

POLK STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2011



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Ricardo Garcia, Vice Chair to 8-22-10,
Chair from 8-23-10
Gregory Littleton, Chair to 8-22-10 (1)
Teresa V. Martinez, Vice Chair from 8-23-10
Ernest S. Pinner
Dr. Neriah E. Roberts (1)
Cynthia Ross (1)
Vacant (2)

Dr. Eileen Holden, President

Notes: (1) Continued to serve after term
expired May 31, 2011.
(2) Position remained vacant for
the fiscal year.

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 Mary W. Lynn, CPA, and the audit was supervised by David A. Blanton, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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

**POLK STATE COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether 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, 2011. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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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, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Polk State College and of its discretely presented component unit as of June 30, 2011, 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.

As discussed in note 1 to the financial statements, the Polk State College Foundation, Inc. (Foundation), a component unit of the College, changed its fiscal year from July through June to January through December in the 2009-10 fiscal year. As a result of this change, the College's 2009-10 fiscal year financial statements included the Foundation's

financial activities for the six-month period ending December 31, 2009. This affects the comparability of amounts reported on the statement of revenues, expenses, and changes in net assets for the discretely presented component unit column for the 2009-10 fiscal year with the amounts reported for the 2010-11 fiscal year.

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.

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

Respectfully submitted,



David W. Martin, CPA
February 3, 2012

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, 2011, 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.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$79.9 million at June 30, 2011. This balance reflects a \$1.6 million, or 2 percent, decrease from the 2009-10 fiscal year, resulting mainly from spending down previously recorded Public Education Capital Outlay (PECO) appropriations. PECO appropriations were used on the renovation of the Lakeland Campus Student Center, construction of a new Greenhouse facility on the Winter Haven Campus as well as Collegewide noncapitalized repairs and maintenance performed during the fiscal year. While assets decreased, liabilities increased by \$0.4 million, or 6.2 percent, totaling \$7.2 million at June 30, 2011, compared to \$6.7 million at June 30, 2010. This increase is mainly attributable to the increase in salaries and benefits payable due to additional instructional costs associated with enrollment growth. As a result, the College's net assets decreased by \$2.1 million, resulting in a year-end balance of \$72.7 million.

The College's operating revenues totaled \$18 million for the 2010-11 fiscal year, representing a 0.9 percent decrease over the 2009-10 fiscal year due to decreases in Federal and Nongovernmental operating grants. Operating expenses totaled \$66.7 million for the 2010-11 fiscal year, representing an increase of 8.5 percent over the 2009-10 fiscal year due mainly to the increase costs of personnel services and scholarship expenses related to enrollment growth.

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 respective periods ended is shown in the following table:

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

	College		Component Unit	
	6-30-11	6-30-10	12-31-10	12-31-09
Assets				
Current Assets	\$ 15,811	\$ 18,064	\$ 22,648	\$ 19,276
Capital Assets, Net	61,814	60,895	1,301	133
Other Noncurrent Assets	2,229	2,537	11,641	14,615
Total Assets	79,854	81,496	35,590	34,024
Liabilities				
Current Liabilities	4,041	3,819	7,860	12,455
Noncurrent Liabilities	3,111	2,918		
Total Liabilities	7,152	6,737	7,860	12,455
Net Assets				
Invested in Capital Assets, Net of Related Debt	61,189	60,186	1,301	13
Restricted	7,489	11,873	25,294	21,293
Unrestricted	4,024	2,700	1,135	263
Total Net Assets	\$ 72,702	\$ 74,759	\$ 27,730	\$ 21,569
Increase (Decrease) in Net Assets	\$ (2,057)	-2.8%	\$ 6,161	28.6%

Current assets decreased mainly due to the expenditure of Public Education Capital Outlay (PECO) funds that were appropriated and reported in prior fiscal years. Current liabilities increased primarily due to the increase in salaries and benefits payable.

