

LAKE-SUMTER COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2008



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2007-08 fiscal year are listed below:

	<u>County</u>
Jon A. Simpson, Chair	Sumter
Margo S. Odom, Vice-Chair from 9-11-07	Lake
Richard Bowersox from 9-11-07	Lake
Dr. Linda K. Cavanaugh to 5-16-08 (1)	Sumter
Richard D. Childers	Sumter
Dr. Kenneth W. Kelly from 9-11-07	Sumter
Timothy Morris	Lake
Joe M. Norman	Lake
William R. Pruitt	Lake
Jacqueline V. Talley to 9-10-07 (2)	Lake
Carole Y. Winter, to 9-10-07, Vice-Chair to 9-10-07 (2)	Sumter

Dr. Charles R. Mojock, President

- Notes: (1) Board member position remained vacant through June 30, 2008.
- (2) Board member continued to serve after term ended until replaced.

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 John E. Rebhann, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Kathy B. Sellers, CISA, and the supervisor was Nancy Reeder, CPA, CISA. 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 audit reports prepared by the Auditor General can be obtained on our Web site www.myflorida.com/audgen; by telephone at (850) 487-9024; 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:

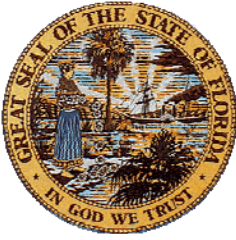
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective actions for findings included in our report No. 2008-164.

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, 2008. 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 financial statements. We also examined various transactions to determine whether they were executed, both in 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. 2009-145.

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, 2008, which collectively comprise the College's basic financial statements as shown on pages 12 through 33. These financial statements are the responsibility of the College's 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 on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based solely upon 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, 2008, 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.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 11 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
March 11, 2009

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, 2008, 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's component unit, Lake-Sumter Community College Foundation, Inc., for the fiscal years ended December 31, 2006, and December 31, 2007.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$68.6 million at June 30, 2008. This balance reflects a \$2.1 million, or 3.1 percent, increase from the 2006-07 fiscal year, resulting from major building construction. While assets grew, liabilities decreased by \$1.5 million, or 29.9 percent, totaling \$3.6 million at June 30, 2008, compared to \$5.2 million at June 30, 2007. As a result, the College's net assets increased by 5.9 percent or \$3.6 million, reaching a year end balance of \$65 million.

The College's operating revenues totaled \$5.5 million for the 2007-08 fiscal year, representing a 5.8 percent increase over the 2006-07 fiscal year due mainly to \$0.5 million increase in State and local grants and contracts. Operating expenses totaled \$25.7 million for the 2007-08 fiscal year, representing an increase of 14.9 percent over the 2006-07 fiscal year due mainly to personnel and benefits increasing by \$1.3 million, scholarships increasing by \$0.6 million, and materials and supplies increasing by \$0.5 million.

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 off 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 periods ended is shown in the following table:

	Assets, Liabilities, and Net Assets at (In Thousands)			
	College		Component Unit	
	6-30-08	6-30-07	12-31-07	12-31-06
Assets				
Current Assets	\$ 9,079	\$ 8,054	\$ 17,409	\$ 12,706
Capital Assets, Net	53,050	48,683		
Other Noncurrent Assets	6,466	9,770	4,075	3,497
Total Assets	68,595	66,507	21,484	16,203
Liabilities				
Current Liabilities	1,711	3,214	84	13
Noncurrent Liabilities	1,922	1,968		
Total Liabilities	3,633	5,182	84	13
Net Assets				
Invested in Capital Assets, Net of Related Debt	52,675	48,283		
Restricted	11,201	12,141	20,476	15,783
Unrestricted	1,086	901	924	407
Total Net Assets	\$ 64,962	\$ 61,325	\$ 21,400	\$ 16,190
Increase in Net Assets	\$ 3,637	5.9%	\$ 5,210	32.2%

