

POLK STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2009



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

Twyla G. Ely, Vice Chair to 8-03-08, Chair from 8-04-08
Gregory Littleton, Vice Chair from 8-04-08
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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 Pakeishia L. Johnson, and the audit was supervised by David A. Blanton, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 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) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2009. 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, 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.

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 Polk State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2009, which collectively comprise the College's basic financial statements as shown on pages 13 through 34. 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 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 Polk State College and of its discretely presented component unit as of June 30, 2009, 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 Polk State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 12 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 19, 2010

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, 2009, 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.

COLLEGE NAME CHANGE

The College's Board of Trustees approved the name change from Polk Community College to Polk State College on March 23, 2009, pursuant to Section 1001.60(2)(b), Florida Statutes.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$85 million at June 30, 2009. This balance reflects a \$5.2 million, or 5.8 percent, decrease from the 2007-08 fiscal year, resulting from mainly from a decrease in the amounts due from the State for Public Education Capital Outlay (PECO) appropriations. PECO appropriations were used for land acquisitions in Northeast Polk County, the completion of renovations to the J.D. Alexander Center, and noncapital repairs and maintenance performed during the course of the fiscal year. Liabilities also decreased in the amount of \$0.5 million, or 7.2 percent, totaling \$6.2 million at June 30, 2009, compared to \$6.7 million at June 30, 2008. This decrease is attributable to a decrease in accounts payable as of the end of the fiscal year. As a result, the College's net assets decreased by \$4.7 million, resulting in a year-end balance of \$78.8 million.

The College's operating revenues totaled \$15.5 million for the 2008-09 fiscal year, representing a 14.4 percent increase over the 2007-08 fiscal year due mainly to an increase in student tuition and fees as well as new Federal, State, and local operating grants. Operating expenses totaled \$54.6 million for the 2008-09 fiscal year, representing an increase of 18.7 percent over the 2007-08 fiscal year due mainly to an increase in the cost of personnel services, contracted services, and materials and supplies related to enrollment growth and noncapitalized repairs and maintenance.

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:

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

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

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

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

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

A condensed statement of assets, liabilities, and net assets of the College and its component unit for the fiscal years ended June 30, 2009, and June 30, 2008, is shown in the following table:

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

	College		Component Unit	
	6-30-09	6-30-08	6-30-09	6-30-08
Assets				
Current Assets	\$ 21,354	\$ 29,090	\$ 19,428	\$ 17,656
Capital Assets, Net	60,690	56,857	13	13
Other Noncurrent Assets	2,964	4,268	13,012	14,328
Total Assets	<u>85,008</u>	<u>90,215</u>	<u>32,453</u>	<u>31,997</u>
Liabilities				
Current Liabilities	3,316	3,882	12,352	12,189
Noncurrent Liabilities	2,875	2,791		
Total Liabilities	<u>6,191</u>	<u>6,673</u>	<u>12,352</u>	<u>12,189</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	59,895	55,982	13	13
Restricted	15,854	22,013	19,613	19,739
Unrestricted	3,068	5,547	475	56
Total Net Assets	<u>\$ 78,817</u>	<u>\$ 83,542</u>	<u>\$ 20,101</u>	<u>\$ 19,808</u>
Increase in Net Assets	<u>\$ (4,725)</u>	-5.7%	<u>\$ 293</u>	1.5%

Current assets decreased primarily due to the receipt of PECO funds that were appropriated and reported in prior fiscal years. Current liabilities decreased primarily due to the decrease in accounts payable at the end of the fiscal year. Capital assets increased due to completion of the J.D. Alexander Center and the purchase of land in Northeast Polk County during the fiscal year.

Revenues and expenses of the College and its component unit for the 2008-09 and 2007-08 fiscal years are shown in the following table:

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

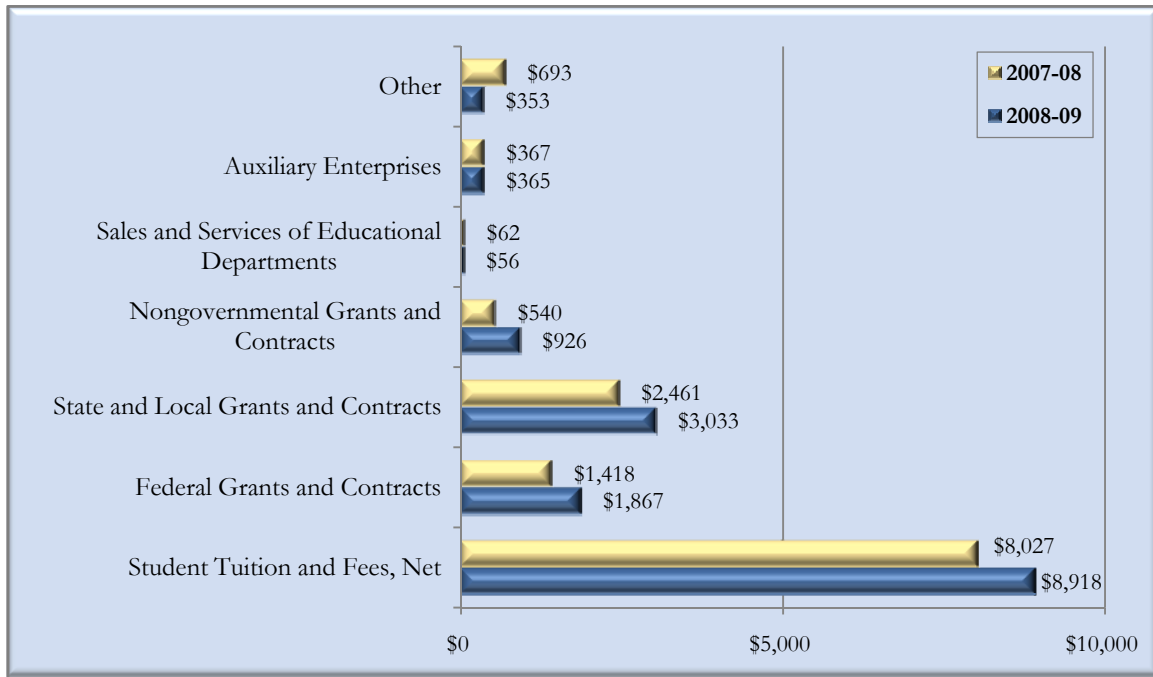
	College		Component Unit	
	6-30-09	6-30-08	6-30-09	6-30-08
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 8,918	\$ 8,027	\$	\$
Federal Grants and Contracts	1,867	1,418		
State and Local Grants and Contracts	3,033	2,461		1,047
Nongovernmental Grants and Contracts	926	540		
Sales and Services of Educational Departments	56	62		
Auxiliary Enterprises	365	367		
Other Operating Revenues	353	693	3,516	1,273
Total Operating Revenues	15,518	13,568	3,516	2,320
Less, Operating Expenses	54,583	45,996	2,825	2,275
Operating Income (Loss)	(39,065)	(32,428)	691	45
Nonoperating Revenues (Expenses)				
State Appropriations	19,168	21,387		
Other Nonoperating Revenues	9,710	7,612	364	768
Nonoperating Expenses	(43)	(104)		(275)
Unrealized Losses on Investments			(30)	
Net Nonoperating Revenues	28,835	28,895	334	493
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(10,230)	(3,533)	1,025	538
Capital Appropriations	4,181	4,608		
Capital Grants, Contracts, Gifts, and Fees	1,324	1,471		
Other Expense			(732)	
Increase (Decrease) in Net Assets	(4,725)	2,546	293	538
Net Assets, Beginning of Year	83,542	80,996	19,808	19,270
Net Assets, End of Year	\$ 78,817	\$ 83,542	\$ 20,101	\$ 19,808

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 2008-09 and 2007-08 fiscal years:

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



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

- State and local grants and contracts increased by \$0.6 million, or 23 percent, due mainly to the addition of the Lockheed Martin Quick Response Training grant received for Corporate College and the enrollment growth in both the Chain of Lakes and Collegiate Charter High Schools.
- Federal grants and contracts increased by \$0.4 million, or 32 percent, due mainly to the receipt of two new grants for Corporate College related training, the Supply Chain Management and Center for Global Advancement.
- Student tuition increased \$1.9 million while scholarship allowances increased \$1 million, resulting in an increase in tuition net of scholarship allowances of \$0.9 million, or 11 percent. This increase is a result of student enrollment growth and a 6 percent increase in student tuition and fees.