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

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

	College		Component Unit	
	6-30-11	6-30-10	12-31-10	12-31-09 (1)
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 10,301	\$ 9,873	\$	\$
Federal Grants and Contracts	2,223	2,884		
State and Local Grants and Contracts	3,553	3,490		
Nongovernmental Grants and Contracts	939	1,024		
Sales and Services of Educational Departments	57	95	541	256
Auxiliary Enterprises	640	455		
Other Operating Revenues	254	303	5,835	471
Total Operating Revenues	17,967	18,124	6,376	727
Less, Operating Expenses	66,727	61,483	2,320	1,221
Operating Income (Loss)	(48,760)	(43,359)	4,056	(494)
Nonoperating Revenues				
State Noncapital Appropriations	21,847	17,497	378	148
Gifts and Grants	21,286	17,370		
Investment Income	63	63		
Other Nonoperating Revenues		255		
Nonoperating Expenses	(35)	(40)		
Unrealized Gain on Investments			10	108
Net Nonoperating Revenues	43,161	35,145	388	256
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(5,599)	(8,214)	4,444	(238)
State Capital Appropriations	2,029	2,781		
Capital Grants, Contracts, Gifts, and Fees	1,513	1,375		
Additions to Permanent Endowments			1,717	1,706
Increase (Decrease) in Net Assets	(2,057)	(4,058)	6,161	1,468
Net Assets, Beginning of Year	74,759	78,817	21,569	20,101
Net Assets, End of Year	\$ 72,702	\$ 74,759	\$ 27,730	\$ 21,569

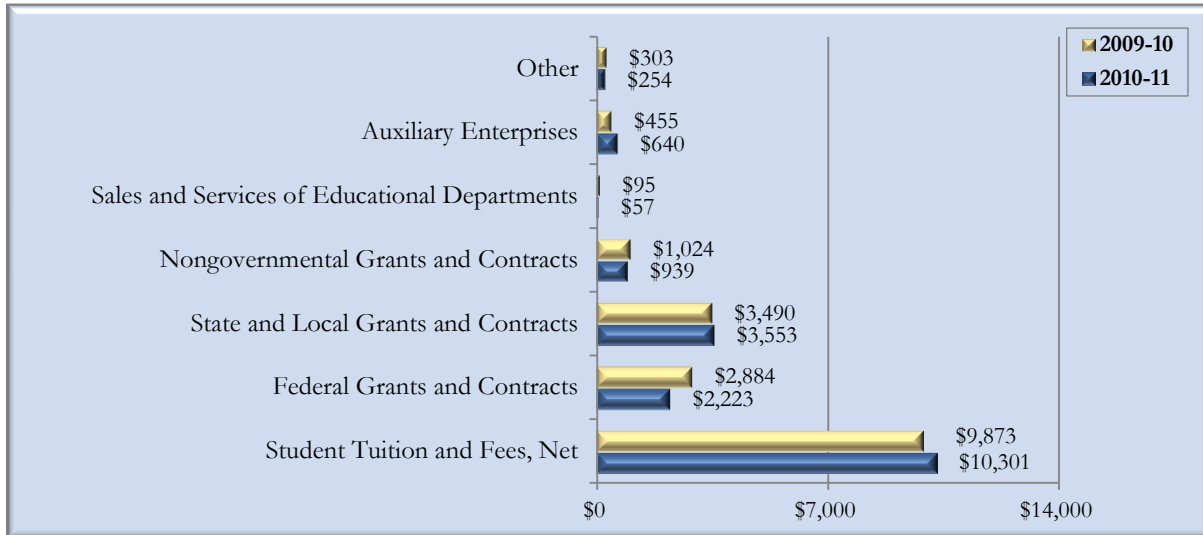
Note: (1) Amounts are for the six-month period ended December 31, 2009.