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

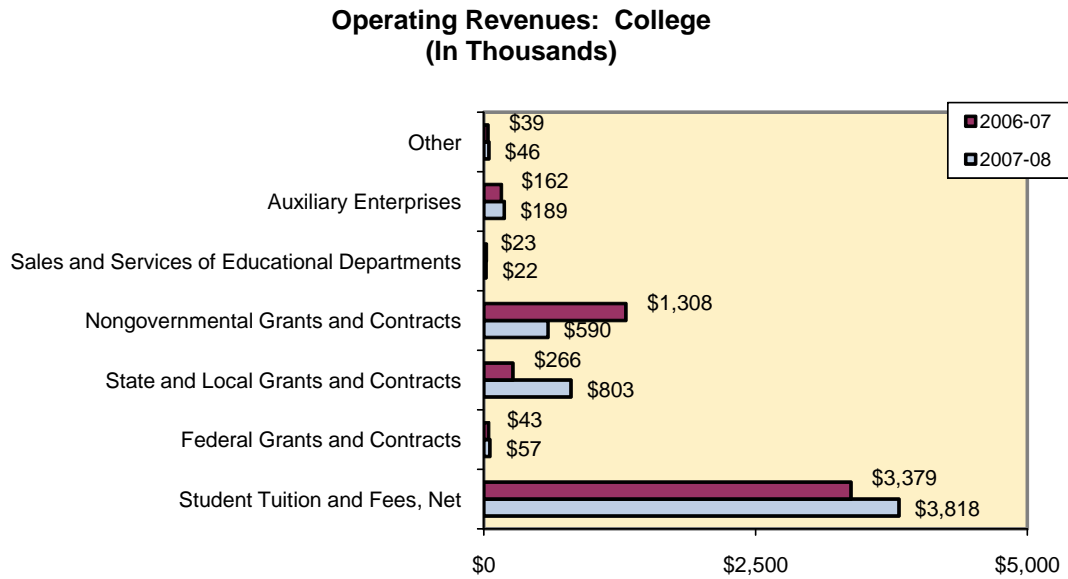
**Operating Results for the Periods Ended
(In Thousands)**

	College		Component Unit	
	6-30-08	6-30-07	12-31-07	12-31-06
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 3,818	\$ 3,379	\$	\$
Federal Grants and Contracts	57	43		
State and Local Grants and Contracts	803	266	1,111	
Nongovernmental Grants and Contracts	590	1,308		
Sales and Services of Educational Departments	22	23		
Auxiliary Enterprises	189	162		
Other Operating Revenues	46	39	4,460	2,360
Total Operating Revenues	5,525	5,220	5,571	2,360
Less, Operating Expenses	25,709	22,381	2,247	1,587
Operating Income (Loss)	(20,184)	(17,161)	3,324	773
Nonoperating Revenues (Expenses)				
State Appropriations	11,531	10,782		
Gifts and Grants	5,850	5,333		193
Other Nonoperating Revenues	483	464	1,538	944
Nonoperating Expenses	(33)	(40)		
Net Nonoperating Revenues	17,831	16,539	1,538	1,137
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(2,353)	(622)	4,862	1,910
Capital Appropriations	3,737	12,904		
Capital Grants, Contracts, Gifts, and Fees	2,253	349		7,179
Other Revenues			348	
Increase in Net Assets	3,637	12,631	5,210	9,089
Net Assets, Beginning of Year	61,325	48,694	16,190	7,101
Net Assets, End of Year	\$ 64,962	\$ 61,325	\$ 21,400	\$ 16,190

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 give up or receive something of equal or similar value.

The following chart presents the College’s operating revenues for the 2007-08 and 2006-07 fiscal years:



College operating revenue changes were the result of the following factors: State and local grants and contracts revenues increased by 202 percent due primarily to a commitment from the University of Central Florida to fund equipment costs for the Joint Use Library. Nongovernmental grants and contracts decreased due to an approximate \$750,000 decrease in noncapital funding provided by the College’s Foundation. Student tuition and fee revenue increased from the Board of Trustees raising tuition rates as authorized by State of Florida Law. These increases averaged 3 percent and affected all students (in state and out of state). Student enrollment also increased over the previous year.

