



AUDITOR GENERAL
DAVID W. MARTIN, CPA



POLK COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended June 30, 2007

During the audit period, the President of the College was Dr. Eileen Holden. Members of the College's Board of Trustees who served during the audit period are listed below:

Board Member

Ernest S. Pinner, Vice-Chair to 7-23-06,
Chair from 7-24-06

Dr. Neriah E. Roberts, Vice-Chair from 7-24-06

Cynthia Ross, Chair to 7-23-06

Twyla G. Ely

Ricardo Garcia

Carol K. Platt

Martha Santiago

POLK COMMUNITY COLLEGE

TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	v
FINDING AND RECOMMENDATION	1
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	4
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	6
Internal Control Over Financial Reporting	6
Compliance and Other Matters	7
MANAGEMENT'S DISCUSSION AND ANALYSIS	8
FINANCIAL SECTION	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Net Assets	20
Statement of Cash Flows	21
Notes to Financial Statements	23
APPENDIX A	
Management Response	37

EXECUTIVE SUMMARY

The audit of the financial statements of Polk Community College for the fiscal year ended June 30, 2007, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the College, a component unit of the State of Florida, and a determination as to whether management complied with applicable laws, rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the College is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the College's financial statements:

- We found that the College's financial statements presented fairly, in all material respects, the financial positions of the College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- We noted a certain matter involving the College's internal control over financial reporting and its operation that we considered to be a material weakness as discussed in the FINDING AND RECOMMENDATION section of this report.
- The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Yuling Liu, CPA, and supervised by David A. Blanton, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Director, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FINDING AND RECOMMENDATION**MATERIAL WEAKNESS****Finding No. 1: Financial Reporting**

The College is required to prepare annual financial statements in accordance with generally accepted accounting principles (GAAP). The College's financial statements provide information about the College's finances, demonstrate the College's accountability for public resources, and provide users of the financial statements a basis for evaluating the College's operations and financial condition. To be useful, the financial statements must be accurate and fairly presented in accordance with GAAP.

Our review of the College's 2006-07 fiscal year financial statements and supporting records disclosed the following reporting errors indicating that the College needed to improve its financial reporting process:

- On the statement of net assets:
 - Cash and cash equivalents totaling \$2,683,173, for current restricted funds were improperly classified as noncurrent unrestricted cash and cash equivalents. Additionally, \$43,343 of investments associated with debt service funds were improperly classified as unrestricted.
 - The College reported accounts receivable totaling \$1,022,838 net of an allowance for uncollectable accounts in the amount of \$96,941. This amount was overstated by \$290,800 related to old accounts that should have been written off.
 - Included in the amount reported as due from other governmental agencies was a receivable in the amount of \$316,790 related to reimbursement for hurricane claims filed during the 2004-05 fiscal year. Our review disclosed that the College received \$345,961 in the 2006-07 fiscal year related to these claims; however, the College continued to report this balance in error at June 30, 2007. Further review disclosed that the College recognized the insurance claim proceeds as revenue twice (upon accrual and upon receipt) in error. As a result, the amounts reported as due from other governmental agencies and revenues were overstated by \$316,790.
 - We noted several instances in which liabilities were not properly reported. Specifically, we noted that retainage payable was understated by \$90,000 and our tests disclosed approximately \$129,600 in other unrecorded liabilities associated with services received prior to year-end, but not paid; deferred revenues were overstated, and revenues understated, by approximately \$69,000 as a result of not recognizing revenues earned during the 2006-07 fiscal year; due to incorrectly posted payments relating to a note payable, the noncurrent liability associated with the note payable was understated by \$71,789, the current portion of the note payable was overstated by \$44,773, and the related interest payable was understated by \$23,949; and due to incorrectly posted payments relating to bonds payable, the noncurrent liability associated with bonds payable was overstated by \$45,000.

- On the statement of revenues, expenses, and changes in net assets:
 - We noted several instances in which revenues were not properly classified. For example, \$1,517,966 of moneys received from the Florida Student Assistance Grants and Bright Futures Scholarship programs were incorrectly reported as Federal grants and contracts revenues rather than State and local grants and contracts revenues. Also, \$840,381 of moneys received from the Succeed Florida and Early Child Care programs were incorrectly reported as operating revenues rather than nonoperating revenues.
 - Incorrectly posted payments relating to the note payable resulted in interest expense on the note being understated by \$50,965.
- On the statement of cash flows, \$1,006,000 of proceeds from a line-of-credit (note payable) to fund the conversion and implementation of a new administrative computer system were incorrectly reported net of \$342,272 of repayments of the line-of-credit balance. Such activity for both proceeds and the repayments should have been reported at gross.
- On the notes to the financial statements:
 - For major contract commitments as disclosed in the notes to the financial statements, the amounts reported for the total commitment and completed to date were incorrect, resulting in the balance committed amount being overstated by \$541,540.
 - Disclosures related to long-term liabilities in the notes to the financial statements were incorrect for bonds and notes payable as a result of the above-noted posting errors. In addition, annual requirements to amortize outstanding debt on the note payable were not disclosed.