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 2010-11 and 2009-10 fiscal years:

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



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

- Student tuition, net of scholarship allowances, increased \$0.4 million, or 4.3 percent. This increase is a result of enrollment growth and an increase in student tuition and fee rates.
- Federal grants and contracts decreased by \$0.7 million, or 22.9 percent. This decrease is a result of decreased activity on the Community Based Job Training grant.

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:

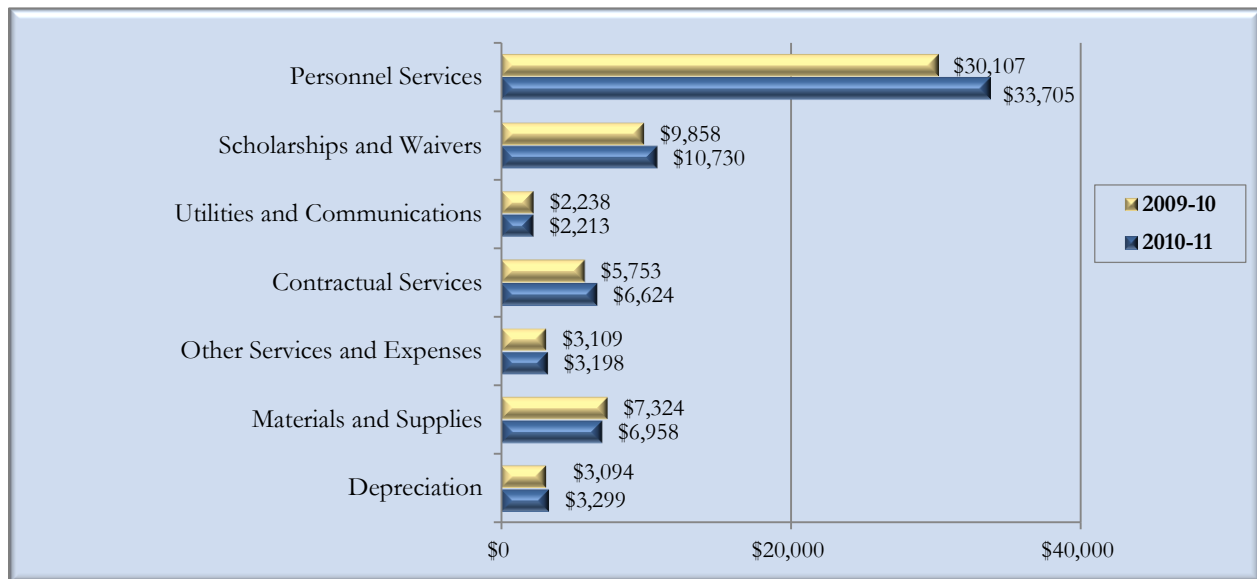
**Operating Expenses
For the Periods Ended
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	12-31-10	12-31-09 (1)
Operating Expenses				
Personnel Services	\$ 33,705	\$ 30,107	\$ 425	\$ 211
Scholarships and Waivers	10,730	9,858	925	570
Utilities and Communications	2,213	2,238	17	10
Contractual Services	6,624	5,753	395	259
Other Services and Expenses	3,198	3,109	489	156
Materials and Supplies	6,958	7,324	69	15
Depreciation	3,299	3,094		
Total Operating Expenses	\$ 66,727	\$ 61,483	\$ 2,320	\$ 1,221

Note: (1) Amounts are for the six-month period ended December 31, 2009.

The following chart presents the College’s operating expenses for the 2010-11 and 2009-10 fiscal years:

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



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

- Personnel services cost increased \$3.6 million, or 12 percent. This increase is due mainly to the additional cost of instruction resulting from enrollment growth and salary increases for regular full and part-time employees.
- Scholarships and waivers increased \$872 thousand, or 8.8 percent. This increase is due to the tuition and fee rate increase and the increased student population receiving Federal Pell grants.

