

# POLK STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2014



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

Linda Pilkington, Vice Chair to 8-25-13,  
Chair from 8-26-13  
Daniel F. Dorrell, Vice Chair from 8-26-13 (1)  
Mark G. Turner, Chair to 8-25-13  
Ricardo Garcia  
Gregory Littleton  
Teresa V. Martinez (2)  
Vacant (3)

Dr. Eileen Holden, President

Notes: (1) Board member served beyond the end of term, May 31, 2014.  
(2) Board member served beyond the end of term, May 31, 2013.  
(3) Position remained vacant from July 1, 2013, through June 30, 2014.

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 Mark A. Arroyo, 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](mailto: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](http://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

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### 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, 2014. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2015-085.

### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722  
FAX: 850-488-6975

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, 2014, 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, 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, 2014, 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 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.

***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  
January 27, 2015

**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, 2014, and should be read in conjunction with the financial statements and notes thereto. 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, 2014, and June 30, 2013, and its component unit the Polk State College Foundation, Inc., for the fiscal years ended December 31, 2013, and December 31, 2012.

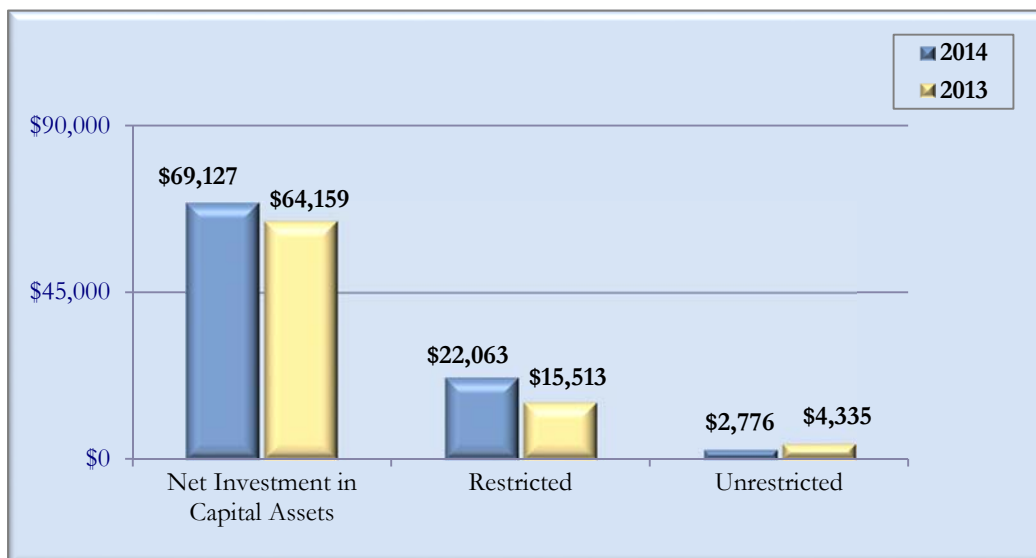
**FINANCIAL HIGHLIGHTS**

The College’s assets totaled \$101.4 million at June 30, 2014. This balance reflects a \$9.9 million, or 10.9 percent, increase as compared to the 2012-13 fiscal year, primarily resulting from increases in amounts due for Public Education Capital Outlay (PECO) and an increase in capital assets net of accumulated depreciation as the result of the capitalization of the Clear Springs Advanced Technology Center. While assets grew, liabilities remained the same at \$7.4 million for both fiscal years. As a result, the College’s net position increased by \$10 million, resulting in a year-end balance of \$94 million.

The College’s operating revenues totaled \$19.9 million for the 2013-14 fiscal year, representing a 3.4 percent decrease as compared to the 2012-13 fiscal year due mainly to decreases in Federal and nongovernmental grants and contracts, and an increase in scholarship allowances. Operating expenses totaled \$80.4 million for the 2013-14 fiscal year, representing an increase of 7.3 percent as compared to the 2012-13 fiscal year due mainly to an increase in personnel services.

