REPORT NO. 2014-104
FEBRUARY 2014

77

POLK STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

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) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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, 2013. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

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.

AUDITOR GENERAL

STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
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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

Report on the 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Polk State College and of its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of 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* in considering Polk State College's internal control over financial reporting and compliance.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
February 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2013, and June 30, 2012, and its component unit, Polk State College Foundation, Inc., for the fiscal years ended December 31, 2012, and December 31, 2011.

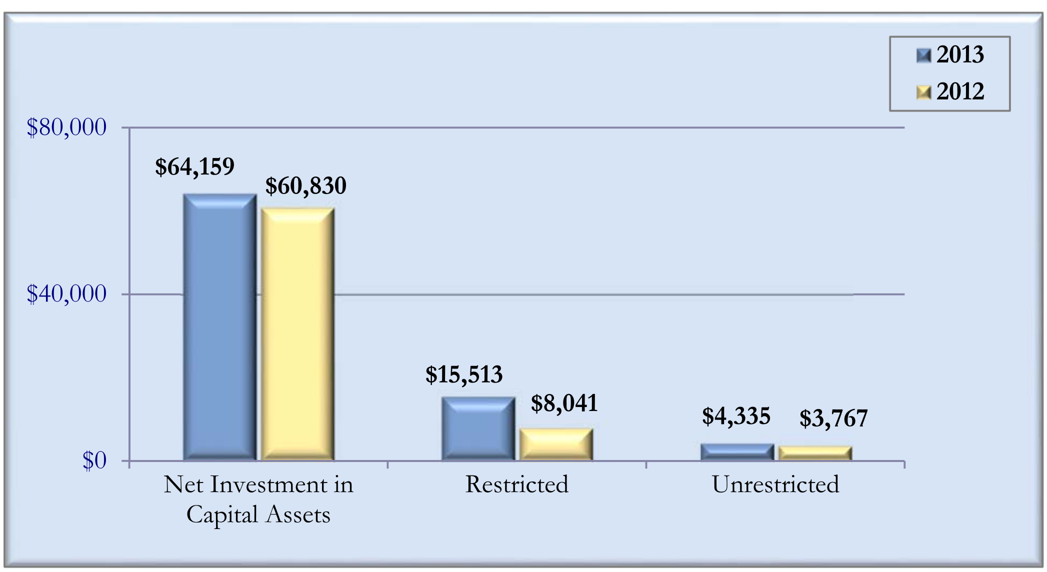
FINANCIAL HIGHLIGHTS

The College's assets totaled $91.4 million at June 30, 2013. This balance reflects a $12.8 million, or 16.3 percent, increase as compared to the 2011-12 fiscal year, resulting from increases in amounts due for Public Education Capital Outlay (PECO) appropriations and amounts due from the component unit for construction on the Clear Springs Advanced Technology Center. Liabilities increased by $1.4 million, or 24 percent, totaling $7.4 million at June 30, 2013, compared to $6 million at June 30, 2012. As a result, the College's net position increased by $11.4 million, resulting in a year-end balance of $84 million at June 30, 2013.

The College's operating revenues totaled $20.6 million for the 2012-13 fiscal year, representing an increase of 12.9 percent as compared to the 2011-12 fiscal year due mainly to increases in tuition and fees, Federal grants and contracts, and corporate training programs. Operating expenses totaled $74.9 million for the 2012-13 fiscal year, representing an increase of 7.7 percent as compared to the 2011-12 fiscal year due mainly to an increase in personnel services.