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 2010-11 and 2009-10 fiscal years:

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

	<u>2010-11</u>	<u>2009-10</u>
State Noncapital Appropriations	\$ 21,847	\$ 17,497
Gifts and Grants	21,286	17,370
Investment Income	63	63
Other Nonoperating Revenues		255
Interest on Capital Asset-Related Debt	<u>(35)</u>	<u>(40)</u>
Net Nonoperating Revenues	<u>\$ 43,161</u>	<u>\$ 35,145</u>

Changes in nonoperating revenues are primarily related to the following:

- State noncapital appropriations increased \$4.4 million, or 24.9 percent. This increase is due to an increase in the College Program Fund appropriations for the fiscal year.
- Gifts and grants increased \$3.9 million, or 22.5 percent. This increase is due primarily to increases in financial aid caused by enrollment growth, tuition and fee rate increases, and a higher number of students receiving Federal Pell grants.

Other Revenues, Expenses, Gains, or Losses

This category is 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 2010-11 and 2009-10 fiscal years:

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

	<u>2010-11</u>	<u>2009-10</u>
State Capital Appropriations	\$ 2,029	\$ 2,781
Capital Grants, Contracts, Gifts, and Fees	<u>1,513</u>	<u>1,375</u>
Total	<u>\$ 3,542</u>	<u>\$ 4,156</u>

Capital appropriations decreased primarily due to the decrease in 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 2010-11 and 2009-10 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College
(In Thousands)

	<u>2010-11</u>	<u>2009-10</u>
Cash Provided (Used) by:		
Operating Activities	\$ (45,355)	\$ (40,093)
Noncapital Financing Activities	43,393	33,817
Capital and Related Financing Activities	2,491	4,104
Investing Activities	<u>63</u>	<u>62</u>
Net Increase (Decrease) in Cash and Cash Equivalents	592	(2,110)
Cash and Cash Equivalents, Beginning of Year	<u>11,041</u>	<u>13,151</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 11,633</u></u>	<u><u>\$ 11,041</u></u>

Major sources of funds came from gifts and grants received for other than capital or endowment purposes (\$21.5 million), State noncapital appropriations (\$21.8 million), State capital appropriations (\$5.4 million), net student tuition and fees (\$9.9 million), and grants and contracts (\$6.7 million). Major uses of funds were for payments to employees (\$33.2 million), payments for scholarships (\$10.7 million), and payments to suppliers of goods and services (\$16.6 million).

Changes in cash and cash equivalents were primarily the result of an increase in cash received from grants for scholarships and in cash used by operating activities due to the increase in personnel costs and in payments for scholarships.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the College had \$101.9 million in capital assets, less accumulated depreciation of \$40.1 million, for net capital assets of \$61.8 million. Depreciation charges for the current fiscal year totaled \$3.3 million. The following table summarizes the College's capital assets at June 30, 2011, and June 30, 2010:

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

<u>Capital Assets</u>	<u>2011</u>	<u>2010</u>
Land	\$ 4,577	\$ 4,577
Buildings	82,264	78,514
Other Structures and Improvements	5,356	5,242
Furniture, Machinery, and Equipment	6,696	5,151
Assets Under Capital Lease		1,055
Leasehold Improvements	494	494
Construction in Progress	<u>2,499</u>	<u>2,746</u>
Total	<u>101,886</u>	<u>97,779</u>
Less, Accumulated Depreciation:		
Buildings	30,295	28,061
Other Structures and Improvements	4,151	3,937
Furniture, Machinery, and Equipment	5,527	3,756
Assets Under Capital Lease		1,055
Leasehold Improvements	<u>99</u>	<u>74</u>
Total Accumulated Depreciation	<u>40,072</u>	<u>36,883</u>
Capital Assets, Net	<u><u>\$ 61,814</u></u>	<u><u>\$ 60,896</u></u>

