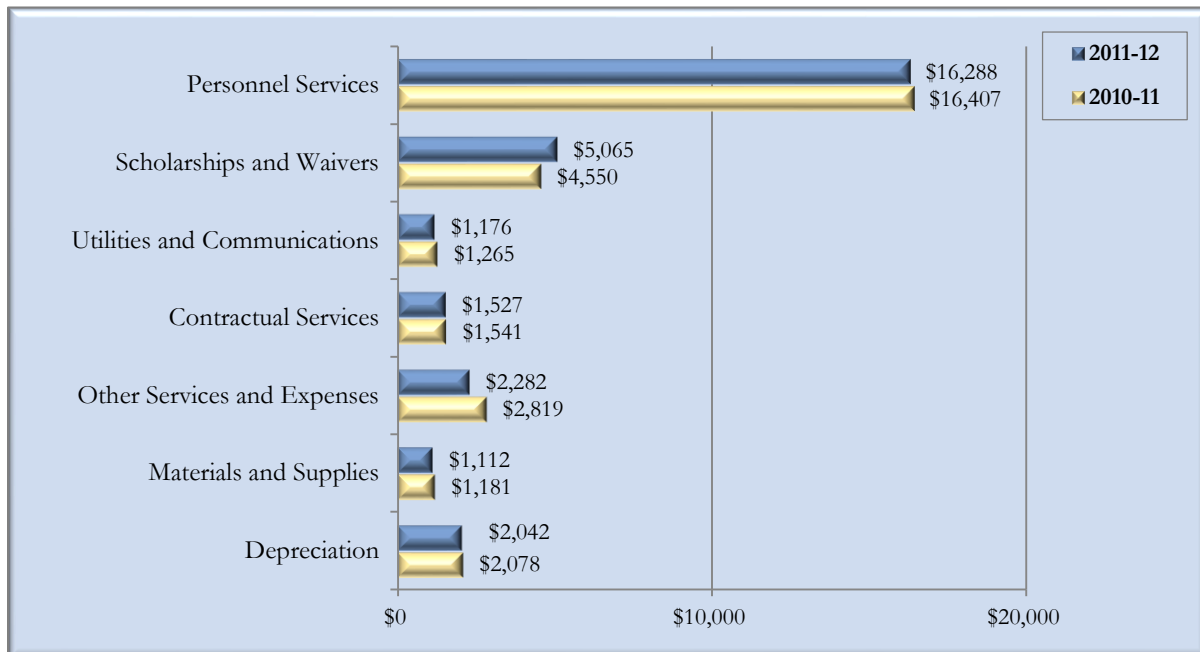
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

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

	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Expenses				
Personnel Services	\$ 16,288	\$ 16,407	\$ 265	\$ 216
Scholarships and Waivers	5,065	4,550	1,043	1,336
Utilities and Communications	1,176	1,265		
Contractual Services	1,527	1,541		
Other Services and Expenses	2,282	2,819	72	1,162
Materials and Supplies	1,112	1,181		
Depreciation	2,042	2,078		
Total Operating Expenses	\$ 29,492	\$ 29,841	\$ 1,380	\$ 2,714

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

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



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

- Scholarships and waivers increased by 11.3 percent due to the increase in Federal student financial aid awarded.
- Utilities and Communications decreased 7 percent due mainly to a decrease in overall electric usage.
- Other services and expenses decreased by 19 percent due primarily to the decrease in repairs and maintenance for buildings and grounds and the decrease in property insurance cost.

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 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Noncapital Appropriations	\$ 11,030	\$ 10,811
Federal and State Student Financial Aid	6,993	6,750
Gifts and Grants	860	2,102
Investment Income	59	54
Interest on Capital Asset-Related Debt	(15)	(17)
Other Nonoperating Expenses	<u>(35)</u>	<u>(289)</u>
Net Nonoperating Revenues	<u>\$ 18,892</u>	<u>\$ 19,411</u>

Other Revenues, Expenses, Gains, or Losses

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

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

	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 468	\$ 950
Capital Grants, Contracts, Gifts, and Fees	<u>848</u>	<u>747</u>
Total	<u>\$ 1,316</u>	<u>\$ 1,697</u>

The decrease of \$0.5 million in State Capital Appropriations was mainly due to the College receiving less in Public Education Capital Outlay appropriations.