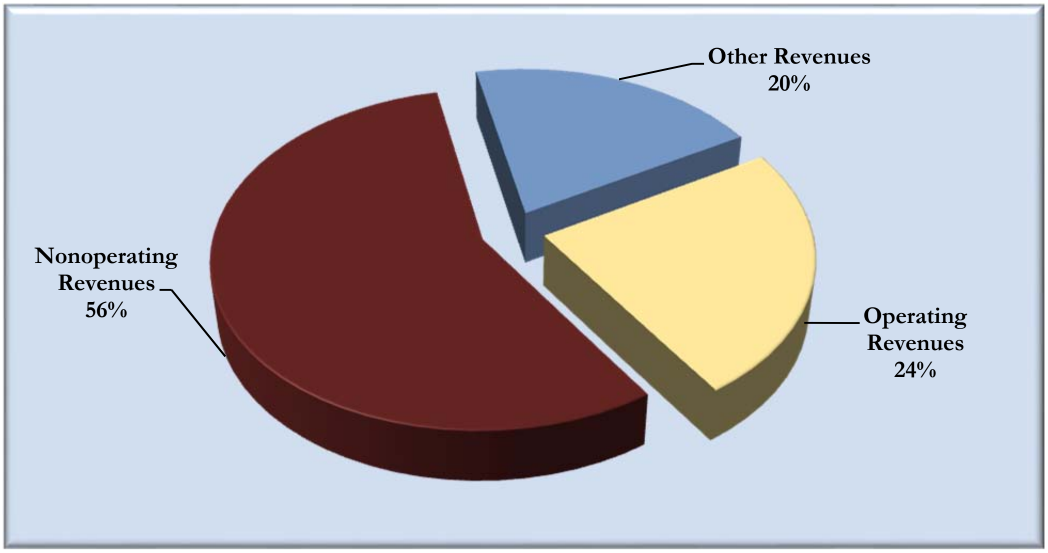
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

Net Position: College
(In Thousands)



The following chart provides a graphical presentation of College revenues by category for the 2012-13 fiscal year:

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

- 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 POSITION

The statement of net position reflects the assets and liabilities of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets less liabilities equals net position, which is one indicator of the College's current financial condition. The changes in net position that occurs over time indicate improvement or deterioration in the College's financial condition.

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

Condensed Statement of Net Position at
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Assets				
Current Assets	$ 26,597	$ 16,380	$ 19,857	$ 18,346
Capital Assets, Net	64,599	61,365	13	13
Other Noncurrent Assets	239	884	11,681	16,470
Total Assets	91,435	78,629	31,551	34,829
Liabilities				
Current Liabilities	3,585	2,451	536	7,667
Noncurrent Liabilities	3,843	3,540		
Total Liabilities	7,428	5,991	536	7,667
Net Position				
Net Investment in Capital Assets	64,159	60,830	13	13
Restricted	15,513	8,041	29,796	26,137
Unrestricted	4,335	3,767	1,206	1,012
Total Net Position	$ 84,007	$ 72,638	$ 31,015	$ 27,162

Current assets increased mainly due to increases in amounts due for PECO appropriations and amounts due from the component unit. Current liabilities increased mainly due to increased salaries payable, accrued accounts payable, and retainage payable.

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

The statement of revenues, expenses, and changes in net position presents the College's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the activities of the College and its component unit for the respective fiscal years ended:

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

	College		Component Unit	
	06-30-13	06-30-12	12-31-12	12-31-11
Operating Revenues	$ 20,602	$ 18,256	$ 8,858	$ 1,459
Less, Operating Expenses	74,925	69,582	7,184	2,039
Operating Income (Loss)	(54,323)	(51,326)	1,674	(580)
Net Nonoperating Revenues	48,493	47,636	604	120
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,830)	(3,690)	2,278	(460)
Other Revenues, Expenses, Gains, or Losses	17,199	3,626	1,575	(108)
Net Increase (Decrease) In Net Position	11,369	(64)	3,853	(568)
Net Position, Beginning of Year	72,638	72,702	27,162	27,730
Net Position, End of Year	$ 84,007	$ 72,638	$ 31,015	$ 27,162