The College has \$1.1 million in major construction contract commitments at June 30, 2011. The commitment is for the Chain of Lakes High School Building. In addition, planning is underway for the construction of the new Clear Springs Building. State appropriations together with local funds are expected to finance the construction, renovation, and purchase of land and facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$625 thousand in long-term debt outstanding versus \$710 thousand at the end of the prior fiscal year, a decrease of 12 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2010-11 fiscal year, there were no bond sales and debt repayments totaled \$85 thousand. 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 condition is closely tied to that of the State of Florida. Initial State appropriations for the 2011-12 fiscal year are greater than those received in the 2010-11 fiscal year due to additional dollars pledged by the State to fund an increased workload at the College and to grow the College's programs in the Lake Wales community. Limited economic growth in the State and increased demand on State resources continues to suggest uncertainty regarding the level of future State allocations. As a result of this uncertainty, the Board of Trustees adopted an 8 percent increase in tuition rates for the 2011-12 fiscal year. This infusion of additional resources will supplement the cost of funding the educational programs offered by the College and allow the College to continue to address the strategic priorities established by the Board of Trustees.

Although the College anticipates a nominal level of enrollment growth for the 2011-12 year, projected tuition revenue of \$16.6 million for the 2011-12 fiscal year is conservatively based on the premise of maintaining current enrollment levels. The College continues to implement cost-saving measures to control expenses. Polk State College has

established board designated reserves as a precautionary measure to offset potential State funding reductions while maintaining the current level of operations. These funds are to be utilized as needed should economic conditions decline to the point that the State is forced to cut state allocations.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President of Administration/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, 2011**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,630,296	\$ 63,573
Restricted Cash and Cash Equivalents	1,791,912	2,546,894
Investments		1,078,030
Restricted Investments		18,692,128
Contributions Receivable, Net		240,082
Accounts Receivable, Net	899,758	
Notes Receivable, Net		27,785
Due from Other Governmental Agencies	5,221,272	
Due from Component Unit	268,076	
Total Current Assets	15,811,314	22,648,492
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,211,454	734,208
Restricted Investments	16,774	9,146,801
Contributions Receivable, Net		1,023,152
Notes Receivable		736,393
Depreciable Capital Assets, Net	54,737,535	
Nondepreciable Capital Assets	7,076,580	1,300,593
Total Noncurrent Assets	64,042,343	12,941,147
TOTAL ASSETS	\$ 79,853,657	\$ 35,589,639
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 981,129	\$ 523,163
Salary and Payroll Taxes Payable	2,284,626	
Retainage Payable	145,679	
Due to Other Governmental Agencies	264,016	
Deferred Revenue	213,155	15,000
Deposits Held for Others	52,870	
Advance Deposit		7,321,819
Long-Term Liabilities - Current Portion:		
Bonds Payable	90,000	
Compensated Absences Payable	9,834	
Total Current Liabilities	4,041,309	7,859,982
Noncurrent Liabilities:		
Bonds Payable	535,000	
Compensated Absences Payable	2,442,995	
Other Postemployment Benefits Payable	132,809	
Total Noncurrent Liabilities	3,110,804	
TOTAL LIABILITIES	7,152,113	7,859,982

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	<u>College</u>	<u>Component Unit</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 61,189,115	\$ 1,300,593
Restricted:		
Nonexpendable:		
Endowment		9,798,321
Expendable:		
Grants and Loans	2,664,117	1,770,509
Scholarships	184,070	3,644,789
Capital Projects	4,623,151	5,751,974
Debt Service	16,774	
Other		4,328,414
Unrestricted	<u>4,024,317</u>	<u>1,135,057</u>
Total Net Assets	<u>72,701,544</u>	<u>27,729,657</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 79,853,657</u>	<u>\$ 35,589,639</u>

