

# PALM BEACH STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2010



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

Wendy S. Link, Chair from 8-11-09,  
Vice Chair to 8-10-09  
William Berger, Vice Chair from 8-11-09  
Kenneth B. Kirby, Chair to 8-10-09 (1)  
David H. Talley  
Carolyn L. Williams

Dr. Dennis P. Gallon, President

Note: (1) Continued to serve after term  
expiration on May 31, 2010.

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 Stefanie Johnson, CPA, and the audit was supervised by Ida Marie Westbrook, 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) 922-2263.

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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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

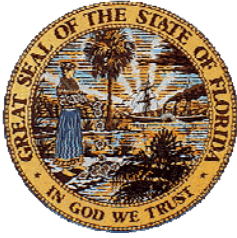
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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, 2010. 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. 2011-035.

### 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: 850-488-5534  
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 ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Palm Beach 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, 2010, which collectively comprise the College's basic financial statements as shown on pages 13 through 35. 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, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Palm Beach State College and of its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 12 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 36 and 37 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA  
January 21, 2011

**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, 2010, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

**COLLEGE NAME CHANGE**

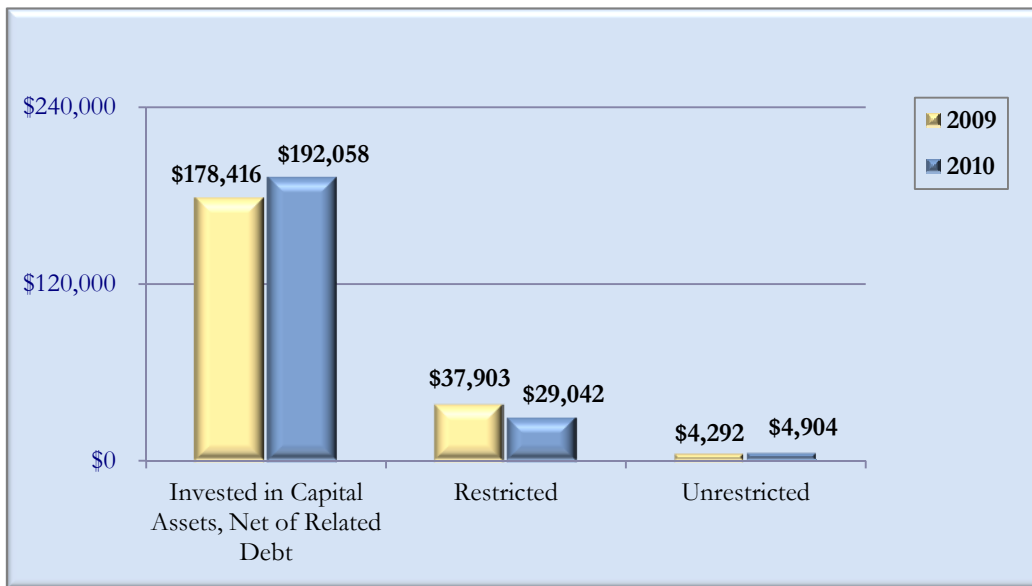
The College’s Board of Trustees approved the name change from Palm Beach Community College to Palm Beach State College effective January 12, 2010, pursuant to Section 1001.60(2)(b), Florida Statutes.

**FINANCIAL HIGHLIGHTS**

The College’s assets totaled \$251.8 million at June 30, 2010. This balance reflects a \$4.9 million, or 2 percent, increase from the 2008-09 fiscal year, resulting from increased student enrollment and capital projects completed. While assets grew, liabilities decreased by \$0.5 million, or 2 percent, totaling \$25.8 million at June 30, 2010, compared to \$26.3 million at June 30, 2009. As a result, the College’s net assets increased by \$5.4 million, reaching a year-end balance of \$226 million.

The College’s comparative total net assets by category for the fiscal years ended June 30, 2010 and June 30, 2009, are shown in the following graph:

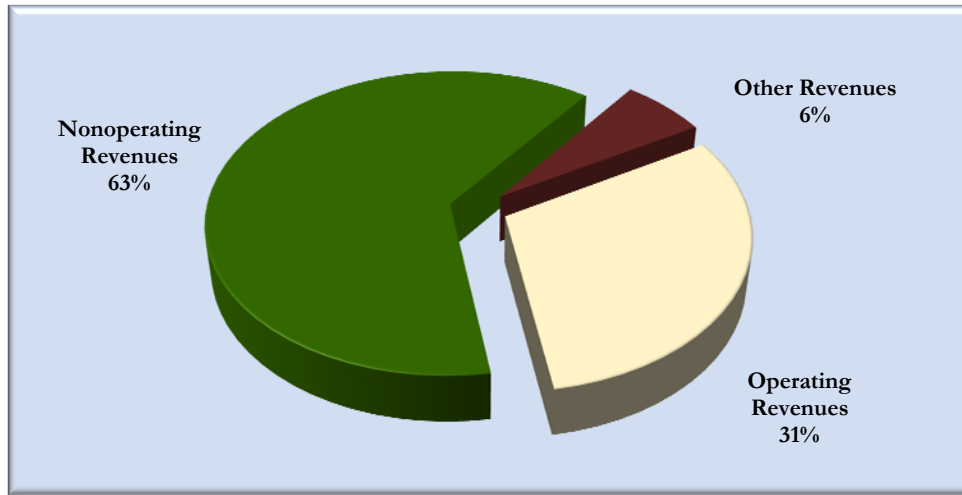
**Net Assets: College  
(In Thousands)**