We expanded our audit procedures to determine adjustments to the account balances and transaction classes, and related note disclosures, that were necessary for fair presentation of the College's financial statements, and the College accepted these adjustments; however, our audit procedures do not substitute for effective internal controls over financial reporting. When the financial statements are not accurately prepared, the College's Board of Trustees, management, and other users of the financial statements are without a proper basis for evaluating College operations and for assessing the College's financial condition.

Recommendation: **The College should strengthen its procedures for preparing its annual financial statements to ensure that amounts reported are accurate and fairly presented in accordance with GAAP.**

PRIOR AUDIT FINDING

As part of our audit, we determined that the College had taken adequate corrective action for the finding included in our report No. 2007-192.

MANAGEMENT RESPONSE

The College's response is included as Appendix A of this report.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Polk Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, as shown on pages 18 through 36. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for this entity, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Polk Community College and of its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of Polk Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 8 through 17 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
May 8, 2008



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Polk Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the **FINDING AND RECOMMENDATION** section of this audit report to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we did note a significant deficiency that we consider to be a material weakness. This material weakness is discussed in the **FINDING AND RECOMMENDATION** section of this audit report.

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*.

The College's response to the finding discussed in the **FINDING AND RECOMMENDATION** section of this audit report is included as Appendix A of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
May 8, 2008

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, 2007, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$88.7 million at June 30, 2007. This balance reflects a \$14.7 million, or 20 percent, increase from the 2005-06 fiscal year, resulting from an increase in the amount of cash invested with the State Board of Administration (SBA) at the end of the fiscal year along with the addition to the value of the College's buildings resulting from the completion of the Lakeland Technology Building. Additionally, the City of Lake Wales donated the J.D. Alexander Center to the College, which was valued at \$900,000. The College's liabilities decreased by \$2 million, or 21 percent, and totaled \$7.8 million at June 30, 2007, compared to \$9.8 million at June 30, 2006. The decrease in liabilities is attributed to the decrease in retainage payable and a reduction in accounts payable. As a result, the College's net assets increased by \$16.8 million, reaching a fiscal year-end balance of \$81 million.

The College's revenues totaled \$59.8 million for the 2006-07 fiscal year, representing a 39.6 percent increase over the 2005-06 fiscal year due mainly to increased State appropriations for capital projects. Operating expenses totaled \$43 million for the 2006-07 fiscal year, representing an increase of 22.7 percent over the 2005-06 fiscal year due mainly to increased costs of personnel, equipment and furnishings for the new Lakeland Technology Building, and an increase in utilities.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

A condensed statement of assets, liabilities, and net assets of the College and its component unit for the fiscal years ended June 30, 2007, and June 30, 2006, is shown in the following table:

Assets, Liabilities, and Net Assets at June 30				
(In Thousands)				
	<u>College</u>		<u>Component Unit</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets				
Current Assets	\$ 28,825	\$ 18,035	\$ 3,844	\$ 2,655
Capital Assets, Net	56,271	51,635	10	10
Other Noncurrent Assets	<u>3,651</u>	<u>4,329</u>	<u>15,557</u>	<u>14,013</u>
Total Assets	<u>88,747</u>	<u>73,999</u>	<u>19,411</u>	<u>16,678</u>
Liabilities				
Current Liabilities	4,023	6,828	132	54
Noncurrent Liabilities	<u>3,728</u>	<u>2,935</u>	<u>9</u>	<u>33</u>
Total Liabilities	<u>7,751</u>	<u>9,763</u>	<u>141</u>	<u>87</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	55,321	50,615	10	10
Restricted	20,493	10,096	19,130	16,413
Unrestricted	<u>5,182</u>	<u>3,525</u>	<u>130</u>	<u>168</u>
Total Net Assets	<u>\$ 80,996</u>	<u>\$ 64,236</u>	<u>\$ 19,270</u>	<u>\$ 16,591</u>
Increase in Net Assets	<u>\$ 16,760</u>	26.1%	<u>\$ 2,679</u>	16.1%