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

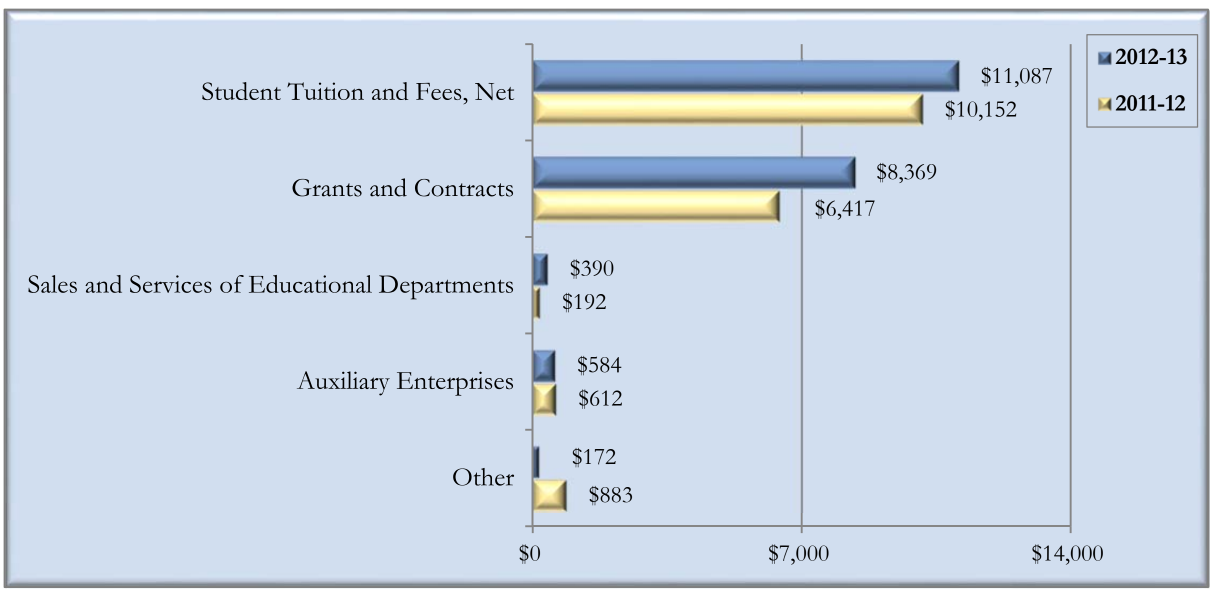
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective fiscal years ended:

Operating Revenues
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Student Tuition and Fees, Net	$ 11,087	$ 10,152	$	$
Grants and Contracts	8,369	6,417		
Sales and Services of Educational Departments	390	192		
Auxiliary Enterprises	584	612		
Other	172	883	8,858	1,459
Total Operating Revenues	$ 20,602	$ 18,256	$ 8,858	$ 1,459

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

Operating Revenues: College
(In Thousands)



College operating revenue increased $2.3 million, or 12.9 percent, as compared to the prior fiscal year, primarily due to the following:

- Net tuition and fees increased $935 thousand as a result of increases to the tuition and fees rates.
- Grants and contracts increased $2 million as a result of increases in Federal vocational training grants, corporate training contracts, and other training grants.