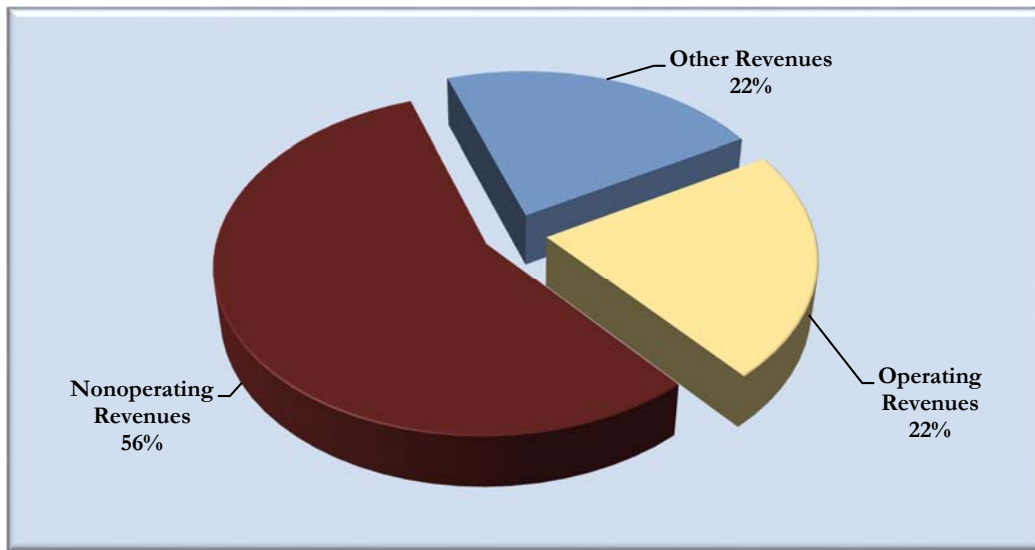
Net position represents the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2013-14 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 Foundation’s fiscal year is from January 1<sup>st</sup> to December 31<sup>st</sup>. As a result, the Foundation’s financial activities presented in the MD&A and accompanying financial statements are for the fiscal years ended December 31, 2013, and 2012, respectively.

**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	
	6-30-14	6-30-13	12-31-13	12-31-12
<b>Assets</b>				
Current Assets	\$ 29,241	\$ 26,597	\$ 13,963	\$ 19,857
Capital Assets, Net	69,467	64,599	33	13
Other Noncurrent Assets	2,665	239	13,921	11,681
<b>Total Assets</b>	<b>101,373</b>	<b>91,435</b>	<b>27,917</b>	<b>31,551</b>
<b>Liabilities</b>				
Current Liabilities	3,329	3,585	1,068	536
Noncurrent Liabilities	4,078	3,843		
<b>Total Liabilities</b>	<b>7,407</b>	<b>7,428</b>	<b>1,068</b>	<b>536</b>
<b>Net Position</b>				
Net Investment in Capital Assets	69,127	64,159	33	13
Restricted	22,063	15,513	25,697	29,796
Unrestricted	2,776	4,335	1,119	1,206
<b>Total Net Position</b>	<b>\$ 93,966</b>	<b>\$ 84,007</b>	<b>\$ 26,849</b>	<b>\$ 31,015</b>

Current Assets increased mainly due to increases in amounts due for PECO appropriations.

**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	
	6-30-14	6-30-13	12-31-13	12-31-12
Operating Revenues	\$ 19,893	\$ 20,602	\$ 1,766	\$ 8,858
Less, Operating Expenses	80,409	74,925	10,412	7,184
<b>Operating Income (Loss)</b>	<b>(60,516)</b>	<b>(54,323)</b>	<b>(8,646)</b>	<b>1,674</b>
Net Nonoperating Revenues	50,648	48,493	2,368	604
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(9,868)</b>	<b>(5,830)</b>	<b>(6,278)</b>	<b>2,278</b>
Other Revenues, Expenses, Gains, or Losses	19,827	17,199	2,112	1,575
<b>Net Increase (Decrease) In Net Position</b>	<b>9,959</b>	<b>11,369</b>	<b>(4,166)</b>	<b>3,853</b>
Net Position, Beginning of Year	84,007	72,638	31,015	27,162
<b>Net Position, End of Year</b>	<b>\$ 93,966</b>	<b>\$ 84,007</b>	<b>\$ 26,849</b>	<b>\$ 31,015</b>