Foundation operating revenues increased primarily due to an increase in contributions.

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.

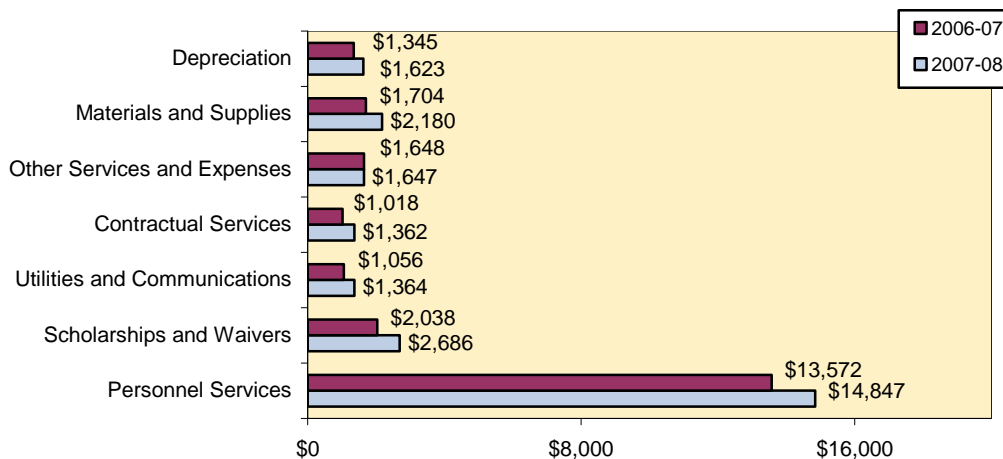
Operating expenses for the College and its component unit for the respective periods ended are presented in the following table:

**Operating Expenses for the Periods Ended
(In Thousands)**

	College		Component Unit	
	6-30-08	6-30-07	12-31-07	12-31-06
Operating Expenses				
Personnel Services	\$ 14,847	\$ 13,572	\$ 231	\$ 222
Scholarships and Waivers	2,686	2,038	1,790	1,166
Utilities and Communications	1,364	1,056		
Contractual Services	1,362	1,018		
Other Services and Expenses	1,647	1,648	226	199
Materials and Supplies	2,180	1,704		
Depreciation	1,623	1,345		
Total Operating Expenses	\$ 25,709	\$ 22,381	\$ 2,247	\$ 1,587

The following chart presents the College’s operating expenses for the 2007-08 and 2006-07 fiscal years:

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



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

- Personnel services expenditures increased on an average of 9.4 percent due to 4.5 percent average salary increases and the addition of twelve and one-half new positions.
- Scholarships and waivers increased by 31.8 percent due to the increase in local grant-provided scholarships.
- Contractual services increased by 33.8 percent due mainly to outsourcing custodial services.
- Utilities and communications increased 29.2 percent due mainly to the cost of purchasing the services.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2007-08 and 2006-07 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)

	<u>2007-08</u>	<u>2006-07</u>
State Appropriations	\$ 11,531	\$ 10,782
Gifts and Grants	5,850	5,333
Investment Income	483	464
Interest on Capital Asset-Related Debt	<u>(33)</u>	<u>(40)</u>
Net Nonoperating Revenues	<u>\$ 17,831</u>	<u>\$ 16,539</u>

Nonoperating revenue changes were the result of an increase in State Appropriations of approximately \$740,000 in Community College Program Fund revenues and an increase of \$300,000 in Federal Pell Grant funding..

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2007-08 and 2006-07 fiscal years:

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

	<u>2007-08</u>	<u>2006-07</u>
Capital Appropriations	\$ 3,737	\$ 12,904
Capital Grants, Contracts, Gifts, and Fees	<u>2,253</u>	<u>349</u>
Total	<u>\$ 5,990</u>	<u>\$ 13,253</u>

The decrease of \$9.2 million in capital appropriations was mainly due to reductions in Facilities Enhancement Challenge Grants and PECO funding for this year. The College has also started covering construction cost from the Foundation, \$1.9 million this year.