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.

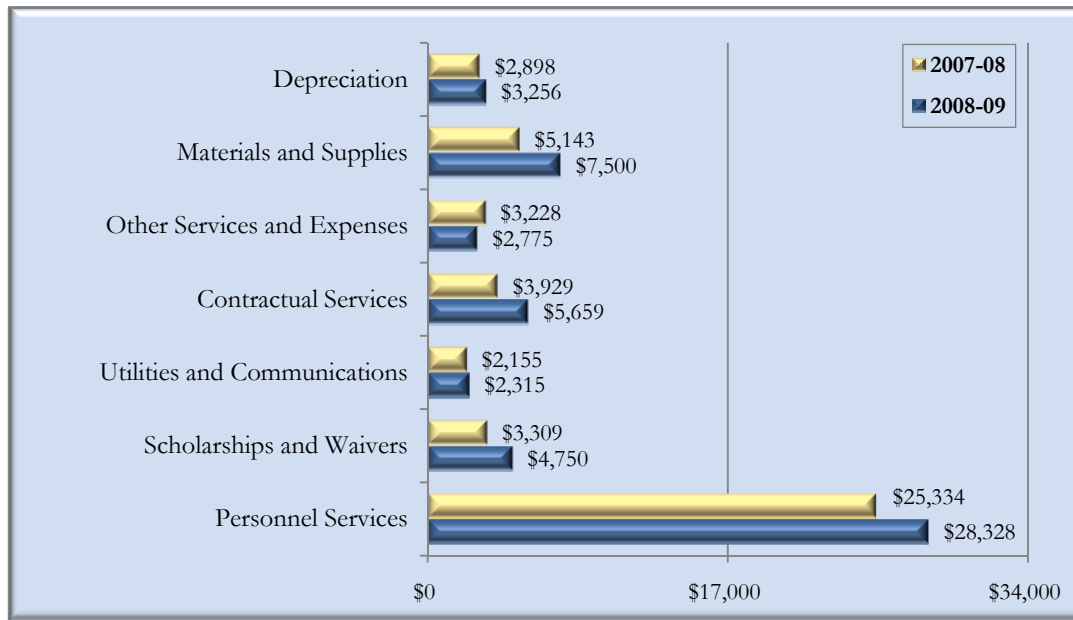
Operating expenses for the College and its component unit for the 2008-09 and 2007-08 fiscal years are presented in the following table:

**Operating Expenses
(In Thousands)**

	College		Component Unit	
	6-30-09	6-30-08	6-30-09	6-30-08
Operating Expenses				
Personnel Services	\$ 28,328	\$ 25,334	\$ 412	\$ 394
Scholarships and Waivers	4,750	3,309	1,161	866
Utilities and Communications	2,315	2,155	16	50
Contractual Services	5,659	3,929	447	476
Other Services and Expenses	2,775	3,228	714	456
Materials and Supplies	7,500	5,143	75	33
Depreciation	3,256	2,898		
Total Operating Expenses	\$ 54,583	\$ 45,996	\$ 2,825	\$ 2,275

The following chart presents the College’s operating expenses for the 2008-09 and 2007-08 fiscal years:

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



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

- Materials and supplies increased by \$2.4 million, or 45.8 percent, due to costs associated with noncapitalized building repairs and maintenance.
- Contractual services increased by \$1.7 million, or 44 percent. This change is due to enhanced security on both campuses; the custodial, lawn, and other services associated with the J.D. Alexander Center; and instructional costs at the Corporate College.
- Scholarship and waivers increased by \$1.4 million, or 43.5 percent, due to the increase of resident and nonresident tuition.
- Personnel services costs increased by \$3 million, or 11.8 percent. This change is due to the increased cost of instruction resulting from additional classes and a mid-year special pay bonus for regular full and part-time employees.

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 2008-09 and 2007-08 fiscal years:

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

	<u>2008-09</u>	<u>2007-08</u>
State Appropriations	\$ 19,168	\$ 21,387
Gifts and Grants	9,561	7,036
Investment Income	149	576
Interest on Capital Asset-Related Debt	<u>(43)</u>	<u>(104)</u>
Net Nonoperating Revenues	<u>\$ 28,835</u>	<u>\$ 28,895</u>

Net nonoperating revenues remained consistent with the prior year. Increases in nonoperating grants including Pell Grants, Florida Bright Futures, and Florida Student Assistance Grants of \$2.5 million, or 35.9 percent, were the result of increased enrollment during the 2008-09 fiscal year. This was offset by a decrease in State appropriations, including College Program Funds, Lottery Funds, and the ending of the Florida SUCCEED Grants program, which resulted in an overall reduction in State funding of \$2.2 million, or 10.4 percent.