THE STATEMENT OF CASH FLOWS

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

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

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

Condensed Statement of Cash Flows: College
(In Thousands)

	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (20,048)	\$ (20,775)
Noncapital Financing Activities	18,923	18,811
Capital and Related Financing Activities	1,087	2,732
Investing Activities	<u>59</u>	<u>54</u>
Net Increase in Cash and Cash Equivalents	21	822
Cash and Cash Equivalents, Beginning of Year	<u>9,232</u>	<u>8,410</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,253</u></u>	<u><u>\$ 9,232</u></u>

Major sources of funds came from State noncapital appropriations (\$11 million), Federal and State student financial aid (\$7.7 million), and net student tuition and fees (\$5.7 million).

Major uses of funds were for payments to employees and payments for employee benefits (\$16.1 million), payments for scholarships (\$5 million), and payments to suppliers (\$4.8 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$86 million in capital assets, less accumulated depreciation of \$24.4 million, for net capital assets of \$61.6 million. Depreciation charges for the current fiscal year totaled \$2 million.

The following table summarizes the College's capital assets at June 30:

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

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 6,515	\$ 6,515
Construction in Progress		35
Works of Art	12	12
Buildings	70,717	70,716
Other Structures and Improvements	4,644	4,639
Furniture, Machinery, and Equipment	<u>4,165</u>	<u>3,996</u>
Total	<u>86,053</u>	<u>85,913</u>
Less, Accumulated Depreciation:		
Buildings	17,100	15,496
Other Structures and Improvements	3,743	3,588
Furniture, Machinery, and Equipment	<u>3,594</u>	<u>3,346</u>
Total Accumulated Depreciation	<u>24,437</u>	<u>22,430</u>
Capital Assets, Net	<u><u>\$ 61,616</u></u>	<u><u>\$ 63,483</u></u>

The College had no major construction contract commitments at June 30, 2012. 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 the financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$0.3 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2012, and June 30, 2011:

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

	2012	2011
SBE Capital Outlay Bonds	\$ 265	\$ 295
Loan Payable	68	120
Total	\$ 333	\$ 415

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Lake-Sumter Community College’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2012-13 fiscal year. In response to the anticipated small increase in State appropriations, the Board of Trustees increased the tuition rate 4.8 percent to take effect beginning with the Fall 2012 term. The College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Richard M. Scott, Vice President for Business Affairs, Lake-Sumter Community College, 9501 U.S. Highway 441, Leesburg, Florida 34788-8751.

BASIC FINANCIAL STATEMENTS

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2012**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 5,903,717	\$ 3,108,039
Restricted Cash and Cash Equivalents	238,741	
Investments		4,504,518
Accounts Receivable, Net	205,317	1,249
Due from Other Governmental Agencies	385,611	
Due from Component Unit	35,710	
Inventories	58,497	
Prepaid Expenses	224,365	983
Total Current Assets	7,051,958	7,614,789
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,110,208	
Restricted Investments		4,104,027
Depreciable Capital Assets, Net	55,089,325	
Nondepreciable Capital Assets	6,526,943	
Other Noncurrent Assets		930,543
Total Noncurrent Assets	64,726,476	5,034,570
TOTAL ASSETS	\$ 71,778,434	\$ 12,649,359
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 459,364	\$ 1,735
Salary and Payroll Taxes Payable	655,622	
Due to Other Governmental Agencies	185,164	
Due to Component Unit/College	196,570	53,632
Deferred Revenue	142,748	
Deposits Held for Others	104,286	15,873
Long-Term Liabilities - Current Portion:		
Bonds Payable	30,000	
Loan Payable	51,456	20,521
Compensated Absences Payable	176,340	
Total Current Liabilities	2,001,550	91,761
Noncurrent Liabilities:		
Bonds Payable	235,000	
Loan Payable	16,744	601,146
Compensated Absences Payable	1,651,690	
Other Postemployment Benefits Payable	108,022	
Total Noncurrent Liabilities	2,011,456	601,146
TOTAL LIABILITIES	4,013,006	692,907

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012**

	<u>College</u>	<u>Component Unit</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 61,351,268	\$
Restricted:		
Nonexpendable:		
Endowment		4,104,027
Expendable:		
Grants and Loans	213,563	
Scholarships and Programs	121,815	5,933,018
Capital Projects	3,074,253	1,236,004
Unrestricted	<u>3,004,529</u>	<u>683,403</u>
Total Net Assets	<u>67,765,428</u>	<u>11,956,452</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 71,778,434</u>	<u>\$ 12,649,359</u>