**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.

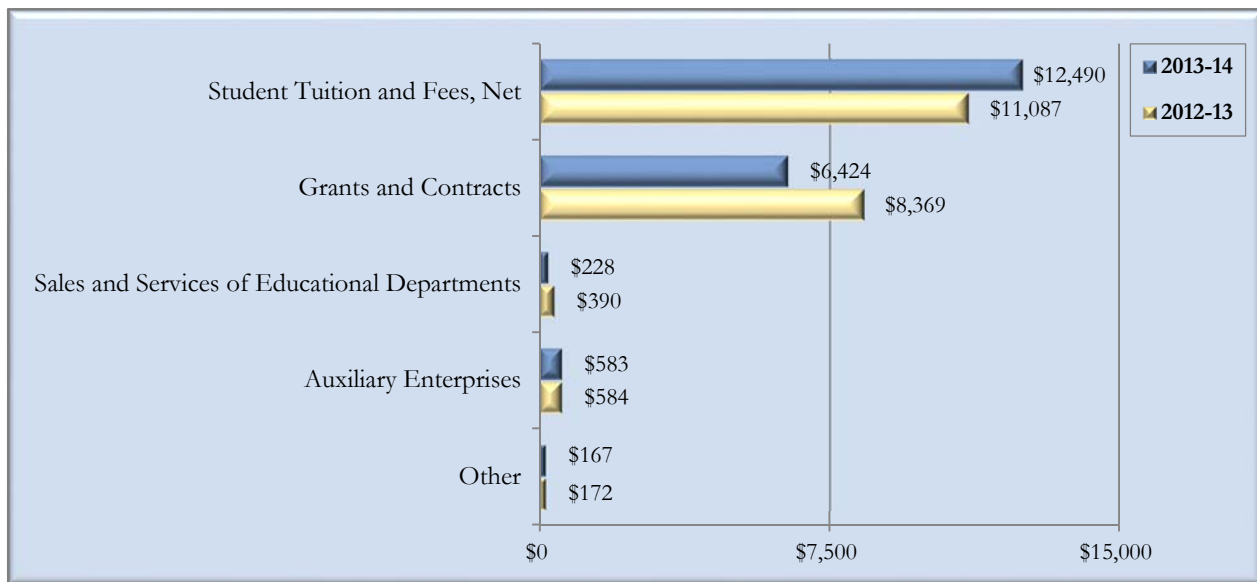
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-14	6-30-13	12-31-13	12-31-12
Student Tuition and Fees, Net	\$ 12,490	\$ 11,087	\$	\$
Grants and Contracts	6,425	8,369		
Sales and Services of Educational Departments	228	390		
Auxiliary Enterprises	583	584		
Other	167	172	1,766	8,858
<b>Total Operating Revenues</b>	<b>\$ 19,893</b>	<b>\$ 20,602</b>	<b>\$ 1,766</b>	<b>\$ 8,858</b>

The following chart presents the College’s operating revenues for the 2013-14 and 2012-13 fiscal years:

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



College operating revenues decreased \$708 thousand or 3.4 percent, as compared to the prior fiscal year, primarily due to the following:

- Net student tuition and fees increased \$1.4 million, or 12.7 percent, as a result of increases in corporate training revenues and student enrollment growth.
- Grants and Contracts declined \$1.9 million, or 23.2 percent, primarily as a result of a reduction in community-based job 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.