THE STATEMENT OF CASH FLOWS

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

The statement of cash flows also helps users assess:

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

A summary of the College's cash flows for the 2007-08 and 2006-07 fiscal years is presented in the following table:

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

	<u>2007-08</u>	<u>2006-07</u>
Cash Provided (Used) by:		
Operating Activities	\$(18,644)	\$(16,734)
Noncapital Financing Activities	17,380	16,063
Capital and Related Financing Activities	(2,094)	7,151
Investing Activities	<u>483</u>	<u>464</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,875)	6,944
Cash and Cash Equivalents, Beginning of Year	<u>13,328</u>	<u>6,384</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,453</u>	<u>\$ 13,328</u>

Major sources of funds came from State appropriations (\$11.5 million), net student tuition and fees (\$3.9 million), and gifts and grants (\$5.9 million).

The decrease in cash and cash equivalents mainly resulted from reductions in Facilities Enhancement Challenge Grants and Public Education Capital Outlay Funding for construction and remodeling.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2008, the College had \$70 million in capital assets, less accumulated depreciation of \$17 million, for net capital assets of \$53 million. Depreciation charges for the current fiscal year totaled \$1.6 million. The following table summarizes the College's capital assets for the 2007-08 fiscal year:

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

Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 6,515	\$	\$	\$ 6,515
Buildings	39,950	11,488	9	51,429
Other Structures and Improvements	3,400	247		3,647
Furniture, Machinery, and Equipment	3,290	435	116	3,609
Works of Art	12			12
Construction in Progress	10,963	5,559	11,730	4,792
Total	64,130	17,729	11,855	70,004
Less, Accumulated Depreciation:				
Buildings	9,829	1,180		11,009
Other Structures and Improvements	3,016	108		3,124
Furniture, Machinery, and Equipment	2,602	335	116	2,821
Total Accumulated Depreciation	15,447	1,623	116	16,954
Capital Assets, Net	\$ 48,683	\$ 16,106	\$ 11,739	\$ 53,050

The College has \$14 million in major construction contract commitments at June 30, 2008. The contract commitments are for projects that include South Lake Library and the Math Science Building. State appropriations together with local funds are expected to finance the construction and renovation of facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$0.6 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2008, and June 30, 2007:

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

	2007-08	2006-07
SBE Capital Outlay Bonds	\$ 375	\$ 400
Loans Payable	274	325
Total	\$ 649	\$ 725

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2007-08 fiscal year, there were no bond sales and debt repayments totaled \$76,456. 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, the College does not expect an increase in State funding for the coming year. In response to the lack of substantial State appropriation increases, the Board of Trustees increased the tuition rate 7.7 percent to take effect beginning with the Fall 2009 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, and financial statements and notes thereto, or requests for additional financial information should be addressed to the 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 As of June 30, 2008

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,944,830	\$ 5,470,766
Restricted Cash and Cash Equivalents	1,043,896	
Investments		11,846,473
Accounts Receivable, Net	60,182	40,616
Notes Receivable	5,965	
Due from Other Governmental Agencies	3,667,651	
Due from Component Unit	1,102,515	
Prepaid Expenses	254,175	
Other Assets		50,473
Total Current Assets	9,079,214	17,408,328
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,463,851	
Investments		3,995,386
Notes Receivable	1,842	79,836
Depreciable Capital Assets, Net	41,731,441	
Nondepreciable Capital Assets	11,318,924	
Total Noncurrent Assets	59,516,058	4,075,222
TOTAL ASSETS	\$ 68,595,272	\$ 21,483,550
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 379,192	\$ 1,483
Salary and Payroll Taxes Payable	560,412	
Retainage Payable	40,025	
Due to Other Governmental Agencies	493,281	
Due to Component Unit/College	2,099	82,105
Deposits Held for Others	80,833	
Long-Term Liabilities - Current Portion:		
Bonds Payable	25,000	
Loan Payable	51,456	
Compensated Absences Payable	79,235	
Total Current Liabilities	1,711,533	83,588
Noncurrent Liabilities:		
Bonds Payable	350,000	
Loan Payable	222,569	
Compensated Absences Payable	1,337,317	
Postemployment Health Care Benefits Payable	11,975	
Total Noncurrent Liabilities	1,921,861	
TOTAL LIABILITIES	3,633,394	83,588