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 2008-09 and 2007-08 fiscal years:

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

	<u>2008-09</u>	<u>2007-08</u>
Capital Appropriations	\$ 4,181	\$ 4,608
Capital Grants, Contracts, Gifts, and Fees	<u>1,324</u>	<u>1,471</u>
Total	<u>\$ 5,505</u>	<u>\$ 6,079</u>

Capital appropriations decreased primarily due to the decrease in Public Education Capital Outlay (PECO) funding from the State.

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 2008-09 and 2007-08 fiscal years is presented in the following table:

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

	2008-09	2007-08
Cash Provided (Used) by:		
Operating Activities	\$ (36,169)	\$ (28,305)
Noncapital Financing Activities	29,075	27,575
Capital and Related Financing Activities	3,275	1,443
Investing Activities	149	576
Net Increase (Decrease) in Cash and Cash Equivalents	(3,670)	1,289
Cash and Cash Equivalents, Beginning of Year	16,821	15,532
Cash and Cash Equivalents, End of Year	\$ 13,151	\$ 16,821

Major sources of funds came from State appropriations (\$19.1 million), Capital appropriations (\$9.3 million), net student tuition and fees (\$8.8 million), and grants and contracts (\$5.8 million).

Changes in cash and cash equivalents were primarily the result of the following factors: Cash used by operating activities increased primarily due to the increase in personnel costs and the increase in payments to suppliers for goods and services. Cash used by capital and related financing activities increased mainly due to the purchase of land in Northeast Polk County and the renovation of the J.D. Alexander Center in Lake Wales and reduced capital appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2009, the College had \$94.7 million in capital assets, less accumulated depreciation of \$34 million, for net capital assets of \$60.7 million. Depreciation charges for the current fiscal year totaled \$3.3 million. The following table summarizes the College’s capital assets for the 2008-09 fiscal year:

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

Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 1,778	\$ 2,799	\$	\$ 4,577
Construction in Progress	1,612	50	1,612	50
Buildings	74,351	4,163		78,514
Other Structures and Improvements	4,076	1,015		5,091
Furniture, Machinery, and Equipment	4,427	674	204	4,897
Leasehold Improvements	494			494
Assets Under Capital Lease	1,055			1,055
Total	87,793	8,701	1,816	94,678
Less, Accumulated Depreciation:				
Buildings	23,767	2,247		26,014
Other Structures and Improvements	3,547	188		3,735
Furniture, Machinery, and Equipment	2,542	797	204	3,135
Leasehold Improvements	25	24		49
Assets Under Capital Lease	1,055			1,055
Total Accumulated Depreciation	30,936	3,256	204	33,988
Capital Assets, Net	\$ 56,857	\$ 5,445	\$ 1,612	\$ 60,690

The College had \$3.2 million in construction contract commitments at June 30, 2009. The contract commitments are for the design and planned renovation related to the Lakeland campus Student Center remodeling project.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$0.8 million in long-term debt outstanding versus \$0.9 million at the end of the prior fiscal year, a decrease of 9.1 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2008-09 fiscal year, there were no bond sales and debt repayments totaled \$80,000. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Polk State College’s economic position is closely tied to that of the State of Florida. Initial State allocations for the 2009-10 fiscal year were slightly less than those for the 2008-09 fiscal year and included \$1.5 million in Federal American Recovery and Reinvestment Act (ARRA) funds. Due to continued uncertainty regarding economic conditions for the coming year, the exact amount of State allocations to be received by the College continues to be somewhat unpredictable at this time. As a result, the Board of Trustees adopted an eight percent increase in tuition rates, an additional technology fee and a safety and security fee to take effect beginning with the Fall 2009 term. The College has also designated funds in excess of the minimum reserves required by Florida Statutes to be utilized as needed for maintaining operations during the upcoming fiscal year.