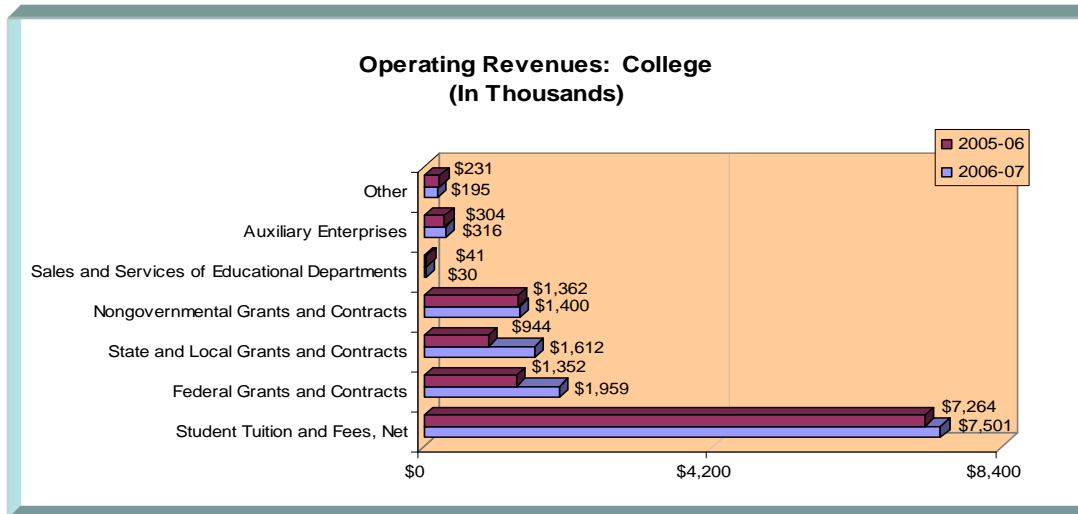
Revenues and expenses of the College and its component unit for the 2006-07 and 2005-06 fiscal years are shown in the following table:

Operating Results for the Fiscal Years (In Thousands)				
	College		Component Unit	
	2006-07	2005-06	2006-07	2005-06
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 7,501	\$ 7,264	\$	\$
Federal Grants and Contracts	1,959	1,352		
State and Local Grants and Contracts	1,612	944	741	685
Nongovernmental Grants and Contracts	1,400	1,362		
Sales and Services of Educational Departments	30	41		
Auxiliary Enterprises	316	304		
Other Operating Revenues	195	231	1,635	645
Total Operating Revenues	13,013	11,498	2,376	1,330
Less, Operating Expenses	43,012	35,060	1,478	879
Operating Income (Loss)	(29,999)	(23,562)	898	451
Nonoperating Revenues (Expenses)				
State Appropriations	21,287	19,854		
Other Nonoperating Revenues	5,559	3,501	1,781	1,331
Nonoperating Expenses	(103)	(53)		
Net Nonoperating Revenues	26,743	23,302	1,781	1,331
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(3,256)	(260)	2,679	1,782
Capital Appropriations	15,273	2,158		
Capital Grants, Contracts, Gifts, and Fees	4,743	5,890		
Other Expenses				(99)
Increase in Net Assets	16,760	7,788	2,679	1,683
Net Assets, Beginning of Year	64,236	56,448	16,591	14,908
Net Assets, End of Year	\$ 80,996	\$ 64,236	\$ 19,270	\$ 16,591

Operating Revenues

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

The following chart presents the College's operating revenues for the 2006-07 and 2005-06 fiscal years:



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

- Federal Grants and Contracts increased by \$.6 million, or 45 percent, due to new grants awarded to the College for Corporate College training programs and Tech Prep grant dollars to fund startup of the new Chain of Lakes High School.
- State and Local Grants and Contracts increased by \$.7 million, or 71 percent, due to funding received for the Chain of Lakes High School for their first year of operation and additional grants received for Corporate College related training programs.