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2008**

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 52,675,365	\$
Restricted:		
Nonexpendable:		
Endowment		3,995,386
Expendable:		
Grants and Loans	532,488	
Scholarships	175,063	9,372,408
Capital Projects	10,491,622	7,108,000
Debt Service	1,712	
Unrestricted	1,085,628	924,168
Total Net Assets	64,961,878	21,399,962
TOTAL LIABILITIES AND NET ASSETS	\$ 68,595,272	\$ 21,483,550

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, 2008

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$1,746,215	\$ 3,818,206	\$
Federal Grants and Contracts	57,468	
State and Local Grants and Contracts	802,508	1,110,793
Nongovernmental Grants and Contracts	589,470	
Sales and Services of Educational Departments	22,052	
Auxiliary Enterprises	188,876	
Other Operating Revenues	46,119	4,460,247
Total Operating Revenues	5,524,699	5,571,040
EXPENSES		
Operating Expenses:		
Personnel Services	14,846,813	231,570
Scholarships and Waivers	2,685,830	1,789,703
Utilities and Communications	1,364,593	
Contractual Services	1,361,656	
Other Services and Expenses	1,647,428	225,582
Materials and Supplies	2,179,721	
Depreciation	1,622,474	
Total Operating Expenses	25,708,515	2,246,855
Operating Income (Loss)	(20,183,816)	3,324,185
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	11,530,378	
Gifts and Grants	5,849,983	
Investment Income	483,331	1,538,497
Interest on Capital Asset-Related Debt	(33,156)	
Net Nonoperating Revenues	17,830,536	1,538,497
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,353,280)	4,862,682
Capital Appropriations	3,736,850	
Capital Grants, Contracts, Gifts, and Fees	2,253,294	
Other Revenues		347,625
Total Other Revenues	5,990,144	347,625
Increase in Net Assets	3,636,864	5,210,307
Net Assets, Beginning of Year	61,325,014	16,189,655
Net Assets, End of Year	\$ 64,961,878	\$ 21,399,962

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, 2008

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 3,904,062
Grants and Contracts	1,712,902
Payments to Suppliers	(5,188,805)
Payments for Utilities and Communications	(1,364,593)
Payments to Employees	(11,439,418)
Payments for Employee Benefits	(3,281,272)
Payments for Scholarships	(2,685,830)
Auxiliary Enterprises	188,876
Sales and Service of Educational Departments	22,052
Other Payments	(512,372)
	(18,644,398)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	11,530,378
Gifts and Grants	5,849,983
	17,380,361
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Short-term Loan	252,302
Capital Appropriations	3,598,641
Capital Grants and Gifts	2,253,294
Purchases of Capital Assets	(7,434,154)
Principal Paid on Capital Debt, Leases, and Short-term Loan	(731,271)
Interest Paid on Capital Debt and Leases	(33,156)
	(2,094,344)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	483,331
	483,331
Net Increase in Cash and Cash Equivalents	(2,875,050)
Cash and Cash Equivalents, Beginning of Year	13,327,627
	\$ 10,452,577
Cash and Cash Equivalents, End of Year	\$ 10,452,577

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2008**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (20,183,816)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,622,474
Changes in Assets and Liabilities:	
Receivables, Net	(482,307)
Accounts Payable	515,869
Deposits Held for Others	(134,521)
Compensated Absences Payable	5,928
Postemployment Health Care Benefits Payable	11,975
NET CASH USED BY OPERATING ACTIVITIES	\$ (18,644,398)

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, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Lake-Sumter Community College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Community 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 *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 activity 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 provides funding and services to support and foster the pursuit of higher education at the College.