Operating Expenses

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

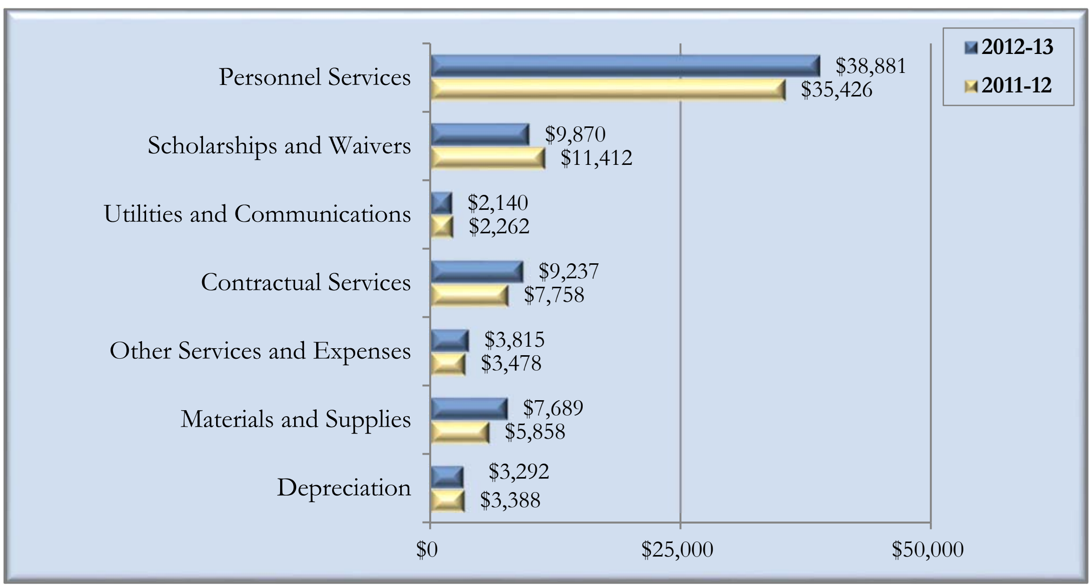
The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended:

Operating Expenses
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Personnel Services	$ 38,881	$ 35,426	$ 79	$ 290
Scholarships and Waivers	9,870	11,412	843	970
Utilities and Communications	2,140	2,262	14	19
Contractual Services	9,237	7,758	322	316
Other Services and Expenses	3,815	3,478	760	400
Materials and Supplies	7,689	5,858	5,166	44
Depreciation	3,293	3,388		
Total Operating Expenses	$ 74,925	$ 69,582	$ 7,184	$ 2,039

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

Operating Expenses: College
(In Thousands)



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

- Personnel services increased $3.5 million or 9.8 percent. This change is due mainly to the hiring of additional staff and a 1.25 percent pay increase for College staff.

- Scholarships and waivers decreased by $1.5 million or 13.5 percent, primarily due to a decrease in Federal Pell grants awarded.
- Contractual services cost increased $1.5 million, or 19.1 percent, as a result of an increase in spending for corporate training programs and facilities services.
- Materials and supplies increased $1.8 million, or 31.2 percent, primarily as a result of an increase in spending for noncapitalized repairs and equipment.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

Nonoperating Revenues (Expenses): College
(In Thousands)

	2012-13	2011-12
State Noncapital Appropriations	$27,652	$24,660
Federal and State Student Financial Aid	20,855	22,938
Gifts and Grants		47
Investment Income	13	22
Interest on Capital Asset-Related Debt	(27)	(31)
Net Nonoperating Revenues	$48,493	$47,636

Changes in nonoperating revenues are primarily related to the following:

- State noncapital appropriations increased $3 million, or 12.1 percent, as a result of an increase in State College Program Fund revenues.
- Federal and State student financial aid decreased by $2.1 million, or 9.1 percent, mainly due to a decrease in Federal Pell grants awarded.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Capital Appropriations	$10,428	$ 948
Capital Grants, Contracts, Gifts, and Fees	6,771	2,678
Total	$17,199	$ 3,626

Changes in other revenues, expenses, gains, or losses are primarily related to the following:

- State capital appropriations increased $9.5 million, primarily due to an increase in PECO appropriations.
- Capital gifts and grants increased $4.1 million. This is primarily due to the amounts received from the Foundation for construction of the Clear Springs Advanced Technology Center.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The statement of cash flows also helps users assess:

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

The following summarizes the College's cash flows for the 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows: College
(In Thousands)