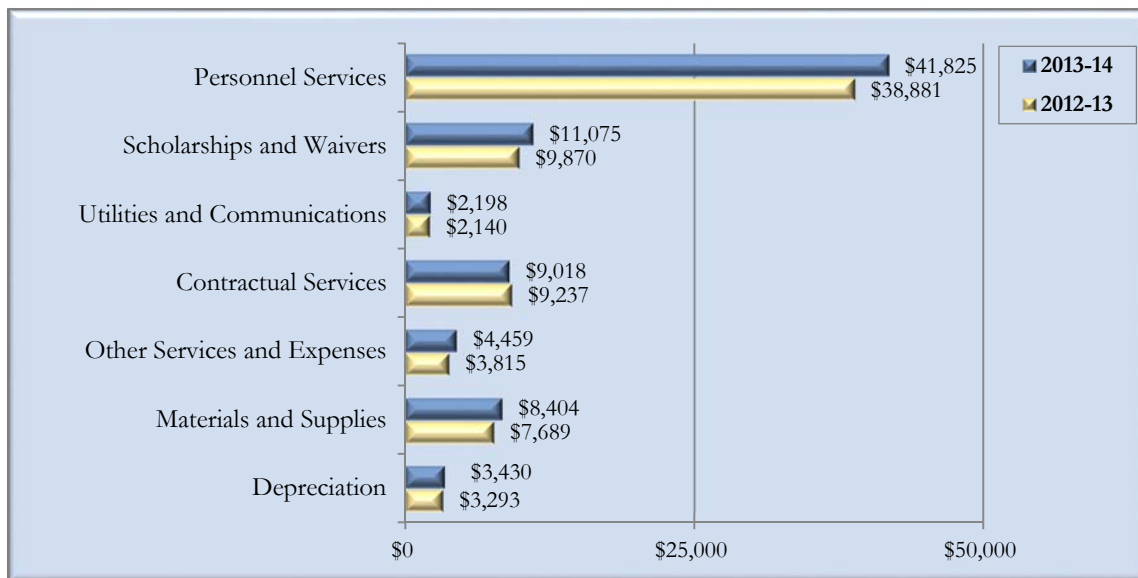
The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-14	6-30-13	12-31-13	12-31-12
Personnel Services	\$ 41,825	\$ 38,881	\$ 139	\$ 79
Scholarships and Waivers	11,075	9,870	1,723	843
Utilities and Communications	2,198	2,140	57	14
Contractual Services	9,018	9,237	342	322
Other Services and Expenses	4,459	3,815	226	760
Materials and Supplies	8,404	7,689	7,925	5,166
Depreciation	3,430	3,293		
<b>Total Operating Expenses</b>	<b>\$ 80,409</b>	<b>\$ 74,925</b>	<b>\$10,412</b>	<b>\$ 7,184</b>

The following chart presents the College’s operating expenses for the 2013-14 and 2012-13 fiscal years:

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



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

- Personnel services increased \$2.9 million, or 7.6 percent, primarily due to the hiring of additional staff and a 1.25 percent pay increase for College staff.

- Scholarships and waivers increased \$1.2 million, or 12.2 percent, primarily due to an increase in Federal Pell grants awarded.
- Materials and supplies increased \$715 thousand, or 9.3 percent, primarily due to furnishing and equipping the Clear Springs Advanced Technology Center.

**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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
State Noncapital Appropriations	\$ 26,782	\$ 27,652
Federal and State Student Financial Aid	22,727	20,855
Gifts and Grants	1,136	
Investment Income	13	13
Other Nonoperating Revenues	12	
Interest on Capital Asset-Related Debt	(22)	(27)
<b>Net Nonoperating Revenues</b>	<b>\$ 50,648</b>	<b>\$ 48,493</b>

Changes in nonoperating revenues are primarily related to the following:

- State noncapital appropriations decreased \$870 thousand primarily due to the decrease in non-recurring appropriations included in the Florida State College Program Fund.
- Federal and State student financial aid increased \$1.9 million, or 9 percent, mainly due to an increase in Federal Pell grants awarded.
- Gifts and grants increased \$1.1 million mainly due to payments received from the Polk County District School Board for dual enrollment students and amounts received from the Polk State College Foundation.

**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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
State Capital Appropriations	\$ 9,623	\$ 10,428
Capital Grants, Contracts, Gifts, and Fees	10,204	6,771
<b>Total</b>	<b>\$ 19,827</b>	<b>\$ 17,199</b>

Changes in other revenues, expenses, gains, or losses are primarily related to amounts received from the Foundation for the completion of the Clear Springs Advanced Technology Center and an increase in the Capital Improvement Fee charged per credit hour.

**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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
Cash Provided (Used) by:		
Operating Activities	\$ (57,183)	\$ (50,341)
Noncapital Financing Activities	52,904	47,298
Capital and Related Financing Activities	5,509	2,363
Investing Activities	13	13
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,243	(667)
Cash and Cash Equivalents, Beginning of Year	9,236	9,903
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 10,479</b>	<b>\$ 9,236</b>

Major sources of funds came from State noncapital appropriations (\$26.8 million), Federal and State student financial aid (\$22.7 million), net student tuition and fees (\$12.2 million), Federal Direct Student Loan program receipts (\$12.9 million), capital gifts and grants (\$9.3 million), and grants and contracts (\$6.4 million). Major uses of funds were for payments to employee salaries and benefits (\$41.4 million), payments to suppliers (\$22.2 million), disbursements to students for Federal Direct Student Loans (\$12.9 million), payments for scholarships (\$11.1 million), and purchases of capital assets (\$7.6 million).