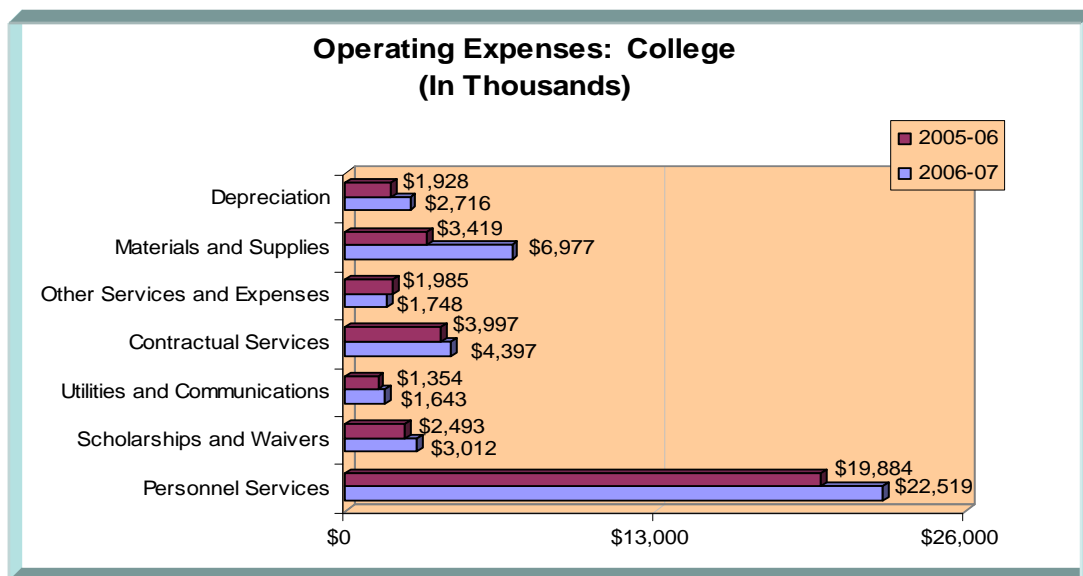
Operating Expenses

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

Operating expenses for the College and its component unit for the 2006-07 and 2005-06 fiscal years are presented in the following table:

Operating Expenses	Operating Expenses (In Thousands)			
	College		Component Unit	
	2006-07	2005-06	2006-07	2005-06
Personnel Services	\$ 22,519	\$ 19,884	\$ 335	\$ 131
Scholarships and Waivers	3,012	2,493	398	228
Utilities and Communications	1,643	1,354	65	55
Contractual Services	4,397	3,997	384	280
Other Services and Expenses	1,748	1,985	180	104
Materials and Supplies	6,977	3,419	116	81
Depreciation	2,716	1,928		
Total Operating Expenses	\$ 43,012	\$ 35,060	\$ 1,478	\$ 879

The following chart presents the College’s operating expenses for the 2006-07 and 2005-06 fiscal years:



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

- Personnel expenditures increased by \$2.6 million, or 13 percent. This change is due to a 6 percent pay increase, increased cost of instruction resulting from additional classes, and an increase in benefit expenses, including retirement, health insurance, and dental coverage.
- Materials and Supplies increased by \$3.6 million, or 104 percent, due to purchases of supplies and noncapitalized equipment needed to prepare the Lakeland Technology Building for occupancy.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating.

Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2006-07 and 2005-06 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
State Appropriations	\$ 21,287	\$ 19,854
Gifts and Grants	4,830	3,091
Investment Income	729	410
Interest on Capital Asset-Related Debt	<u>(103)</u>	<u>(53)</u>
Net Nonoperating Revenues	<u>\$ 26,743</u>	<u>\$ 23,302</u>

Nonoperating revenues increased by \$3.4 million, or 15 percent, mainly as a result of an increase in State appropriations.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2006-07 and 2005-06 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
Capital Appropriations	\$ 15,273	\$ 2,158
Capital Grants, Contracts, Gifts, and Fees	<u>4,743</u>	<u>5,890</u>
Total	<u>\$ 20,016</u>	<u>\$ 8,048</u>

Capital Appropriations increased by \$13.1 million as a result of additional funding for completion of the Lakeland Technology Building, partial funding for future land acquisition, and funding for the renovation of the J.D. Alexander Center in Lake Wales.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College's cash flows for the 2006-07 and 2005-06 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College		
(In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
Cash Provided (Used) by:		
Operating Activities	\$ (28,850)	\$ (19,999)
Noncapital Financing Activities	26,381	23,921
Capital and Related Financing Activities	5,705	1,518
Investing Activities	<u>729</u>	<u>410</u>
Net Increase in Cash and Cash Equivalents	<u>3,965</u>	<u>5,850</u>
Cash and Cash Equivalents, Beginning of Year	11,963	6,113
Adjustment to Beginning Cash and Cash Equivalents	<u>(396)</u>	<u></u>
Cash and Cash Equivalents Beginning of Year, As Restated	<u>11,567</u>	<u>6,113</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 15,532</u></u>	<u><u>\$ 11,963</u></u>

Major sources of funds came from State appropriations (\$21 million), net student tuition and fees (\$7.7 million), and grants and contracts (\$5 million). The increase in cash and cash equivalents resulted mainly from the receipt of loan proceeds and capital gifts and grants associated with the construction of the Lakeland Technology Building, and the decrease in expenses reported for purchases of capital assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2007, the College had \$84.4 million in capital assets, less accumulated depreciation of \$28.1 million, for net capital assets of \$56.3 million. Depreciation charges for the current fiscal year totaled \$2.7 million. The following table summarizes the College's capital assets for the 2006-07 fiscal year:

Capital Assets: College (In Thousands)				
Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 1,418	\$ 360	\$	\$ 1,778
Construction in Progress	19,051		19,051	
Total Nondepreciable Capital Assets	\$ 20,469	\$ 360	\$ 19,051	\$ 1,778
Depreciable Capital Assets:				
Buildings	\$ 48,799	\$ 25,201	\$	\$ 74,000
Other Structures and Improvements	3,919	136		4,055
Furniture, Machinery, and Equipment	2,874	706	101	3,479
Assets Under Capital Lease	1,055			1,055
Total Depreciable Capital Assets	56,647	26,043	101	82,589
Less, Accumulated Depreciation:				
Buildings	19,476	2,131		21,607
Other Structures and Improvements	3,385	76		3,461
Furniture, Machinery, and Equipment	1,565	509	101	1,973
Assets Under Capital Lease	1,055			1,055
Total Accumulated Depreciation	25,481	2,716	101	28,096
Total Depreciable Capital Assets, Net	\$ 31,166	\$ 23,327	\$	\$ 54,493

The College plans \$24 million of capital expenditures for the 2007-08 fiscal year. Projects planned include renovations to the Lakeland Academic Center for Nursing, the Corporate College and vacated student services areas on the Lakeland Campus, as well as renovations to the Lakeland Campus cafeteria. Planning is underway for the renovation of the J.D. Alexander Center, which was donated by the City of Lake Wales. State appropriations together with local funds are expected to finance the construction, renovation, and purchase of land and facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$2.3 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2007, and June 30, 2006:

Long-Term Debt, at June 30: College (In Thousands)		
	2007	2006
SBE Capital Outlay Bonds	\$ 950	\$ 1,020
Notes Payable	1,349	704
Total	\$ 2,299	\$ 1,724

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2006-07 fiscal year, there were no bond sales and debt repayments totaled \$70,000. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Polk Community College's economic condition is closely tied to that of the State of Florida. As a result of the current economic uncertainty caused by the decline in the housing market nationwide and throughout Florida, State funds distributed to the College for the 2007-08 fiscal year are expected to be reduced pending the results of the legislative session. This reduction, coupled with no change in the tuition and fee rates for the 2007-08 academic year has placed Polk Community College's budget on par with that of the 2006-07 fiscal year.

However, as a result of the decline in local employment and the limits placed on enrollments at the State universities in Florida, enrollment growth at Polk Community College continues to be strong. The College plans to open centers in Bartow, Haines City, Lake Wales, and at Lakeland Airside to provide opportunities to continue this trend. Steady enrollment growth will bring increased tuition and fee revenue to the College in the near term and will positively impact the College's State funding in future years.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice-President for Administration/CFO, Polk Community College, 999 Avenue H, Northeast, Winter Haven, Florida 33881.

FINANCIAL SECTION

**POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2007**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 9,241,186	\$ 13,612
Restricted Cash and Cash Equivalents	2,683,173	1,787,308
Investments		1,544,205
Accounts Receivable, Net	1,087,598	
Contributions Receivable		33,299
Restricted Contributions Receivable		397,386
Notes Receivable, Net	167,690	68,597
Due from Other Governmental Agencies	15,628,303	
Prepaid Expenses	17,525	
Total Current Assets	28,825,475	3,844,407
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	3,607,465	59,255
Restricted Investments	43,343	14,031,322
Contributions Receivable		665,589
Notes Receivable, Net		800,502
Depreciable Capital Assets, Net	54,492,538	
Nondepreciable Capital Assets	1,778,313	10,000
Total Noncurrent Assets	59,921,659	15,566,668
TOTAL ASSETS	\$ 88,747,134	\$ 19,411,075
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 562,663	\$ 96,598
Salary and Payroll Taxes Payable	1,530,063	
Retainage Payable	120,969	
Due to Other Governmental Agencies	257,838	
Deferred Revenue	695,100	
Deposits Held for Others	306,755	
Interest Payable	23,949	
Long-Term Liabilities - Current Portion:		
Bonds Payable	75,000	
Note Payable	355,227	35,250
Compensated Absences Payable	95,080	
Total Current Liabilities	4,022,644	131,848
Noncurrent Liabilities:		
Bonds Payable	875,000	
Note Payable	994,017	8,773
Compensated Absences Payable	1,859,102	
Total Noncurrent Liabilities	3,728,119	8,773
TOTAL LIABILITIES	7,750,763	140,621