For the 2009-10 fiscal year, the College is conservatively projecting student fee revenues of \$12.9 million based on expected enrollment levels. On-going efforts to develop new revenue sources and contain costs continue to serve the

College well in its commitment to the growth of educational programs, improved student access, and overall excellence in service to its students and communities. The conservative budgetary stance taken by the College provides a framework for a focused response in support of our educational mission and provides financial stability in the face of limited economic growth and increased demand for State resources.

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 of Administration and CFO, Polk State College, 999 Avenue H, Northeast, Winter Haven, Florida 33881.

BASIC FINANCIAL STATEMENTS

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2009**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,754,399	\$ 36,003
Restricted Cash and Cash Equivalents	3,471,962	2,887,079
Investments		450,757
Restricted Investments		15,796,335
Contributions Receivable, Net		106,521
Accounts Receivable, Net	759,655	
Notes Receivable, Net	23,378	151,640
Due from Other Governmental Agencies	10,344,255	
Total Current Assets	<u>21,353,649</u>	<u>19,428,335</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,925,240	367,395
Restricted Investments	38,778	10,414,347
Contributions Receivable, Net		1,672,048
Notes Receivable		558,036
Depreciable Capital Assets, Net	56,063,084	
Nondepreciable Capital Assets	4,627,401	12,782
Total Noncurrent Assets	<u>63,654,503</u>	<u>13,024,608</u>
TOTAL ASSETS	<u>\$ 85,008,152</u>	<u>\$ 32,452,943</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 747,809	\$ 38,354
Advance Deposit		12,313,371
Salary and Payroll Taxes Payable	1,858,352	
Due to Other Governmental Agencies	291,828	
Due to College		
Deferred Revenue	182,484	
Deposits Held for Others	105,675	
Long-Term Liabilities - Current Portion:		
Bonds Payable	85,000	
Compensated Absences Payable	44,636	
Total Current Liabilities	<u>3,315,784</u>	<u>12,351,725</u>
Noncurrent Liabilities:		
Bonds Payable	710,000	
Compensated Absences Payable	2,112,202	
Other Postemployment Benefits Payable	53,209	
Total Noncurrent Liabilities	<u>2,875,411</u>	
TOTAL LIABILITIES	<u>6,191,195</u>	<u>12,351,725</u>

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2009

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 59,895,485	\$ 12,782
Restricted:		
Nonexpendable:		
Endowment		12,046,767
Expendable:		
Grants and Loans	3,515,947	
Scholarships	334,205	3,207,403
Capital Projects	11,964,569	
Debt Service	38,778	
Other		4,359,505
Unrestricted	3,067,973	474,761
Total Net Assets	78,816,957	20,101,218
TOTAL LIABILITIES AND NET ASSETS	\$ 85,008,152	\$ 32,452,943

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

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$4,419,281	\$ 8,917,738	\$
Federal Grants and Contracts	1,866,988	
State and Local Grants and Contracts	3,032,969	
Nongovernmental Grants and Contracts	926,246	
Sales and Services of Educational Departments	55,446	
Auxiliary Enterprises	365,406	
Other Operating Revenues	353,438	3,516,212
Total Operating Revenues	15,518,231	3,516,212
EXPENSES		
Operating Expenses:		
Personnel Services	28,327,932	412,626
Scholarships and Waivers	4,749,700	1,160,861
Utilities and Communications	2,315,403	16,358
Contractual Services	5,658,686	446,945
Other Services and Expenses	2,774,638	713,848
Materials and Supplies	7,500,064	74,833
Depreciation	3,256,440	
Total Operating Expenses	54,582,863	2,825,471
Operating Income (Loss)	(39,064,632)	690,741
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	19,167,895	
Gifts and Grants	9,561,066	
Investment Income	149,043	364,166
Interest on Capital Asset-Related Debt	(43,750)	
Unrealized Losses on Investments		(29,712)
Net Nonoperating Revenues	28,834,254	334,454
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(10,230,378)	1,025,195
Capital Appropriations	4,181,190	
Capital Grants, Contracts, Gifts, and Fees	1,323,721	
Other Expenses		(731,440)
Total Other Revenues (Expenses)	5,504,911	(731,440)
Increase (Decrease) in Net Assets	(4,725,467)	293,755
Net Assets, Beginning of Year	83,542,424	19,807,463
Net Assets, End of Year	\$ 78,816,957	\$ 20,101,218