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, 2007.

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.

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Basis of Presentation. The College's accounting policies conform to accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board (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

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 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 FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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 appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is considered 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 its 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 for 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 funds placed with the State Board of Administration Local Government Surplus Funds Trust Fund Investment Pool (LGIP). For the purpose of 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 LGIP 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 and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase or construct capital or other restricted assets are classified as restricted.

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

At June 30, 2008, the College reported as cash equivalents at fair value \$46,374 of moneys held in the LGIP administered by the State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The College's investments in the LGIP, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool at June 30, 2008, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The LGIP carried a credit rating of AAAM by Standard and Poor's and had a weighted-average days to maturity (WAM) of 20.22 days as of June 30, 2008. 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 LGIP to interest rate changes. The investments in the LGIP are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; buildings; other structures and improvements; furniture, machinery, and equipment; works of art; and construction in progress. 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, Educational Equipment – 5 years
 - Furniture – 7 years

2. INVESTMENTS

Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interest in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Board of Trustees as authorized by law. State Board of Education rule 6A-14.076(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking funds, or to purchase or construct capital assets are classified as restricted.

The College reported no investments at June 30, 2008, as surplus funds were invested in the State Board of Administration Local Government Surplus Funds Trust Fund investment pool, which is reported as cash and cash equivalents.

Component Unit Investments

Investments held by the College's component unit (Foundation) at December 31, 2007, were reported at fair value as follows:

Investment Type	Fair Value	Maturities in Years		
		1 - 5	6 - 10	More Than 10
Investment in Debt Obligations:				
United States Government Obligations	\$ 1,519,912	\$ 1,200,904	\$ 319,008	\$
Federal Agency Obligations	2,308,566	687,388	1,391,517	229,661
Corporate Bonds	498,297	99,815	398,482	
Certificates of Deposit	5,975,992	5,975,992		
Total Investment in Debt Obligations	10,302,767	\$ 7,964,099	\$ 2,109,007	\$ 229,661
Other Investments:				
Equities	5,539,092			
Total Component Unit Investments	\$ 15,841,859			

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.

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

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 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, 2007, 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 AA 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 provides that no more than 5 percent of the portfolio may be invested in commercial paper of any one issuer, and no more than \$100,000 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.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, Federal grant over awards, various student services provided by the College, uncollected commissions for food service and vending machine

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$33,149 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$3,302,226 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The \$1,102,515 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid, and program support. The College's financial statements are reported for the fiscal year ended June 30, 2008. The College's component unit's financial statements are reported as of the fiscal year end December 31, 2007. Accordingly, amounts reported by the College as due from component units on the statement of net assets do not agree with amounts reported by the component units as due from and to the College.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2008, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 6,514,755	\$	\$	\$ 6,514,755
Construction in Progress	10,963,255	5,559,029	11,730,303	4,791,981
Works of Art	12,188			12,188
Total Nondepreciable Capital Assets	\$ 17,490,198	\$ 5,559,029	\$ 11,730,303	\$ 11,318,924
Depreciable Capital Assets:				
Buildings	\$ 39,949,733	\$ 11,488,436	\$ 9,020	\$ 51,429,149
Other Structures and Improvements	3,400,098	246,867		3,646,965
Furniture, Machinery, and Equipment	3,290,090	435,035	115,770	3,609,355
Total Depreciable Capital Assets	46,639,921	12,170,338	124,790	58,685,469
Less, Accumulated Depreciation:				
Buildings	9,829,087	1,179,938		11,009,025
Other Structures and Improvements	3,016,016	107,632		3,123,648
Furniture, Machinery, and Equipment	2,602,221	334,904	115,770	2,821,355
Total Accumulated Depreciation	15,447,324	1,622,474	115,770	16,954,028
Total Depreciable Capital Assets, Net	\$ 31,192,597	\$ 10,547,864	\$ 9,020	\$ 41,731,441