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	$ (50,341)	$ (49,551)
Noncapital Financing Activities	47,298	46,672
Capital and Related Financing Activities	2,363	1,125
Investing Activities	13	24
Net Decrease in Cash and Cash Equivalents	(667)	(1,730)
Cash and Cash Equivalents, Beginning of Year	9,903	11,633
Cash and Cash Equivalents, End of Year	$ 9,236	$ 9,903

Major sources of funds came from State noncapital appropriations ($27.7 million), Federal and State student financial aid ($20.9 million), net student tuition and fees ($10.5 million), Federal direct loan program receipts ($10.1 million), grants and contracts ($8.4 million), capital gifts and grants ($5.5 million), and state capital appropriations ($2 million). Major uses of funds were payments to employees ($32 million), payments for employee benefits ($6.1 million), payments to suppliers ($20.2 million), Federal direct loan program disbursements ($10.1 million), payments for scholarships ($9.9 million), purchases of capital assets ($5 million) and payments for utilities and communications ($2.1 million).

Changes in cash and cash equivalents were the result of an increase in personnel costs from operating activities and an increase in purchases of capital assets from capital financing activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had $109.9 million in capital assets, less accumulated depreciation of $45.3 million, for net capital assets of $64.6 million. Depreciation charges for the current fiscal year totaled $3.3 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

Capital Assets	2013	2012
Land	$ 6,055	$ 4,748
Artwork	12	12
Construction in Progress	4,019	590
Buildings	52,645	53,661
Other Structures and Improvements	776	990
Furniture, Machinery, and Equipment	746	993
Leasehold Improvements	346	371
Capital Assets, Net	$64,599	$61,365

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2013, were incurred on the following projects: the Lake Wales Art Center (Project cost $1.3 Million) and the Clear Springs Advanced Technology Center (Project cost $10 Million). The College's major construction commitment at June 30, 2013, is as follows:

	Amount (In Thousands)
Total Committed	$ 10,000
Completed to Date	(4,019)
Balance Committed	$ 5,981

Additional information about the College's construction commitment is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2013, the College had $440 thousand in long-term debt outstanding versus $535 thousand at the end of the prior fiscal year, a decrease of 17.8 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2012-13 fiscal year, there were no bond sales and debt repayments totaled $95 thousand.

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 2013-14 fiscal year are less than those received in the 2012-13 fiscal year due to the elimination of non-recurring dollars pledged by the State to fund program development. Limited economic growth in the State and increased demand on State resources continues to suggest uncertainty regarding the level of future State allocations. The Board of Trustees elected to hold tuition rates flat for the 2013-14 fiscal year.

The College anticipates minimal enrollment growth for the 2013-14 fiscal year. Projected tuition revenue for the 2013-14 fiscal year of $18 million (a 2 percent increase over the 2012-13 fiscal year) was conservatively based on the premise of maintaining current enrollment levels. The College continues to implement cost-saving measures to control expenses.

The Board of Trustees adopted a $2.00 per credit hour increase in the Capital Improvement Fee. This increase will help the College mitigate any uncertainty within the State's PECO funding. The College continues to monitor the

State's PECO program. Continued uncertainty regarding the availability of PECO funds for repairs, renovations and new construction of College facilities has delayed and otherwise deferred capital projects. The impact of the deferral of these projects has an uncertain effect on the College in the coming years.

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 Peter Elliott, CPA, Vice President for 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 POSITION
June 30, 2013