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

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 8,785,693
Grants and Contracts	5,826,203
Payments to Suppliers	(16,587,340)
Payments for Utilities and Communications	(2,315,403)
Payments to Employees	(22,868,907)
Payments for Employee Benefits	(5,128,129)
Payments for Scholarships	(4,749,700)
Net Loans Issued to Students	37,016
Auxiliary Enterprises	365,406
Sales and Services of Educational Departments	55,446
Other Receipts	410,435
	(36,169,280)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	19,167,895
Gifts and Grants Received for Other Than Capital or Endowment Purposes	9,907,548
	29,075,443
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	9,306,936
Capital Grants and Gifts	1,323,721
Purchases of Capital Assets	(7,231,869)
Principal Paid on Capital Debt	(80,000)
Interest Paid on Capital Debt	(43,750)
	3,275,038
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	149,043
	149,043
Net Decrease in Cash and Cash Equivalents	(3,669,756)
Cash and Cash Equivalents, Beginning of Year	16,821,357
	\$ 13,151,601
Cash and Cash Equivalents, End of Year	\$ 13,151,601

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2009

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (39,064,632)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,256,440
Changes in Assets and Liabilities:	
Receivables, Net	(132,045)
Other Assets	5,005
Accounts Payable	(495,055)
Deferred Revenue	182,484
Deposits Held for Others	(130,491)
Compensated Absences Payable	140,292
Other Postemployment Benefits Payable	31,706
Loans to Students	37,016
	\$ (36,169,280)
NET CASH USED BY OPERATING ACTIVITIES	

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

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Polk State College¹, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of seven 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 Polk County.

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 Polk State College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2009.

¹ The College's Board of Trustees approved the name change from Polk Community College to Polk State College on March 23, 2009, pursuant to Section 1001.60(2)(b), Florida Statutes.

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

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

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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.

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 is able to identify, within its accounting system, amounts paid for tuition and fees by financial aid. The College records a scholarship allowance against tuition and fees for the total amount paid by financial aid.

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 and cash in demand accounts. 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. 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

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; leasehold improvements; furniture, machinery, and equipment; and assets under capital lease. 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
- Leasehold Improvements – Life of Lease – 20 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, Educational Equipment – 5 years
 - Furniture – 7 years
- Assets Under Capital Lease – 5 years

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

2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pools 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 interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

the College’s Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

State Board of Administration Debt Service Accounts

The College reported investments at fair value totaling \$38,778 at June 30, 2009, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the College’s component unit (Foundation) at June 30, 2009, are reported at fair market value as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Funds	14,113,699
Mutual Stock Funds	6,088,575
Mutual Allocation Funds	38,080
Mutual Bond Funds	<u>6,421,085</u>
Total Investments	<u>\$ 26,661,439</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation’s investment policy limits the maximum maturity for any fixed income security to 30 years, and limits the weighted-average portfolio maturity to not more than 15 years. The Foundation focuses its fixed income portfolio on bond funds of intermediate maturities. The Foundation’s maturities for its investments in mutual bond funds, which had a weighted-average maturity of 5.71 years, were as follows at June 30, 2009:

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Mutual Bond Funds	\$6,421,085	\$	\$ 628,165	\$5,792,920	\$

Credit Risk: The Foundation’s investment policy is to invest only in fixed income investment grade bonds rated BBB (or equivalent) or better except that up to 10 percent of the portfolio can be invested in mutual funds that focus their investment strategy on below investment grade bonds. Also, the Foundation’s policy allows investments in commercial paper rated A1 (or equivalent) or better.

As a means of limiting exposure to credit defaults, the Foundation focuses its fixed income portfolio on bond funds of higher credit quality. Of the seven bond funds, one fund focuses on investing in lower rated securities that tend to have a higher degree of credit risk. The investment in this fund is less than \$35,000 and represents a small allocation of the overall portfolio. The average credit quality of the bond funds (including the bond exposure in allocation and equity funds) is AA.