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

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

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$2,824,361	\$ 5,789,892	\$
Federal Grants and Contracts	77,979	
State and Local Grants and Contracts	360,448	
Nongovernmental Grants and Contracts	747,213	
Sales and Services of Educational Departments	26,122	
Auxiliary Enterprises	208,206	
Other Operating Revenues	61,063	1,926,562
Total Operating Revenues	7,270,923	1,926,562
EXPENSES		
Operating Expenses:		
Personnel Services	16,287,814	264,649
Scholarships and Waivers	5,065,065	1,043,309
Utilities and Communications	1,176,283	
Contractual Services	1,526,415	
Other Services and Expenses	2,282,230	72,387
Materials and Supplies	1,111,910	
Depreciation	2,042,062	
Total Operating Expenses	29,491,779	1,380,345
Operating Income (Loss)	(22,220,856)	546,217
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	11,030,285	
Federal and State Student Financial Aid	6,992,677	
Gifts and Grants	859,946	
Investment Income	59,272	233,001
Net Realized and Unrealized Gains on Investments		(130,471)
Interest on Capital Asset-Related Debt	(15,006)	
Other Nonoperating Expenses	(35,507)	
Net Nonoperating Revenues	18,891,667	102,530
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(3,329,189)	648,747
State Capital Appropriations	468,368	
Capital Grants, Contracts, Gifts, and Fees	848,239	
Total Other Revenues	1,316,607	
Increase (Decrease) in Net Assets	(2,012,582)	648,747
Net Assets, Beginning of Year	69,778,010	11,320,268
Adjustment to Beginning Net Assets		(12,563)
Net Assets, Beginning of Year, as Restated	69,778,010	11,307,705
Net Assets, End of Year	\$ 67,765,428	\$ 11,956,452

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

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

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 5,735,868
Grants and Contracts	1,339,058
Payments to Suppliers	(4,810,270)
Payments for Utilities and Communications	(1,176,283)
Payments to Employees	(12,858,929)
Payments for Employee Benefits	(3,208,539)
Payments for Scholarships	(5,046,599)
Auxiliary Enterprises	198,703
Sales and Service of Educational Departments	26,122
Other Disbursements	(247,603)
Net Cash Used by Operating Activities	(20,048,472)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	11,030,285
Federal and State Student Financial Aid	7,682,526
Gifts and Grants Received for Other Than Capital or Endowment Purposes	859,946
Direct Loan Program Receipts	945,265
Direct Loan Program Disbursements	(1,035,512)
Other Nonoperating Disbursements	(559,302)
Net Cash Provided by Noncapital Financing Activities	18,923,208
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	668,368
Capital Grants and Gifts	848,239
Purchases of Capital Assets	(333,437)
Principal Paid on Capital Debt	(81,457)
Interest Paid on Capital Debt	(15,006)
Net Cash Provided by Capital and Related Financing Activities	1,086,707
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	59,272
Net Cash Provided by Investing Activities	59,272
Net Increase in Cash and Cash Equivalents	20,715
Cash and Cash Equivalents, Beginning of Year	9,231,951
Cash and Cash Equivalents, End of Year	\$ 9,252,666

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (22,220,856)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,042,062
Changes in Assets and Liabilities:	
Receivables, Net	51,487
Inventories	4,121
Prepaid Expenses	(122,781)
Accounts Payable	(27,858)
Salary and Payroll Taxes Payable	93,546
Deferred Revenue	10,138
Deposits Held for Others	(5,131)
Compensated Absences Payable	88,303
Other Postemployment Benefits Payable	38,497
NET CASH USED BY OPERATING ACTIVITIES	\$ (20,048,472)

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

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Lake-Sumter Community 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 or incomplete. Based upon the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

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

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

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers property, and makes expenditures to or for the benefit of the College.

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, to be effective for the 2012-13 fiscal year.