The College’s overall liquidity was enhanced during the fiscal year as cash and cash equivalents increased by \$1.2 million from the prior fiscal year. Operating activities used an additional \$6.8 million primarily due to increases in personnel costs and scholarships and waivers. Noncapital financing activities increased by \$5.6 million primarily due to cash received from grants for the dual enrollment program. Cash provided by capital and related financing activities increased \$3.1 million primarily due to an increase in reimbursements from the Foundation.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,  
AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2014, the College had \$118.1 million in capital assets, less accumulated depreciation of \$48.6 million, for net capital assets of \$69.5 million. Depreciation charges for the current fiscal year totaled \$3.4 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)**

<u>Capital Assets</u>	<u>2014</u>	<u>2013</u>
Land	\$ 6,557	\$ 6,055
Artwork	12	12
Construction in Progress	1,366	4,019
Buildings	59,823	52,645
Other Structures and Improvements	562	776
Furniture, Machinery, and Equipment	826	746
Leasehold Improvements	321	346
<b>Capital Assets, Net</b>	<b><u>\$ 69,467</u></b>	<b><u>\$ 64,599</u></b>

**CAPITAL EXPENSES AND COMMITMENTS**

Major capital expenses through June 30, 2014, were incurred on the construction of the Clear Springs Advanced Technology Center and the Center for Public Safety. The College’s construction commitment at June 30, 2014, is as follows:

	<u>Amount (In Thousands)</u>
Total Committed	\$ 2,352
Completed to Date	<u>(1,366)</u>
<b>Balance Committed</b>	<b><u>\$ 986</u></b>

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

**DEBT ADMINISTRATION**

As of June 30, 2014, the College had \$340 thousand in long-term debt versus \$440 thousand at the end of the prior fiscal year, a decrease of 22.7 percent. This decrease was the result of debt principal payments on bonds totaling \$100 thousand.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The College’s economic condition is closely tied to that of the State of Florida. State appropriations for the 2014-15 fiscal year were slightly less than those received in the 2013-14 fiscal year. Although revenue projections at the State level indicate a rebound, the increased demand on State resources continue to suggest uncertainty regarding the level of future State allocations. The Board of Trustees elected to hold tuition rates flat for the 2014-15 fiscal year.

The College anticipates minimal student enrollment growth for the 2014-15 fiscal year. Projected tuition revenue for the 2014-15 fiscal year of \$19.3 million, or a 6 percent increase over the 2013-14 fiscal year, was conservatively based on the premise of maintaining current student enrollment levels. The College continues to implement cost-saving measures to control expenses.

The College continues to monitor the State of Florida 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 to 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, 2014**

	College	Component Unit
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 5,651,005	\$ 281,844
Restricted Cash and Cash Equivalents	2,171,962	3,872,704
Investments		689,304
Restricted Investments		8,686,135
Contributions Receivable, Net		216,542
Accounts Receivable, Net	2,941,386	
Notes Receivable, Net		190,585
Due from Other Governmental Agencies	18,024,742	
Due from Component Unit	451,621	
Other Receivables		25,468
<b>Total Current Assets</b>	<b>29,240,716</b>	<b>13,962,582</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,655,732	345,246
Restricted Investments	9,029	10,788,632
Contributions Receivable, Net		2,351,898
Notes Receivable		436,151
Depreciable Capital Assets, Net	61,531,837	
Nondepreciable Capital Assets	7,935,276	32,782
<b>Total Noncurrent Assets</b>	<b>72,131,874</b>	<b>13,954,709</b>
<b>TOTAL ASSETS</b>	<b>101,372,590</b>	<b>27,917,291</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	929,996	1,059,606
Salary and Payroll Taxes Payable	1,570,415	
Due to Other Governmental Agencies	303,120	
Unearned Revenue	133,751	9,000
Deposits Held for Others	158,479	
Long-Term Liabilities - Current Portion:		
Bonds Payable	110,000	
Compensated Absences Payable	122,766	
<b>Total Current Liabilities</b>	<b>3,328,527</b>	<b>1,068,606</b>
Noncurrent Liabilities:		
Bonds Payable	230,000	
Compensated Absences Payable	3,401,283	
Other Postemployment Benefits Payable	446,959	
<b>Total Noncurrent Liabilities</b>	<b>4,078,242</b>	
<b>TOTAL LIABILITIES</b>	<b>7,406,769</b>	<b>1,068,606</b>