Concentration of Credit Risk: The Stock component of the portfolio is invested across 29 mutual funds with the largest individual fund allocation comprising less than 4 percent of the total portfolio. These funds invest in a variety of securities. When the individual holdings of the funds are aggregated, it is not expected that any one equity security makes up more than 1 percent of the overall portfolio.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments and contract and grant reimbursements due from third parties. These receivables are reported net of a \$133,616 allowance for uncollectible accounts.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under the College’s short-term loan program. Notes receivable are reported net of a \$101,626 allowance for uncollectible notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$9,795,356 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 1,778,313	\$ 2,799,288	\$	\$ 4,577,601
Construction in Progress	1,611,764	49,800	1,611,764	49,800
Total Nondepreciable Capital Assets	\$ 3,390,077	\$ 2,849,088	\$ 1,611,764	\$ 4,627,401
Depreciable Capital Assets:				
Buildings	\$ 74,351,498	\$ 4,163,174	\$	\$ 78,514,672
Other Structures and Improvements	4,075,334	1,015,477		5,090,811
Furniture, Machinery, and Equipment	4,427,154	674,125	204,339	4,896,940
Leasehold Improvements	493,964			493,964
Assets Under Capital Lease	1,054,941			1,054,941
Total Depreciable Capital Assets	84,402,891	5,852,776	204,339	90,051,328
Less, Accumulated Depreciation:				
Buildings	23,767,443	2,246,616		26,014,059
Other Structures and Improvements	3,546,691	187,748		3,734,439
Furniture, Machinery, and Equipment	2,542,370	797,378	204,339	3,135,409
Leasehold Improvements	24,698	24,698		49,396
Assets Under Capital Lease	1,054,941			1,054,941
Total Accumulated Depreciation	30,936,143	3,256,440	204,339	33,988,244
Total Depreciable Capital Assets, Net	\$ 53,466,748	\$ 2,596,336	\$	\$ 56,063,084

7. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2009, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2009, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 875,000	\$	\$ 80,000	\$ 795,000	\$ 85,000
Compensated Absences Payable	2,016,546	166,920	26,628	2,156,838	44,636
Other Postemployment Benefits Payable	21,503	72,299	40,593	53,209	
Total Long-Term Liabilities	\$ 2,913,049	\$ 239,219	\$ 147,221	\$ 3,005,047	\$ 129,636

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

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 at June 30, 2009:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds: Series 2005A	<u>\$ 795,000</u>	5.0	2017

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2010	\$ 85,000	\$ 39,750	\$ 124,750
2011	85,000	35,500	120,500
2012	90,000	31,250	121,250
2013	95,000	26,750	121,750
2014	100,000	22,000	122,000
2015-2017	340,000	34,250	374,250
Total	<u>\$ 795,000</u>	<u>\$ 189,500</u>	<u>\$ 984,500</u>

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State 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, 2009, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$2,156,838. Of this amount, \$44,636 is considered a current liability as this is expected to be paid in the coming fiscal year. The College calculates its current portion of the compensated absences liability by applying the remaining percentage of time for those employees in the Deferred Retirement Option Program plus the total payouts of all employees who have notified the College that they are leaving employment during the next fiscal year.

Other Postemployment Benefits Payable. The College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits*

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

Other Than Pensions, for certain postemployment healthcare and life insurance benefits provided by the Florida College System Risk Management Consortium (Consortium).

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 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. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. The College and the Consortium do not issue stand-alone annual reports for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Benefit 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, and the plan is financed on a pay-as-you-go basis. For the 2008-09 fiscal year, 51 retirees received postemployment healthcare benefits, and 45 retirees received postemployment life insurance benefits. The College provided required contributions of \$40,593 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$254,200.

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. 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 for postemployment healthcare and life insurance benefits:

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 51,195
Amortization of Unfunded Actuarial Accrued Liability	21,176
Interest on Normal Cost and Amortization	
Annual Required Contribution	72,371
Interest on Net OPEB Obligation	645
Adjustment to Annual Required Contribution	(717)
Annual OPEB Cost (Expense)	72,299
Contribution Toward the OPEB Cost	(40,593)
Increase in Net OPEB Obligation	31,706
Net OPEB Obligation, Beginning of Year	21,503
Net OPEB Obligation, End of Year	\$ 53,209

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, 2009, and for the current and transition years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	72,371	70.3%	21,503
2008-09	72,299	56.1%	53,209

Funded Status and Funding Progress. As of June 30, 2009, the actuarial accrued liability for benefits was \$653,904 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$653,904 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$15,325,463 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.3 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.