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

7. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2008, include bonds, loan, compensated absences, and postemployment health care benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2008, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 400,000	\$	\$ 25,000	\$ 375,000	\$ 25,000
Loan Payable	325,481		51,456	274,025	51,456
Compensated Absences Payable	1,410,624	250,991	245,063	1,416,552	79,235
Postemployment Health Care Benefits Payable		31,727	19,752	11,975	
Total Long-Term Liabilities	\$ 2,136,105	\$ 282,718	\$ 341,271	\$ 2,077,552	\$ 155,691

Bonds Payable. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable outstanding at June 30, 2008:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2000-A	\$ 20,000	5.0	2010
Series 2005-B	355,000	5.0	2020
Total	\$ 375,000		

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

Annual requirements to amortize all bonded debt outstanding as of June 30, 2008, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2009	\$ 25,000	\$ 18,763	\$ 43,763
2010	25,000	17,512	42,512
2011	30,000	16,250	46,250
2012	30,000	14,750	44,750
2013	30,000	13,250	43,250
2014-2018	200,000	39,750	239,750
2019-2020	35,000	2,750	37,750
Total	\$ 375,000	\$ 123,025	\$ 498,025

In a prior fiscal year, a portion of the State Board of Education Capital Outlay Bonds, Series 2000-A, was refunded and considered defeased in-substance by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. The defeased bonds are not reported as outstanding debt on the College’s statement of net assets. Debt considered defeased at June 30, 2008, totaled \$140,000.

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 notes mature on July 15, 2013. The College is to repay the loan 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, 2008, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2009	\$ 51,456	\$ 15,026	\$ 66,482
2010	51,456	11,939	63,395
2011	51,456	8,852	60,308
2012	51,456	5,764	57,220
2013-2014	68,201	2,823	71,024
Total	\$ 274,025	\$ 44,404	\$ 318,429

8. 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

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2008, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$1,416,552. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and represents payments for employees in the final year of the Deferred Retirement Option Program.

9. POSTEMPLOYMENT HEALTH CARE BENEFITS PAYABLE

Effective for the 2007-08 fiscal year, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care and life insurance benefits administered by the Florida Community Colleges Risk Management Consortium (Consortium). The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$253,536 at July 1, 2007, the date of transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care and life insurance benefits liability at the date of transition.

Plan Description. The College contributes to a cost-sharing multiple-employer defined-benefit plan administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the Consortium for health care 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. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. The Consortium does not issue a stand-alone report and is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Benefits provisions are pursuant to provisions of Section 112.0801, Florida Statutes, and benefits and contribution requirements can be amended by the Board of Trustees. The College has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2007-08 fiscal year, 39 retirees received

**LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

postemployment health care benefits, and 28 retirees received postemployment life insurance benefits. The College provided required contributions of \$19,752 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses. Retiree contributions totaled \$172,341.

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 Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the College’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 18,792
Amortization of Unfunded Actuarial:	
Accrued Liability	12,935
Interest on Normal Cost and Amortization	-
Annual Required Contribution	31,727
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	31,727
Contribution Toward the OPEB Cost	<u>(19,752)</u>
Increase in Net OPEB Obligation	11,975
Net OPEB Obligation, Beginning of Year	-
Net OPEB Obligation, End of Year	<u>\$ 11,975</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, 2008 (the year of implementation), was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, July 1, 2007	\$		\$
2007-08	31,727	62.3%	11,975

LAKE-SUMTER COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Funded Status and Funding Progress. As of June 30, 2008, the actuarial accrued liability for benefits was \$253,536, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$253,536. The covered payroll (annual payroll of active participating employees) was \$8,781,354 for the 2007-08 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.9 percent.