**POLK STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET POSITION (CONTINUED)**  
 June 30, 2014

	<b>College</b>	<b>Component Unit</b>
<b>NET POSITION</b>		
Investment in Capital Assets	\$ 69,127,113	\$ 32,782
Restricted:		
Nonexpendable:		
Endowment		12,895,049
Expendable:		
Grants and Loans	2,616,709	1,456,352
Scholarships	440,590	6,177,079
Capital Projects	18,996,543	1,808,016
Debt Service	9,029	
Other		3,360,043
Unrestricted	2,775,837	1,119,364
<b>TOTAL NET POSITION</b>	<b>\$ 93,965,821</b>	<b>\$ 26,848,685</b>

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, 2014**

	<b>College</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$12,730,986	\$ 12,490,390	\$
Federal Grants and Contracts	2,070,342	
State and Local Grants and Contracts	3,957,095	
Nongovernmental Grants and Contracts	396,119	
Sales and Services of Educational Departments	228,229	
Auxiliary Enterprises	583,409	
Other Operating Revenues	166,802	1,766,102
<b>Total Operating Revenues</b>	<b>19,892,386</b>	<b>1,766,102</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	41,824,878	138,790
Scholarships and Waivers	11,074,883	1,723,261
Utilities and Communications	2,198,158	56,683
Contractual Services	9,017,732	342,293
Other Services and Expenses	4,459,265	226,102
Materials and Supplies	8,403,646	7,925,449
Depreciation	3,430,080	
<b>Total Operating Expenses</b>	<b>80,408,642</b>	<b>10,412,578</b>
<b>Operating Loss</b>	<b>(60,516,256)</b>	<b>(8,646,476)</b>
<b>NONOPERATING REVENUES</b>		
State Noncapital Appropriations	26,781,981	
Federal and State Student Financial Aid	22,726,487	
Gifts and Grants	1,135,434	
Investment Income	12,769	605,124
Unrealized Gain on Investments		1,763,072
Other Nonoperating Revenues	12,440	
Interest on Capital Asset-Related Debt	(22,000)	
<b>Net Nonoperating Revenues</b>	<b>50,647,111</b>	<b>2,368,196</b>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(9,869,145)</b>	<b>(6,278,280)</b>
State Capital Appropriations	9,623,087	
Capital Grants, Contracts, Gifts, and Fees	10,204,373	
Other Income		2,111,645
<b>Total Other Revenues</b>	<b>19,827,460</b>	<b>2,111,645</b>
<b>Increase (Decrease) in Net Position</b>	<b>9,958,315</b>	<b>(4,166,635)</b>
Net Position, Beginning of Year	84,007,506	31,015,320
<b>Net Position, End of Year</b>	<b>\$ 93,965,821</b>	<b>\$ 26,848,685</b>

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, 2014**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 12,194,394
Grants and Contracts	6,423,556
Payments to Suppliers	(22,225,742)
Payments for Utilities and Communications	(2,198,158)
Payments to Employees	(34,014,861)
Payments for Employee Benefits	(7,400,568)
Payments for Scholarships	(11,074,883)
Auxiliary Enterprises	583,409
Sales and Service of Educational Departments	228,229
Other Receipts	301,957
	<b>(57,182,667)</b>
<b>Net Cash Used by Operating Activities</b>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	26,781,981
Federal and State Student Financial Aid	22,709,375
Federal Direct Loan Program Receipts	12,925,455
Federal Direct Loan Program Disbursements	(12,925,455)
Other Nonoperating Receipts	3,412,387
	<b>52,903,743</b>
<b>Net Cash Provided by Noncapital Financing Activities</b>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	3,919,956
Capital Grants and Gifts	9,281,154
Proceeds from Sale of Capital Assets	12,440
Purchases of Capital Assets	(7,582,948)
Principal Paid on Capital Debt	(100,000)
Interest Paid on Capital Debt	(22,000)
	<b>5,508,602</b>
<b>Net Cash Provided by Capital and Related Financing Activities</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	12,769
	<b>12,769</b>
<b>Net Cash Provided by Investing Activities</b>	
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,242,447</b>
Cash and Cash Equivalents, Beginning of Year	9,236,252
	<b>\$ 10,478,699</b>
<b>Cash and Cash Equivalents, End of Year</b>	