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 6,941,305	$ 31,706
Restricted Cash and Cash Equivalents	2,067,108	10,966,387
Investments		1,038,564
Restricted Investments		7,131,092
Accounts Receivable, Net	2,804,996	
Contributions Receivable, Net		93,217
Notes Receivable, Net		595,669
Due from Other Governmental Agencies	12,764,904	
Due from Component Unit	2,018,239	
Total Current Assets	26,596,552	19,856,635
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	227,839	324,158
Investments		10,250,691
Contributions Receivable, Net		993,408
Notes Receivable, Net		113,722
Restricted Investments	11,973	
Depreciable Capital Assets, Net	54,513,244	
Nondepreciable Capital Assets	10,085,587	12,782
Total Noncurrent Assets	64,838,643	11,694,761
TOTAL ASSETS	91,435,195	31,551,396
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,275,095	523,726
Salary and Payroll Taxes Payable	1,536,645	
Retainage Payable	207,803	
Due to Other Governmental Agencies	212,798	
Unearned Revenue	109,673	12,350
Deposits Held for Others	50,347	
Long-Term Liabilities - Current Portion:		
Bonds Payable	100,000	
Compensated Absences Payable	92,763	
Total Current Liabilities	3,585,124	536,076
Noncurrent Liabilities:		
Bonds Payable	340,000	
Compensated Absences Payable	3,135,480	
Other Postemployment Benefits Payable	367,085	
Total Noncurrent Liabilities	3,842,565	
TOTAL LIABILITIES	7,427,689	536,076

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

	College	Component Unit
NET POSITION		
Net Investment in Capital Assets	$ 64,158,831	$ 12,782
Restricted:		
Nonexpendable:		
Endowment		11,056,857
Expendable:		
Grants and Loans	2,730,076	1,534,731
Scholarships	430,565	4,747,242
Capital Projects	12,341,065	9,527,767
Debt Service	11,973	
Other		2,930,367
Unrestricted	4,334,996	1,205,574
TOTAL NET POSITION	$ 84,007,506	$ 31,015,320

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 POSITION
For the Fiscal Year Ended June 30, 2013

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $12,243,763	$ 11,086,923	$
Federal Grants and Contracts	3,663,064	
State and Local Grants and Contracts	3,229,417	
Nongovernmental Grants and Contracts	1,476,382	
Sales and Services of Educational Departments	390,246	
Auxiliary Enterprises	584,003	
Other Operating Revenues	172,133	8,858,358
Total Operating Revenues	20,602,168	8,858,358
EXPENSES		
Operating Expenses:		
Personnel Services	38,880,875	79,093
Scholarships and Waivers	9,870,598	842,866
Utilities and Communications	2,140,222	14,218
Contractual Services	9,237,556	322,057
Other Services and Expenses	3,814,777	759,893
Materials and Supplies	7,688,538	5,166,248
Depreciation	3,292,548	
Total Operating Expenses	74,925,114	7,184,375
Operating Income (Loss)	(54,322,946)	1,673,983
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	27,652,294	
Federal and State Student Financial Aid	20,854,532	
Investment Income	13,060	341,922
Unrealized Gain on Investments		261,887
Interest on Capital Asset-Related Debt	(26,750)	
Net Nonoperating Revenues	48,493,136	603,809
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,829,810)	2,277,792
State Capital Appropriations	10,427,871	
Capital Grants, Contracts, Gifts, and Fees	6,771,364	
Changes in Permanent Endowments		1,575,251
Total Other Revenues	17,199,235	1,575,251
Increase in Net Position	11,369,425	3,853,043
Net Position, Beginning of Year	72,638,081	27,162,277
Net Position, End of Year	$ 84,007,506	$ 31,015,320

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, 2013

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 10,486,924
Grants and Contracts	8,368,863
Payments to Suppliers	(20,190,112)
Payments for Utilities and Communications	(2,140,222)
Payments to Employees	(31,988,081)
Payments for Employee Benefits	(6,145,625)
Payments for Scholarships	(9,870,598)
Auxiliary Enterprises	584,003
Sales and Service of Educational Departments	390,246
Other Receipts	163,214
Net Cash Used by Operating Activities	(50,341,388)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	27,652,294
Federal and State Student Financial Aid	20,854,532
Federal Direct Loan Program Receipts	10,125,324
Federal Direct Loan Program Disbursements	(10,125,324)
Other Nonoperating Disbursements	(1,209,094)
Net Cash Provided by Noncapital Financing Activities	47,297,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	2,032,296
Capital Grants and Gifts	5,463,583
Purchases of Capital Assets	(5,011,014)
Principal Paid on Capital Debt	(95,000)
Interest Paid on Capital Debt	(26,750)
Net Cash Provided by Capital and Related Financing Activities	2,363,115
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	13,060
Net Cash Provided by Investing Activities	13,060
Net Decrease in Cash and Cash Equivalents	(667,481)
Cash and Cash Equivalents, Beginning of Year	9,903,733
Cash and Cash Equivalents, End of Year	$ 9,236,252