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, 2011

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$9,302,543	\$ 10,300,582	\$
Federal Grants and Contracts	2,223,377	
State and Local Grants and Contracts	3,552,950	
Nongovernmental Grants and Contracts	939,462	
Sales and Services of Educational Departments	57,190	540,745
Auxiliary Enterprises	640,191	
Other Operating Revenues	253,669	5,835,285
Total Operating Revenues	<u>17,967,421</u>	<u>6,376,030</u>
EXPENSES		
Operating Expenses:		
Personnel Services	33,705,056	425,350
Scholarships and Waivers	10,730,069	925,387
Utilities and Communications	2,212,525	17,082
Contractual Services	6,624,106	394,318
Other Services and Expenses	3,198,389	488,675
Materials and Supplies	6,958,139	68,790
Depreciation	3,299,322	
Total Operating Expenses	<u>66,727,606</u>	<u>2,319,602</u>
Operating Income (Loss)	<u>(48,760,185)</u>	<u>4,056,428</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	21,846,619	
Gifts and Grants	21,285,965	
Investment Income	63,404	377,085
Net Realized and Unrealized Gain on Investments		10,331
Interest on Capital Asset-Related Debt	(35,189)	
Net Nonoperating Revenues	<u>43,160,799</u>	<u>387,416</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(5,599,386)</u>	<u>4,443,844</u>
State Capital Appropriations	2,029,318	
Capital Grants, Contracts, Gifts, and Fees	1,512,338	
Additions to Permanent Endowments		1,716,751
Total Other Revenues	<u>3,541,656</u>	<u>1,716,751</u>
Increase (Decrease) in Net Assets	<u>(2,057,730)</u>	<u>6,160,595</u>
Net Assets, Beginning of Year	74,759,274	21,569,062
Net Assets, End of Year	<u>\$ 72,701,544</u>	<u>\$ 27,729,657</u>

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, 2011

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 9,861,846
Grants and Contracts	6,715,789
Payments to Suppliers	(16,624,720)
Payments for Utilities and Communications	(2,212,526)
Payments to Employees	(27,189,322)
Payments for Employee Benefits	(6,005,217)
Payments for Scholarships	(10,730,069)
Collection on Loans to Students	1,843
Auxiliary Enterprises	640,191
Sales and Service of Educational Departments	57,190
Other Receipts	130,098
	Net Cash Used by Operating Activities
	(45,354,897)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	21,846,619
Gifts and Grants Received for Other Than Capital or Endowment Purposes	21,546,148
Direct Loan Program Receipts	1,412,466
Direct Loan Program Disbursements	(1,412,466)
	Net Cash Provided by Noncapital Financing Activities
	43,392,767
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	5,383,182
Capital Grants and Gifts	1,499,921
Purchases of Capital Assets	(4,271,845)
Principal Paid on Capital Debt	(85,000)
Interest Paid on Capital Debt	(35,189)
	Net Cash Provided by Capital and Related Financing Activities
	2,491,069
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	2,134
Investment Income	61,271
	Net Cash Provided by Investing Activities
	63,405
Net Increase in Cash and Cash Equivalents	592,344
Cash and Cash Equivalents, Beginning of Year	11,041,318
	Cash and Cash Equivalents, End of Year
	\$ 11,633,662

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (48,760,185)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	3,299,322
Changes in Assets and Liabilities:	
Receivables, Net	(438,736)
Other Assets	2,172
Accounts Payable	386,826
Deferred Revenue	(108,950)
Deposits Held for Others	(16,793)
Compensated Absences Payable	240,258
Loans to Students	1,843
Other Postemployment Benefits Payable	39,346
	<u>39,346</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ (45,354,897)

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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Polk State College, 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 (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading or incomplete. Based upon the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the 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 calendar year ended December 31, 2010. In the prior calendar year, the Foundation changed its fiscal year from July through June to January through December, and the financial statements were presented for a six-month period ended December 31, 2009. This affects the comparability of amounts reported on the statement of revenues, expenses, and changes in net assets for the discretely presented component unit column for the 2009-10 fiscal year (six-month period) with amounts reported for the 2010-11 fiscal year (a one-year period).

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.