**POLK STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (CONTINUED)  
For the Fiscal Year Ended June 30, 2014**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (60,516,256)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,430,080
Changes in Assets and Liabilities:	
Receivables, Net	(293,052)
Accounts Payable	(345,099)
Salary and Payroll Taxes Payable	33,770
Unearned Revenue	24,078
Deposits Held for Others	108,132
Compensated Absences Payable	295,806
Other Postemployment Benefits Payable	79,874
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (57,182,667)</b>
<b>SUPPLEMENTAL DISCLOSURE OF CAPITAL FINANCING ACTIVITIES</b>	
Donations of capital assets are recognized as revenue on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 923,219

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, 2014**

**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 30, 2013.

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, 2014**

- 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 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 (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 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

**POLK STATE COLLEGE**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

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 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

**POLK STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

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 (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 \$9,029 at June 30, 2014, 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, 2013, are reported at fair value as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Funds	\$ 22,923
Mutual Stock Funds	9,806,138
Mutual Allocation Funds	1,542,442
Mutual Bond Funds	<u>8,792,568</u>
<b>Total Investments</b>	<b><u>\$ 20,164,071</u></b>

*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 3 to 5 years, were as follows at December 31, 2013:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>	
	<u>Fair Value</u>	<u>1-5</u>
Mutual Bond Funds	<u>\$ 8,792,568</u>	<u>\$ 8,792,568</u>

**POLK STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

*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 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 eight 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 \$1,200,000 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 21 mutual funds with the largest individual fund allocation comprising 14 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, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$681,457 allowance for doubtful accounts.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$ 16,737,900 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

**5. DUE FROM COMPONENT UNIT**

The \$451,621 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, 2014. The Foundation's financial statements are reported for the fiscal year ended December 31, 2013. Accordingly, amounts reported by the College as due from component unit on the statement of net position do not agree with amounts reported by the Foundation as due to the College.

**POLK STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**6. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 6,055,382	\$ 502,219	\$	\$ 6,557,601
Artwork	11,700			11,700
Construction in Progress	<u>4,018,505</u>	<u>1,365,975</u>	<u>4,018,505</u>	<u>1,365,975</u>
<b>Total Nondepreciable Capital Assets</b>	<b><u>\$ 10,085,587</u></b>	<b><u>\$ 1,868,194</u></b>	<b><u>\$ 4,018,505</u></b>	<b><u>\$ 7,935,276</u></b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 87,605,736	\$ 9,775,261	\$	\$ 97,380,997
Other Structures and Improvements	5,356,337			5,356,337
Furniture, Machinery, and Equipment	6,362,702	673,412	117,515	6,918,599
Leasehold Improvements	<u>493,964</u>			<u>493,964</u>
<b>Total Depreciable Capital Assets</b>	<b><u>99,818,739</u></b>	<b><u>10,448,673</u></b>	<b><u>117,515</u></b>	<b><u>110,149,897</u></b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	34,960,974	2,596,778		37,557,752
Other Structures and Improvements	4,580,153	214,301		4,794,454
Furniture, Machinery, and Equipment	5,616,179	594,303	117,515	6,092,967
Leasehold Improvements	<u>148,189</u>	<u>24,698</u>		<u>172,887</u>
<b>Total Accumulated Depreciation</b>	<b><u>45,305,495</u></b>	<b><u>3,430,080</u></b>	<b><u>117,515</u></b>	<b><u>48,618,060</u></b>
<b>Total Depreciable Capital Assets, Net</b>	<b><u>\$ 54,513,244</u></b>	<b><u>\$ 7,018,593</u></b>	<b><u>\$</u></b>	<b><u>\$ 61,531,837</u></b>

**7. UNEARNED REVENUE**

As of June 30, 2014, the College reported \$133,751 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, 2014, include bonds payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 440,000	\$	\$ 100,000	\$ 340,000	\$ 110,000
Compensated Absences Payable	3,228,243	479,943	184,137	3,524,049	122,766
Other Postemployment Benefits Payable	<u>367,085</u>	<u>120,398</u>	<u>40,524</u>	<u>446,959</u>	
<b>Total Long-Term Liabilities</b>	<b><u>\$ 4,035,328</u></b>	<b><u>\$ 600,341</u></b>	<b><u>\$ 324,661</u></b>	<b><u>\$ 4,311,008</u></b>	<b><u>\$ 232,766</u></b>