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2007

	<u>College</u>	<u>Component Unit</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 55,320,851	\$ 10,000
Restricted:		
Nonexpendable:		
Endowment		13,284,920
Expendable:		
Grants and Loans	2,593,166	508,721
Scholarships	187,297	2,016,516
Capital Projects	17,669,875	
Debt Service	43,343	21,176
Other		3,298,976
Unrestricted	<u>5,181,839</u>	<u>130,145</u>
Total Net Assets	<u>80,996,371</u>	<u>19,270,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 88,747,134</u>	<u>\$ 19,411,075</u>

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

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$2,407,492	\$ 7,500,493	\$
Federal Grants and Contracts	1,959,314	
State and Local Grants and Contracts	1,612,401	740,521
Nongovernmental Grants and Contracts	1,399,589	
Sales and Services of Educational Departments	29,971	
Auxiliary Enterprises	316,301	
Other Operating Revenues	194,663	1,635,439
Total Operating Revenues	<u>13,012,732</u>	<u>2,375,960</u>
EXPENSES		
Operating Expenses:		
Personnel Services	22,519,243	335,019
Scholarships and Waivers	3,012,033	397,575
Utilities and Communications	1,643,282	64,876
Contractual Services	4,396,761	384,907
Other Services and Expenses	1,747,968	179,572
Materials and Supplies	6,976,801	116,239
Depreciation	2,715,929	
Total Operating Expenses	<u>43,012,017</u>	<u>1,478,188</u>
Operating Income (Loss)	<u>(29,999,285)</u>	<u>897,772</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	21,287,153	
Gifts and Grants	4,830,269	218,571
Investment Income	728,965	811,670
Unrealized Gain on Investments		750,741
Interest on Capital Asset-Related Debt	(102,665)	
Net Nonoperating Revenues	<u>26,743,722</u>	<u>1,780,982</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(3,255,563)</u>	<u>2,678,754</u>
Capital Appropriations	15,272,795	
Capital Grants, Contracts, Gifts, and Fees	4,742,696	
Total Other Revenues	<u>20,015,491</u>	
Increase in Net Assets	16,759,928	2,678,754
Net Assets, Beginning of Year	<u>64,236,443</u>	<u>16,591,700</u>
Net Assets, End of Year	<u>\$ 80,996,371</u>	<u>\$ 19,270,454</u>

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

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 7,664,155
Grants and Contracts	4,971,304
Payments to Suppliers	(15,257,007)
Payments for Utilities and Communications	(1,643,282)
Payments to Employees	(17,969,133)
Payments for Employee Benefits	(4,192,078)
Payments for Scholarships	(3,012,033)
Net Loans Issued to Students	(10,944)
Auxiliary Enterprises	316,301
Sales and Service of Educational Departments	29,972
Other Receipts	252,735
	(28,850,010)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	21,287,152
Gifts and Grants Received for Other Than Capital or Endowment Purposes	5,093,832
	26,380,984
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	1,006,000
Capital Appropriations	8,938,412
Capital Grants and Gifts	3,842,696
Purchases of Capital Assets	(7,560,490)
Principal Paid on Capital Debt	(430,256)
Interest Paid on Capital Debt	(91,443)
	5,704,919
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	728,965
	728,965
Net Increase in Cash and Cash Equivalents	
	3,964,858
Cash and Cash Equivalents, Beginning of Year	11,963,334
Adjustment to Beginning Cash and Cash Equivalents	(396,368)
	11,566,966
Cash and Cash Equivalents Beginning of Year, As Restated	11,566,966
Cash and Cash Equivalents, End of Year	\$ 15,531,824

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2007

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$(29,999,285)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,715,929
Changes in Assets and Liabilities:	
Receivables, Net	163,663
Note Receivable, Net	(10,944)
Other Assets	33,741
Payables	(1,922,760)
Deposits Held for Others	24,330
Compensated Absences Payable	145,316
NET CASH USED BY OPERATING ACTIVITIES	\$(28,850,010)

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

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Polk Community College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of 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 Community Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Polk County.

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

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Polk Community College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2007.

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

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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

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

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

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

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

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

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College is able to identify, within its accounting system, amounts paid for tuition and fees by financial aid. The College records a scholarship allowance against tuition and fees for the total amount paid by financial aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and funds invested with the State Board of Administration. For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Board of Administration Local Government Surplus Funds Trust Fund investment pools to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2007, the College reported as cash equivalents at fair value \$14,850,747 of moneys held in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration (SBA)

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

pursuant to Section 218.405, Florida Statutes. The College's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign credit risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2007.