POLK STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (54,322,946)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,292,548
Changes in Assets and Liabilities:	
Receivables, Net	(597,447)
Accounts Payable	550,759
Salary and Payroll Taxes Payable	343,162
Unearned Revenue	35,571
Deposits Held for Others	(47,041)
Compensated Absences Payable	291,242
Other Postemployment Benefits Payable	112,764
NET CASH USED BY OPERATING ACTIVITIES	$ (50,341,388)
SUPPLEMENTAL DISCLOSURE OF CAPITAL FINANCING ACTIVITIES	
The fair value of donated property was recognized as income on the statement of revenues, expenses and changes in net position, but is not a cash transaction for the statement of cash flows.	$ 1,307,781

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, 2013

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. 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), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2012.

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

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with 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:

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

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

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

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

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated 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.

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

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash in 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; artwork; 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
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
    - Computer Equipment – 3 years
    - Vehicles, Office Machines, and Educational Equipment – 5 years
    - Furniture – 7 years
- Leasehold Improvements – Life of Lease – 20 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 (SBA); 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

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

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 (SBE) 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 totaling $11,973 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE 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 SBA 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 Foundation at December 31, 2012, are reported at fair value as follows:

Investment Type	Fair Value
Money Market Funds	$ 29,879
Mutual Stock Funds	8,643,878
Mutual Allocation Funds	1,430,881
Mutual Bond Funds	8,315,709
Total Investments	$ 18,420,347

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 interest rate risk, 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 ranging from 4.02 to 5.45 years, were as follows at December 31, 2012:

Investment Type	Investment Maturities (In Years)	
	Fair Value	1-5
Mutual Bond Funds	$ 8,315,709	$ 8,315,709

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 expect that up to 10 percent of the portfolio can be invested in mutual funds that

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

focus their investment strategy on below investment grade bonds. Also, the Foundation's policy allows investment in commercial paper rated A1 (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 which tend to have a higher degree of credit risk. Investments in these funds are $1,162,000 and represent 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 18 mutual funds with the largest individual fund allocation comprising 16.9 percent of the total portfolio. These funds invest in a variety of securities. When the individual holding 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, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a $623,339 allowance for uncollectable accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of $11,058,278 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM COMPONENT UNIT

The $2,018,239 reported as due from component unit mainly consists of amounts owed to the College by the Foundation for costs incurred in the construction of the Clear Springs Advanced Technology Center as well as sponsored cardiovascular technology and nursing instruction. The College's financial statements are reported for the fiscal year ended June 30, 2013. The Foundation's financial statements are reported for fiscal year ended December 31, 2012. Accordingly, amounts reported by the College as due from the component unit on the statement of net position do not agree with amounts reported by the Foundation as due to the College.