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

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

The College's component unit uses the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

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

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services,

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College calculated its scholarship allowance by identifying within student accounts receivable system amounts paid by student aid for tuition and books. 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, 2012, the College reported as cash equivalents at fair value \$1,557,188 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2012, the College reported as cash equivalents \$40,376 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

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

external investment pool, as of June 30, 2012, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 38 days as of June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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, loan 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

Temporarily restricted net assets of the Foundation were adjusted to account for \$12,563 in funds that were held for others and an overstatement of the prior 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, 2011, are reported at fair value as follows:

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

Investment Type	Fair Value	Maturities in Years	
		1 - 5	6 - 10
Investment in Debt Obligations:			
United States Government Obligations	\$1,041,072	\$ 682,101	\$ 358,971
Federal Agency Obligations	94,112		94,112
Certificates of Deposit	100,000	100,000	
Corporate Bonds	2,066,285	1,641,078	425,207
Total Investment in Debt Obligations	3,301,469	\$ 2,423,179	\$ 878,290
Other Investments:			
Equities	5,307,076		
Total Component Unit Investments	\$ 8,608,545		

The following risks apply to the Foundation’s investments 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 Investors 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, 2011, 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 a 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 name of the Foundation, 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 COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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 \$118,505 allowance for doubtful accounts.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount consists of \$385,611 of grant allocations due from various Federal and state grants.

6. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The \$35,710 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid and program support. The \$196,570 reported as due to component unit primarily consists of amounts owed by the College to the Foundation for unused program support. The College's financial statements are reported for the fiscal year ended June 30, 2012. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2011. Accordingly, amounts reported by the College as due from and to component unit on the statement of net assets do not agree with amounts reported by the component unit as due from and to the College.

7. CAPITAL ASSETS

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

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 6,514,755	\$	\$	\$ 6,514,755
Construction in Progress	35,508		35,508	
Works of Art	12,188			12,188
Total Nondepreciable Capital Assets	\$ 6,562,451	\$	\$ 35,508	\$ 6,526,943
Depreciable Capital Assets:				
Buildings	\$ 70,716,509	\$	\$	\$ 70,716,509
Other Structures and Improvements	4,638,846	5,598		4,644,444
Furniture, Machinery, and Equipment	3,995,699	227,739	58,510	4,164,928
Total Depreciable Capital Assets	79,351,054	233,337	58,510	79,525,881
Less, Accumulated Depreciation:				
Buildings	15,495,834	1,604,498		17,100,332
Other Structures and Improvements	3,588,448	154,340		3,742,788
Furniture, Machinery, and Equipment	3,345,956	283,224	35,744	3,593,436
Total Accumulated Depreciation	22,430,238	2,042,062	35,744	24,436,556
Total Depreciable Capital Assets, Net	\$ 56,920,816	\$ (1,808,725)	\$ 22,766	\$ 55,089,325

8. DEFERRED REVENUE

Deferred revenue consists of \$142,748 student tuition and fees received prior to fiscal year-end related to subsequent accounting periods.

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, include bonds payable, loan payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 295,000	\$	\$ 30,000	\$ 265,000	\$ 30,000
Loan Payable	119,657		51,457	68,200	51,456
Compensated Absences Payable	1,739,727	314,588	226,285	1,828,030	176,340
Other Postemployment Benefits Payable	69,525	46,743	8,246	108,022	
Total Long-Term Liabilities	\$ 2,223,909	\$ 361,331	\$ 315,988	\$ 2,269,252	\$ 257,796

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

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

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2005B	\$ 265,000	5.0	2020

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

Fiscal Year Ending June 30	State Board of Education Principal	Capital Outlay Bonds Interest	Total
2013	\$ 30,000	\$ 13,250	\$ 43,250
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
2018-2020	80,000	6,750	86,750
Total	\$ 265,000	\$ 55,750	\$ 320,750

Loan Payable. The College borrowed \$514,561 from the City of Leesburg on July 15, 2003, to finance an Energy Savings Program. Interest rate is variable and adjustable monthly on the first day of each calendar month, equal to the rate set by the Florida State Board of Administration. The note matures on July 15, 2013. The College is to repay the note in monthly installments of \$4,288 principal plus interest. Interest payments commenced August 1, 2003, and principal payments commenced November 1, 2003.

Annual requirements to amortize the outstanding loan as of June 30, 2012, are shown below:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 51,456	\$ 274	\$ 51,730
2014	16,744	22	16,766
Total	\$ 68,200	\$ 296	\$ 68,496

Component Unit – Note Payable. As of December 31, 2011, the Foundation had a note payable in the amount of \$621,667, with a 4.25 percent interest rate payable in quarterly installments of \$11,637, 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 June 30	Amount
2012	\$ 20,521
2013	21,407
2014	22,332
2015	557,407
Total	\$ 621,667

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$1,828,030. The current portion of the compensated absences liability, \$176,340, is the amount estimated 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 certain other postemployment healthcare and life insurance 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 has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 37 retirees received other postemployment healthcare benefits, and 24 retirees received postemployment life insurance benefits. The College provided required contributions of \$8,246 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 \$123,572.