**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

**POLK STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2014:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2005A	<u>\$ 340,000</u>	5.0	2017

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2015	\$ 110,000	\$ 17,000	\$ 127,000
2016	115,000	11,500	126,500
2017	115,000	5,750	120,750
<b>Total</b>	<u>\$ 340,000</u>	<u>\$ 34,250</u>	<u>\$ 374,250</u>

**Compensated Absences Payable.** College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State 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, 2014, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$3,524,049. The current portion of the compensated absences liability, \$122,766, 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, 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

**POLK STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

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 has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2013-14 fiscal year, 42 retirees received postemployment healthcare benefits and 35 retirees received post-employment life insurance benefits. The College provided required contributions of \$40,524 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$211,476, which represents 1 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 fiscal 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)	\$ 78,273
Amortization of Unfunded Actuarial Accrued Liability	<u>39,678</u>
<b>Annual Required Contribution</b>	117,951
Interest on Net OPEB Obligation	14,683
Adjustment to Annual Required Contribution	<u>(12,236)</u>
<b>Annual OPEB Cost (Expense)</b>	120,398
Contribution Toward the OPEB Cost	<u>(40,524)</u>
<b>Increase in Net OPEB Obligation</b>	79,874
Net OPEB Obligation, Beginning of Year	<u>367,085</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 446,959</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, 2014, and for the two preceding fiscal years, were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 126,122	3.7%	\$ 254,321
2012-13	126,933	11.2%	367,085
2013-14	120,398	33.7%	446,959

*Funded Status and Funding Progress.* As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$1,190,353, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,190,353 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,043,180 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.4 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, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the College's 2013-14 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 8.5 percent pre-Medicare and 6.25 percent Medicare for the 2013-14 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 5 years for pre-Medicare and 4 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, 2014, was 23 years.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

## 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 2013-14 fiscal year were as follows:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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, 2012, June 30, 2013, and June 30, 2014, totaled \$1,029,139, \$1,204,454, and \$1,798,179, respectively, which were equal to the required contributions for each fiscal year.

There were 148 College participants in the Investment Plan during the 2013-14 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$731,339, which was equal to the required contribution for the 2013-14 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’ Web site ([www.myfloridacfo.com](http://www.myfloridacfo.com)). 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 Division of Retirement’s Web site ([www.frs.myflorida.com](http://www.frs.myflorida.com)).

**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, 7.34 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, 2014**

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 43 College participants during the 2013-14 fiscal year. The College’s contributions to the Program totaled \$208,728 and employee contributions totaled \$80,798 for the 2013-14 fiscal year.

**10. CONSTRUCTION COMMITMENT**

The College’s construction commitment at June 30, 2014, is as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Center for Public Safety	<u>\$ 2,351,803</u>	<u>\$ 1,365,975</u>	<u>\$ 985,828</u>

**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 purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage for property insurance of up to \$125 million to February 28, 2014, and up to \$150 million from March 1, 2014. 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, 2014**

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 27,254,180
Public Services	515,350
Academic Support	9,067,548
Student Services	7,074,971
Institutional Support	10,072,378
Operation and Maintenance of Plant	11,216,912
Scholarships and Waivers	11,074,883
Depreciation	3,430,080
Auxiliary Enterprises	<u>702,340</u>
<b>Total Operating Expenses</b>	<b><u>\$ 80,408,642</u></b>

**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]
7/1/2009	\$ -	\$ 733,413	\$ 733,413	0%	\$ 15,746,831	4.7%
7/1/2011	-	842,157	842,157	0%	17,139,785	4.9%
7/1/2013	-	1,190,353	1,190,353	0%	22,043,180	5.4%

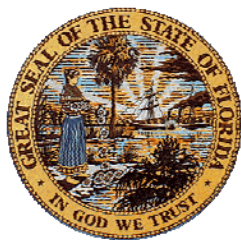
Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the actuarial accrued liability.

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

**1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**

The July 1, 2013, unfunded actuarial accrued liability of \$1,190,353 was significantly higher than the July 1, 2011, liability of \$842,157 as a result of the following factors:

- Demographic assumptions (rates of termination, 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.
- 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.
- The conditions for retirement eligibility and rates of retirement were supplemented to accommodate those active employees hired on or after July 1, 2011.



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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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 27, 2015, 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, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to College management in our operational audit report No. 2015-085.

### 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  
January 27, 2015