Capital Assets. College capital assets consist of land; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital lease. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings - 40 years
- Other Structures and Improvements, Portables - 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment - 3 years
 - Vehicles, Office Machines, Educational Equipment - 5 years
 - Furniture - 7 years
- Assets Under Capital Lease - 5 years

2. INVESTMENTS

Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code,

**POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

State Board of Administration Debt Service Accounts

The College reported investments at fair value totaling \$43,343 at June 30, 2007, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of more than three months, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to the financial statements of the State’s Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the College’s component unit (Foundation) at June 30, 2007, are reported at fair value as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Funds	\$ 1,375,944
Mutual Stock Funds	5,641,057
Mutual Bond Funds	<u>8,558,526</u>
Total Investments	<u><u>\$ 15,575,527</u></u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation’s investment policy limits the maximum maturity for any single fixed income security to 30 years, and limits the weighted average portfolio maturity to not more than 15 years. The Foundation’s maturities for its investments in mutual bond funds, which had a weighted average maturity of 4.92 years, were as follows at June 30, 2007:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
Mutual Bond Funds	<u>\$8,558,526</u>	<u>\$</u>	<u>\$7,726,380</u>	<u>\$796,541</u>	<u>\$ 35,605</u>

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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

As of June 30, 2007, the Foundation's investments in mutual bond funds consisted of corporate bonds rated AA or AAA by Standard & Poor's, with the following exceptions: one bond fund, worth \$37,153, was comprised of bonds rated BB; and two bond funds, totaling \$35,605, held bonds that were not rated but considered to be investment grade quality.

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 \$96,764 allowance for uncollectible accounts.

4. NOTES RECEIVABLE

Notes receivable represent \$153,520 of student loans made under the short-term loan program and \$44,023 due from the Polk Community College Foundation, Inc. Notes receivable are reported net of a \$29,853 allowance for uncollectible notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$14,847,723 of Public Education Capital Outlay allocations due from the State to the College for construction of College facilities.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 1,418,313	\$ 360,000	\$	\$ 1,778,313
Construction in Progress	19,051,355		19,051,355	
Total Nondepreciable Capital Assets	\$ 20,469,668	\$ 360,000	\$ 19,051,355	\$ 1,778,313
Depreciable Capital Assets:				
Buildings	\$ 48,798,604	\$ 25,201,147	\$	\$ 73,999,751
Other Structures and Improvements	3,918,786	135,548		4,054,334
Furniture, Machinery, and Equipment	2,874,162	706,259	100,894	3,479,527
Assets Under Capital Lease	1,054,941			1,054,941
Total Depreciable Capital Assets	56,646,493	26,042,954	100,894	82,588,553
Less, Accumulated Depreciation:				
Buildings	19,476,302	2,130,809		21,607,111
Other Structures and Improvements	3,385,260	75,663		3,460,923
Furniture, Machinery, and Equipment	1,564,477	509,457	100,894	1,973,040
Assets Under Capital Lease	1,054,941			1,054,941
Total Accumulated Depreciation	25,480,980	2,715,929	100,894	28,096,015
Total Depreciable Capital Assets, Net	\$ 31,165,513	\$ 23,327,025	\$	\$ 54,492,538

7. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2007, include bonds, a note, and compensated absences.

Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 1,020,000	\$	\$ 70,000	\$ 950,000	\$ 75,000
Note Payable	703,500	1,006,000	360,256	1,349,244	355,227
Compensated Absences Payable	1,808,865	282,740	137,423	1,954,182	95,080
Total Long-Term Liabilities	\$ 3,532,365	\$ 1,288,740	\$ 567,679	\$ 4,253,426	\$ 525,307

Bonds Payable. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable outstanding at June 30, 2007:

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

Bond Type	Amount Outstanding	Interest Rate (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds: Series 2005-A	<u>\$ 950,000</u>	5.00	2017

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2008	\$ 75,000	\$ 47,500	\$ 122,500
2009	80,000	43,750	123,750
2010	85,000	39,750	124,750
2011	85,000	35,500	120,500
2012	90,000	31,250	121,250
2013-2017	<u>535,000</u>	<u>83,000</u>	<u>618,000</u>
Total	<u>\$ 950,000</u>	<u>\$ 280,750</u>	<u>\$ 1,230,750</u>

In a prior fiscal year, a portion of the State Board of Education Capital Outlay bonds, Series 1997-A, was refunded and considered defeased in-substance by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. The defeased bonds are not reported as outstanding debt on the College's statement of net assets. Debt considered defeased at June 30, 2007, totaled \$995,000.