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

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

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

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

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

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 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, cash in demand accounts, and money market accounts. For 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 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; furniture, machinery, and equipment; and leasehold improvements. 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

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

- Other Structures and Improvements – 10 years
- Leasehold Improvements – Life of Lease – 20 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years

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

2. 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 Florida PRIME 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 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 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 \$16,774 at June 30, 2011, 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 December 31, 2010, are reported at fair market value as follows:

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Investment Type	Fair Value
Money Market Funds	\$ 13,286,174
Mutual Stock Funds	8,681,685
Mutual Allocation Funds	33,847
Mutual Bond Funds	6,915,253
Total Investments	\$ 28,916,959

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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’s maturities for its investments in mutual bond funds, which had a weighted-average maturity of 6.28 years, were as follows at December 31, 2010:

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1-5	6-10	More than 10
Mutual Bond Funds	<u>\$6,915,253</u>	<u>\$</u>	<u>\$1,973,500</u>	<u>\$1,830,978</u>	<u>\$3,110,775</u>

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 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 six bond funds, one fund focuses on investing in lower rated securities, which tend to have a higher degree of credit risk. The investment in this fund is \$72,000 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: Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation’s investment in a single issuer. The stock component of the portfolio is invested across 26 mutual funds with the largest individual fund allocation comprising 6.7 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, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$381,391 allowance for uncollectable accounts.

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$3,286,964 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM COMPONENT UNIT

The \$268,076 reported as due from component unit mainly consists of amounts owed to the College by the Foundation for sponsored cardiovascular technology and nursing instruction. The College's financial statements are reported for the fiscal year ended June 30, 2011. The component unit's financial statements are reported for the fiscal year ended December 31, 2010. Accordingly, although the College reported an amount due from the component unit on the statement of net assets, no amount is reported by the component unit as due to the College.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 4,577,601	\$	\$	\$ 4,577,601
Construction in Progress	2,745,711	2,458,837	2,705,569	2,498,979
Total Nondepreciable Capital Assets	\$ 7,323,312	\$ 2,458,837	\$ 2,705,569	\$ 7,076,580
Depreciable Capital Assets:				
Buildings	\$ 78,514,672	\$ 3,749,539	\$	\$ 82,264,211
Other Structures and Improvements	5,241,443	114,894		5,356,337
Furniture, Machinery, and Equipment	5,150,753	1,655,078	110,253	6,695,578
Leasehold Improvements	493,964			493,964
Assets Under Capital Lease	1,054,941		1,054,941	
Total Depreciable Capital Assets	90,455,773	5,519,511	1,165,194	94,810,090
Less, Accumulated Depreciation:				
Buildings	28,061,043	2,234,461		30,295,504
Other Structures and Improvements	3,937,250	214,301		4,151,551
Furniture, Machinery, and Equipment	3,756,158	1,880,803	110,253	5,526,708
Leasehold Improvements	74,094	24,698		98,792
Assets Under Capital Lease	1,054,941		1,054,941	
Total Accumulated Depreciation	36,883,486	4,354,263 (1)	1,165,194	40,072,555
Total Depreciable Capital Assets, Net	\$ 53,572,287	\$ 1,165,248	\$	\$ 54,737,535

Note: (1) Additions do not agree with the depreciation expense recorded in the SRECNA due to the reclassification of \$1,054,941 of Assets under Capital Lease to Furniture, Machinery, and Equipment.

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

7. DEFERRED REVENUE

At June 30, 2011, the College reported \$213,155 in deferred revenue for student tuition and fees received prior to fiscal year-end related to subsequent accounting periods.

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2011, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 710,000	\$	\$ 85,000	\$ 625,000	\$ 90,000
Compensated Absences Payable	2,212,571	416,675	176,417	2,452,829	9,834
Other Postemployment Benefits Payable	93,463	86,473	47,127	132,809	
Total Long-Term Liabilities	\$ 3,016,034	\$ 503,148	\$ 308,544	\$ 3,210,638	\$ 99,834

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 at June 30, 2011:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds: Series 2005A	<u>\$ 625,000</u>	5.0	2017

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2012	\$ 90,000	\$ 31,250	\$ 121,250
2013	95,000	26,750	121,750
2014	100,000	22,000	122,000
2015	110,000	17,000	127,000
2016	115,000	11,500	126,500
2017	115,000	5,750	120,750
Total	\$ 625,000	\$ 114,250	\$ 739,250

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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, 2011, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$2,452,829. Of this amount, \$9,834 is considered a current liability as this is expected to be paid in the coming fiscal year. The College calculates its current portion of 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 fiscal year.