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.

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

The following table shows the College’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 34,926
Amortization of Unfunded Actuarial Accrued Liability	<u>11,354</u>
Annual Required Contribution	46,280
Interest on Net OPEB Obligation	2,781
Adjustment to Annual Required Contribution	<u>(2,318)</u>
Annual OPEB Cost (Expense)	46,743
Contribution Toward the OPEB Cost	<u>(8,246)</u>
Increase in Net OPEB Obligation	38,497
Net OPEB Obligation, Beginning of Year	<u>69,525</u>
Net OPEB Obligation, End of Year	<u>\$ 108,022</u>

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 24,187	28.6%	\$ 50,877
2010-11	24,124	22.7%	69,525
2011-12	46,743	17.6%	108,022

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 \$9,336,046 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.6 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.

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Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent 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 payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2012, was 25 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

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participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer 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 2011-12 fiscal year were as follows:

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$655,343, \$761,764, and \$499,421, respectively, which were equal to the required contributions for each fiscal year.

There were 70 College participants in the Investment Plan during the 2011-12 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$206,624, which was equal to the required contribution for the 2011-12 fiscal year.

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

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other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity 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 33 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$133,032 and employee contributions totaled \$53,715 for the 2011-12 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 \$150 million to February 29, 2012, and up to \$90 million from March 1, 2012. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, 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

**LAKE-SUMTER COMMUNITY COLLEGE
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JUNE 30, 2012**

reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 8,112,524
Public Services	43,303
Academic Support	2,692,765
Student Services	3,020,968
Institutional Support	4,684,283
Operation and Maintenance of Plant	3,824,343
Scholarships and Waivers	5,065,065
Depreciation	2,042,062
Auxiliary Enterprises	<u>6,466</u>
Total Operating Expenses	<u>\$ 29,491,779</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 assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

**LAKE-SUMTER COMMUNITY COLLEGE
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JUNE 30, 2012**

Statement of Current Unrestricted Funds Net Assets

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 5,930,819
Accounts Receivable, Net	196,035
Due from Other Governmental Agencies	39,378
Due from Component Unit	1,118
Inventories	58,497
Prepaid Expenses	224,365
	6,450,212
TOTAL ASSETS	\$ 6,450,212

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 393,409
Salary and Payroll Taxes Payable	655,622
Due to Other Governmental Agencies	121,816
Due to Component Unit	196,036
Deferred Revenue	142,748
Compensated Absences Payable	176,340
	1,685,971
Total Current Liabilities	1,685,971
Noncurrent Liabilities:	
Compensated Absences Payable	1,651,690
Other Postemployment Benefits Payable	108,022
	3,445,683
TOTAL LIABILITIES	3,445,683
TOTAL NET ASSETS	3,004,529
TOTAL LIABILITIES AND NET ASSETS	\$ 6,450,212

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship		
Allowances of \$2,824,361	\$	5,194,634
Governmental Grants and Contracts		269,846
Nongovernmental Grants and Contracts		174,988
Sales and Services of Educational Departments		26,122
Auxiliary Enterprises		208,206
Other Operating Revenues		<u>56,363</u>
Total Operating Revenues		<u>5,930,159</u>

EXPENSES

Operating Expenses:

Personnel Services		14,913,552
Utilities and Communications		1,175,865
Contractual Services		1,335,805
Other Services and Expenses		903,000
Materials and Supplies		<u>786,623</u>
Total Operating Expenses		<u>19,114,845</u>
Operating Loss		<u>(13,184,686)</u>

NONOPERATING REVENUES

State Noncapital Appropriations		11,030,285
Investment Income		<u>47,095</u>
Net Nonoperating Revenues		<u>11,077,380</u>

**Loss Before Other Revenues,
Expenses, Gains, or Losses**

Transfers from Other Funds		<u>2,335,355</u>
Increase in Net Assets		228,049
Net Assets, Beginning of Year		<u>2,776,480</u>
Net Assets, End of Year	\$	<u><u>3,004,529</u></u>

**LAKE-SUMTER COMMUNITY 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 COMMUNITY 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 health care costs between ages.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.



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

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

We have audited the financial statements of Lake-Sumter Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2013-041.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 18, 2013