Note Payable. Pursuant to Section 1001.64(38), Florida Statutes, the College Board of Trustees approved a commercial term loan/line of credit (the Note) on February 28, 2006, in the amount of \$1,709,500 with a bank. This line of credit was drawn down in full prior to the expiration date of August 28, 2006, to fund the conversion and implementation of a new administrative computer system. During the 2006-07 fiscal year, two semi-annual payments totaling \$400,000 were made on the Note in accordance with the banking agreement. Subsequent payments of \$200,000 will be made every six months until paid in full. The Note bears interest on the outstanding principal amount at a fixed rate of 3.55 percent. Future minimum payments under the note payable and the present value of minimum payments as of June 30, 2007, are as follows:

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 355,227	\$ 44,773	\$ 400,000
2009	367,949	32,051	400,000
2010	381,127	18,873	400,000
2011	244,941	4,347	249,288
Total	\$ 1,349,244	\$ 100,044	\$ 1,449,288

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2007, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$1,954,182. Of this amount, \$95,080 is considered a current liability as this is expected to be paid in the coming fiscal year. The College calculates its current portion of the compensated absences liability by applying the remaining percentage of time for those employees in the Deferred Retirement Option Program plus the total payouts of all employees who have notified the College that they are leaving employment during the next fiscal year.

8. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the College are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code: wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

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

**POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Services	0.00	13.12
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$789,039, \$803,515, and \$1,043,702, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. College employees already participating in the State Community College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

choices. There were 79 College participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$263,484.

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

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing community college contributes, on behalf of the participant, 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the community college to the participant's annuity account.

There were 36 College participants during the 2006-07 fiscal year. Required employer contributions made to the Program totaled \$219,396.

9. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2007, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Lakeland Joint-Use Building Construction:			
Architect	\$ 1,721,587	\$ 1,713,481	\$ 8,106
General Contractor	19,218,309	18,955,135	263,174
Total	<u>\$ 20,939,896</u>	<u>\$ 20,668,616</u>	<u>\$ 271,280</u>

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

10. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida Community Colleges Risk Management Consortium, which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public community colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide community college risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$115 million. Insurance coverage obtained through the Consortium included health, dental, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

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

11. SCHEDULE OF STATE REVENUE SOURCES

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

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

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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

<u>Source</u>	<u>Amount</u>
Community College Program Fund	\$ 17,874,583
Gross Receipts Tax (Public Education Capital Outlay)	15,043,728
Restricted Contracts and Grants	4,752,401
Education Enhancement Trust Fund (Lottery)	1,976,742
Bright Futures Scholarship Program	1,078,896
Succeed Florida Teaching	772,508
Florida Student Assistance Grants	439,070
Performance Based Incentives	325,279
Motor Vehicle License Tax (Capital Outlay and Debt Service)	180,151
Other State Sources	<u>56,635</u>
Total	<u><u>\$ 42,499,993</u></u>

12. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 14,222,567
Public Services	111,260
Academic Support	5,434,241
Student Services	3,337,959
Institutional Support	5,915,975
Operation and Maintenance of Plant	8,171,212
Scholarships and Fellowships	3,012,033
Depreciation	2,715,929
Auxiliary Enterprises	90,027
Loan Operating Expenses	<u>814</u>
Total Operating Expenses	<u><u>\$ 43,012,017</u></u>

POLK COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

13. SUBSEQUENT EVENT

As discussed in note 1, at June 30, 2007, the College had \$14,850,747 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool (Pool). On November 29, 2007, the College withdrew all but \$1,390 of funds invested at that date from the Pool.

Appendix A
Management Response



999 Avenue H Northeast • Winter Haven, Florida 33881-4299

President's Office
Phone: 863.297.1098

April 16, 2008

Mr. David W. Martin, C.P.A.
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin,

Attached please find our responses to the preliminary and tentative findings which may be included in a report to be prepared on your financial audit of the:

Polk Community College
For the Fiscal Year Ended June 30, 2007

delivered to us electronically on April 9, 2008. Please feel free to contact us if we can provide further information.

Yours truly,

A handwritten signature in cursive script, appearing to read "Eileen Holden".

Dr. Eileen Holden, Ed.D.
President
Polk Community College

Finding: Our review of the College's 2006-07 fiscal year financial statements and supporting records disclosed reporting errors indicating that the College needed to improve its financial reporting process.

Recommendation: The College should strengthen its procedures for preparing its annual financial statements to ensure that amounts reported are accurate and fairly presented in accordance with GAAP.

Response: We acknowledge the finding and recommendation. We have taken action to correct the noted deficiencies including additional staff training, enhanced procedures for the preparation and review of the annual financial statements and additional review of selected account balances.