Actuarial Methods and Assumptions. 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 the health care 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. 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 initial OPEB actuarial valuation as of July 1, 2007, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2008, and to estimate the 2007-08 fiscal year annual required contribution. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the College's expectation of investment returns. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual health care cost trend rate of 9 percent initially for the 2007-08 fiscal year, reduced by 1 percent per year for two years, then 0.5 percent per year thereafter, to an ultimate rate of 5 percent after six years. The unfunded actuarial accrued liability is being amortized over 30 years using the level dollar method. The remaining amortization period at June 30, 2008, was 29 years.

10. RETIREMENT PROGRAMS

Florida Retirement System. The Florida Retirement System (FRS) is primarily a State-administered, cost-sharing, multiple-employer, defined-benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida

**LAKE-SUMTER COMMUNITY COLLEGE
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Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Essentially all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (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 the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2007-08 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
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 .05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan 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 for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled \$502,574, \$662,202, and \$699,216, respectively, which were equal to the required contributions for each fiscal year.

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Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined-contribution plan alternative available to all FRS members in lieu of the FRS defined-benefit plan. College employees already participating in the State Community College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Benefits in the plan vest at one year of service. There were 30 College participants during the 2007-08 fiscal year. Required contributions made to the PEORP totaled \$140,536.

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

State Community College System Optional Retirement Program (Program). Section 1012.875, Florida Statutes, provides for an optional retirement program for eligible community college instructors and administrators. The Program is designed to aid community 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 community college contributes, on behalf of the participant, 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the community college to the participant's annuity account.

There were 34 College participants during the 2007-08 fiscal year. Required employer contributions made to the Program totaled \$179,117.

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11. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2008, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Math Science Renovation	\$ 987,213	\$ 98,643	\$ 888,570
South Lake Library	14,039,655	936,707	13,102,948
Total	<u>\$ 15,026,868</u>	<u>\$ 1,035,350</u>	<u>\$ 13,991,518</u>

12. OPERATING LEASE COMMITMENTS

The College leased 33 Toshiba multi-function printers under operating leases, which expire in 2012. These leased assets and the related commitments are not reported on the College's statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2009	\$ 85,554
2010	77,684
2011	73,749
2012	<u>6,146</u>
Total Minimum Payments Required	<u>\$ 243,133</u>

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 Community Colleges 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 \$115 million through February 29, 2008, and \$200 million starting March 1, 2008. Insurance coverage obtained through the Consortium included fire and extended property, general and

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automobile liability, workers’ compensation, health, life, dental, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

14. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the Community College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college’s apportionment considering the following components: base budget, which includes the State appropriation to the Community College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

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

<u>Source</u>	<u>Amount</u>
Community College Program Fund	\$ 10,237,974
Gross Receipts Tax (Public Education Capital Outlay)	2,793,690
Education Enhancement Trust Fund (Lottery)	1,140,949
Bright Futures Scholarship Program	983,440
Restricted Contracts and Grants	892,290
Facilities Enhancement Challenge Grant	821,700
Florida Student Assistance Grants	397,254
Performance Based Incentives	151,455
Motor Vehicle License Tax (Capital Outlay and Debt Service)	101,744
Total	<u><u>\$ 17,520,496</u></u>

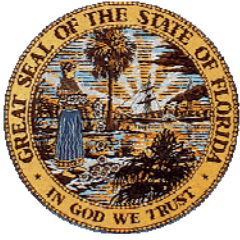
15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 8,013,090
Public Services	118,148
Academic Support	2,460,719
Student Services	2,838,697
Institutional Support	4,907,970
Operation and Maintenance of Plant	3,264,878
Scholarships and Fellowships	2,482,539
Depreciation	<u>1,622,474</u>
Total Operating Expenses	<u><u>\$ 25,708,515</u></u>



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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, 2008, 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 opinions 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted

accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 operational matters that we reported to College management in our report No. 2009-145, dated March 2009.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 11, 2009

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2008-164.