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

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit plan administered by the Consortium (Plan). Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 43 retirees received postemployment healthcare benefits, and 44 retirees received postemployment life insurance benefits. The College provided required contributions of \$44,012 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$275,694.

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

**POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the College’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 58,488
Amortization of Unfunded Actuarial Accrued Liability	<u>25,181</u>
Annual Required Contribution	83,669
Interest on Net OPEB Obligation	2,804
Adjustment to Annual Required Contribution	<u>(3,115)</u>
Annual OPEB Cost (Expense)	83,358
Contribution Toward the OPEB Cost	<u>(44,012)</u>
Increase in Net OPEB Obligation	39,346
Net OPEB Obligation, Beginning of Year	<u>93,463</u>
Net OPEB Obligation, End of Year	<u><u>\$ 132,809</u></u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and for the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008-09	\$ 72,299	56.1%	\$ 53,209
2009-10	83,669	51.7%	93,463
2010-11	83,358	52.8%	132,809

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$733,413 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$733,413 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$16,041,227 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.6 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The College's OPEB actuarial valuation as of July 1, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the College's 2010-11 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 7.8 percent for the 2010-11 fiscal year, reduced by 0.1 to .03 percent per year, to an ultimate rate of 4.5 percent after 16 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, 2011, was 26 years.

9. 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, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the 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, 2009, June 30, 2010, and June 30, 2011, totaled \$1,148,174, \$1,170,072, and \$1,352,255, 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 96 College participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$506,321.

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

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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 36 College participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$261,628.

10. CONSTRUCTION COMMITMENTS

The College’s major construction commitments at June 30, 2011, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Chain of Lakes High School Building	\$ 3,566,447	\$ 2,498,978	\$ 1,067,469

11. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million. Insurance coverage obtained through the Consortium included health and hospitalization, life, dental, group long-term disability, team sport accident, property casualty, 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.

Bonding of the members of the Board of Trustees is provided through purchased commercial insurance with minimum deductibles.

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JUNE 30, 2011**

12. 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.

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	\$ 19,332,105
Education Enhancement Trust Fund (Lottery)	2,404,571
Gross Receipts Tax (Public Education Capital Outlay)	1,774,606
Bright Futures Scholarship Program	1,645,202
Restricted Contracts and Grants	1,047,363
Florida Student Assistance Grants	452,212
Motor Vehicle License Tax (Capital Outlay and Debt Service)	254,712
Other State Sources	44,498
Total	\$ 26,955,269

13. 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:

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<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 22,244,799
Public Services	125,239
Academic Support	7,154,521
Student Services	5,196,425
Institutional Support	8,166,432
Operation and Maintenance of Plant	9,444,547
Scholarships and Fellowships	10,803,846
Depreciation	3,299,322
Auxiliary Enterprises	<u>292,475</u>
Total Operating Expenses	<u>\$ 66,727,606</u>

**POLK STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 635,282	\$ 635,282	0%	\$ 14,556,248	4.4%
7/1/2009	\$	\$ 733,413	\$ 733,413	0%	\$ 15,746,831	4.7%

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

**POLK STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, actuarial accrued liability of \$733,413 was \$98,131 higher than the July 1, 2007, liability of \$635,282. This was a result of increases due to the expected growth of liabilities over time, demographic changes, updated participation and medical trend assumptions, updated claims costs, changes in the required contributions, and revised mortality assumption.



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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, 2011, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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
February 3, 2012