6. CAPITAL ASSETS

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

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 4,747,601	$ 1,307,781	$	$ 6,055,382
Artwork	11,700			11,700
Construction in Progress	589,995	3,512,588	84,078	4,018,505
Total Nondepreciable Capital Assets	$ 5,349,296	$ 4,820,369	$ 84,078	$ 10,085,587
Depreciable Capital Assets:				
Buildings	$ 86,272,018	$ 1,333,718	$	$ 87,605,736
Other Structures and Improvements	5,356,337			5,356,337
Furniture, Machinery, and Equipment	6,194,299	456,590	288,187	6,362,702
Leasehold Improvements	493,964			493,964
Total Depreciable Capital Assets	98,316,618	1,790,308	288,187	99,818,739
Less, Accumulated Depreciation:				
Buildings	32,611,140	2,349,834		34,960,974
Other Structures and Improvements	4,365,852	214,301		4,580,153
Furniture, Machinery, and Equipment	5,200,651	703,715	288,187	5,616,179
Leasehold Improvements	123,491	24,698		148,189
Total Accumulated Depreciation	42,301,134	3,292,548	288,187	45,305,495
Total Depreciable Capital Assets, Net	$ 56,015,484	$ (1,502,240)	$	$ 54,513,244

7. UNEARNED REVENUE

As of June 30, 2013, the College reported $109,673 in unearned 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, 2013, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 535,000	$	$ 95,000	$ 440,000	$ 100,000
Compensated Absences Payable	2,937,001	385,678	94,436	3,228,243	92,763
Other Postemployment Benefits Payable	254,321	126,933	14,169	367,085	
Total Long-Term Liabilities	$ 3,726,322	$ 512,611	$ 203,605	$ 4,035,328	$ 192,763

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

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2013:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2005A	$ 440,000	5.0	2017

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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	$ 440,000	$ 56,250	$ 496,250

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2013, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $3,228,243. The current portion of the compensated absences liability, $92,763, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability. 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 other postemployment 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 for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes,

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 40 retirees received other postemployment benefits. The College provided required contributions of $14,169 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 $236,759, which represents 1.2 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the College's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College's net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	$ 97,165
Amortization of Unfunded Actuarial Accrued Liability	28,072
Annual Required Contribution	125,237
Interest on Net OPEB Obligation	10,173
Adjustment to Annual Required Contribution	(8,477)
Annual OPEB Cost (Expense)	126,933
Contribution Toward the OPEB Cost	(14,169)
Increase in Net OPEB Obligation	112,764
Net OPEB Obligation, Beginning of Year	254,321
Net OPEB Obligation, End of Year	$ 367,085

POLK STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, and for the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	$ 83,358	52.8%	$ 132,809
2011-12	126,122	3.7%	254,321
2012-13	126,933	11.2%	367,085

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was $842,157, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $842,157 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $20,462,164 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years for pre-Medicare and 5 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2013, was 24 years.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

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

Class	Percent of Gross Salary Employee	Percent of Gross Salary Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled $1,352,255, $1,029,139, and $1,204,454, respectively, which were equal to the required contributions for each fiscal year.

There were 131 College participants in the Investment Plan during the 2012-13 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled $541,479, which was equal to the required contribution for the 2012-13 fiscal year.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 5.64 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 44 College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled $153,244 and employee contributions totaled $80,234 for the 2012-13 fiscal year.

10. CONSTRUCTION COMMITMENT

The College's major construction commitment at June 30, 2013, is as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Clear Springs Advanced Technology Center	$ 10,000,000	$ 4,018,505	$ 5,981,495

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 $90 million to February 28, 2013, and up to $125 million from March 1, 2013. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial 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.

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 position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

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JUNE 30, 2013

Functional Classification	Amount
Instruction	$ 27,144,898
Public Services	292,192
Academic Support	8,176,547
Student Services	6,319,847
Institutional Support	9,592,262
Operation and Maintenance of Plant	9,432,682
Scholarships and Waivers	9,870,598
Depreciation	3,292,548
Auxiliary Enterprises	803,540
Total Operating Expenses	$ 74,925,114

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%
7/1/2011		842,157	842,157	0%	17,139,785	4.9%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the 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, 2011, unfunded actuarial accrued liability of $842,157 was significantly higher than the July 1, 2009, liability of $733,413 as a result of the following factors:

- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate healthcare costs between ages.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.

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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*

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 12, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
February 12, 2014