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

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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, 2009, and to estimate the 2008-09 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 3 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare 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 reduction per year thereafter, to an ultimate rate of 5 percent after six years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2009, was 28 years.

8. 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 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. 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 Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested 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; however, there is a benefit reduction 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.

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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 2008-09 fiscal year were as follows:

Class	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	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 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, 2007, June 30, 2008, and June 30, 2009, totaled \$1,043,702, \$1,109,425, and \$1,148,174, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State 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, 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 PEORP vest at one year of service. There were

**POLK STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

94 College participants during the 2008-09 fiscal year. Required contributions made to the PEORP totaled \$354,111.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 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 college to the participant’s annuity account.

There were 37 College participants during the 2008-09 fiscal year. Required employer contributions made to the Program totaled \$225,642.

9. CONSTRUCTION COMMITMENTS

The College’s major construction commitments at June 30, 2009, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Lakeland Student Center	<u>\$ 3,275,906</u>	<u>\$ 49,800</u>	<u>\$ 3,226,106</u>

POLK STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

10. 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 \$200 million through February 28, 2009, and up to \$175 million effective March 1, 2009. Insurance coverage obtained through the Consortium included group health, dental, vision, and life insurance; fire and extended property; general and automobile liability; workers' compensation; and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Team sport accident coverage, group long-term disability coverage and bonding of the members of the Board of Trustees are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

11. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the 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 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.

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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>
College Program Fund	\$ 16,964,751
Gross Receipts Tax (Public Education Capital Outlay)	3,951,123
Education Enhancement Trust Fund (Lottery)	2,096,031
Bright Futures Scholarship Program	1,668,749
Florida Student Assistance Grants	450,270
Restricted Contracts and Grants	430,929
Motor Vehicle License Tax (Capital Outlay and Debt Service)	230,067
Other State Sources	<u>57,548</u>
Total	<u><u>\$ 25,849,468</u></u>

12. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and 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	\$ 18,285,372
Public Services	131,215
Academic Support	6,450,115
Student Services	3,934,799
Institutional Support	6,851,606
Operation and Maintenance of Plant	10,608,487
Scholarships and Fellowships	4,840,912
Depreciation	3,256,440
Auxiliary Enterprises	173,917
Loan Operating Expenses	<u>50,000</u>
Total Operating Expenses	<u><u>\$ 54,582,863</u></u>

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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:

Statement of Current Unrestricted Funds Net Assets

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,754,399
Accounts Receivable, Net	688,663
Due from Other Governmental Agencies	292,476

TOTAL ASSETS	\$ 7,735,538
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 339,338
Salary and Payroll Taxes Payable	1,770,793
Payable to Other Governmental Agencies	272,985
Deferred Revenue	150,919
Compensated Absences Payable	44,636

Total Current Liabilities	2,578,671
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Noncurrent Liabilities:

Compensated Absences Payable	2,035,685
Other Postemployment Benefits Payable	53,209

TOTAL LIABILITIES	4,667,565
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TOTAL NET ASSETS	3,067,973
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TOTAL LIABILITIES AND NET ASSETS	\$ 7,735,538
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POLK STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$4,419,281	\$ 7,399,605
State and Local Grants and Contracts	459,000
Nongovernmental Grants and Contracts	803,733
Sales and Services of Educational Departments	55,446
Auxiliary Enterprises	365,406
Other Operating Revenue	227,824
Total Operating Revenues	9,311,014

EXPENSES

Operating Expenses:

Personnel Services	24,129,498
Scholarships and Waivers	61,225
Utilities and Communications	2,286,686
Contractual Services	3,922,373
Other Services and Expenses	2,160,534
Materials and Supplies	1,925,606
Total Operating Expenses	34,485,922

Operating Loss **(25,174,908)**

NONOPERATING REVENUES

State Appropriations	18,145,967
Investment Income	98,299
Net Nonoperating Revenues	18,244,266

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

Capital Grants, Contracts, Gifts, and Fees	(6,930,642)
Transfers to/from Other Funds	21,398
	4,429,568

Decrease in Net Assets **(2,479,676)**
Net Assets, Beginning of Year 5,547,649

Net Assets, End of Year **\$ 3,067,973**



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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 Polk State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2009, 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*.

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 19, 2010