The College’s operating revenues totaled \$47 million for the 2009-10 fiscal year, representing a 3.7 percent increase over the 2008-09 fiscal year due mainly to increased tuition and fees. Operating expenses totaled \$146.9 million for the 2009-10 fiscal year, representing an increase of 13.1 percent over the 2008-09 fiscal year due mainly to personnel services expenses and scholarship activity.

The following chart presents College revenues by category for the fiscal year ended June 30, 2010:

**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 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:

- Palm Beach 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.
- Palm Beach State College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

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

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

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

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

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

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

	College		Component Unit	
	6-30-10	6-30-09	12-31-09	12-31-08
<b>Assets</b>				
Current Assets	\$ 27,397	\$ 37,175	\$ 8,763	\$ 5,490
Capital Assets, Net	204,318	191,231	11	11
Other Noncurrent Assets	20,060	18,501	14,865	15,609
<b>Total Assets</b>	<u>251,775</u>	<u>246,907</u>	<u>23,639</u>	<u>21,110</u>
<b>Liabilities</b>				
Current Liabilities	4,567	4,717	357	1
Noncurrent Liabilities	21,204	21,579		
<b>Total Liabilities</b>	<u>25,771</u>	<u>26,296</u>	<u>357</u>	<u>1</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	192,058	178,416	11	11
Restricted	29,042	37,903	24,408	22,823
Unrestricted	4,904	4,292	(1,137)	(1,725)
<b>Total Net Assets</b>	<u>\$ 226,004</u>	<u>\$ 220,611</u>	<u>\$ 23,282</u>	<u>\$ 21,109</u>
<b>Increase in Net Assets</b>	<u>\$ 5,393</u>	2.4%	<u>\$ 2,173</u>	10.3%

The College’s total net assets increased \$5.4 million, or 2.4 percent, primarily due to capital asset activity and a reduction in total liabilities of approximately \$0.5 million. State appropriations decreased by \$4.3 million, or 9.4 percent. Reductions were offset by \$22.3 million increase in other nonoperating gifts and grants.

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

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

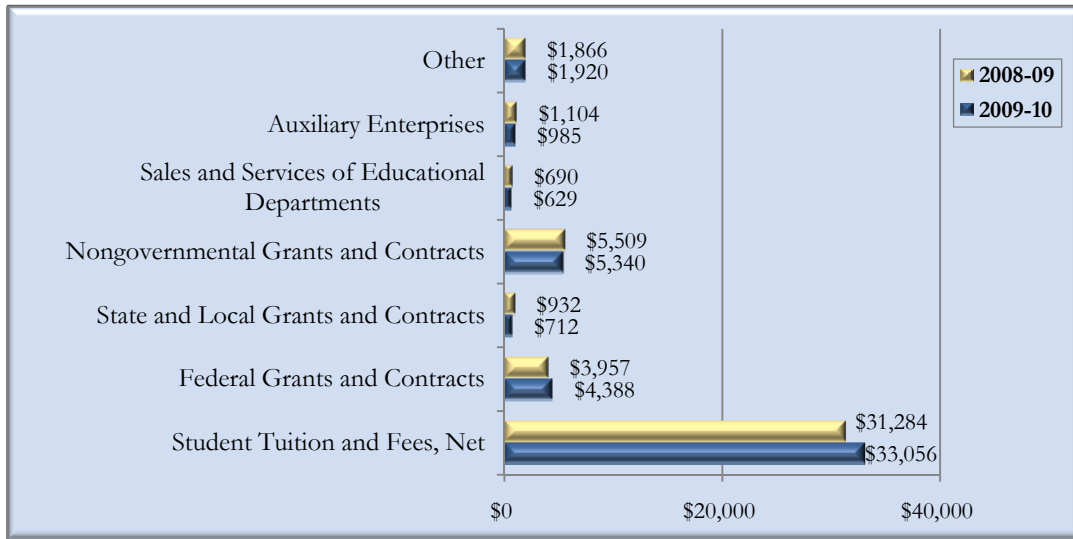
	College		Component Unit	
	6-30-10	6-30-09	12-31-09	12-31-08
<b>Operating Revenues</b>				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 33,056	\$ 31,284	\$	\$
Federal Grants and Contracts	4,388	3,957		
State and Local Grants and Contracts	712	932	114	1,352
Nongovernmental Grants and Contracts	5,340	5,509	4,737	4,979
Sales and Services of Educational Departments	629	690		
Auxiliary Enterprises	985	1,104		
Other Operating Revenues	1,920	1,866	96	149
<b>Total Operating Revenues</b>	<b>47,030</b>	<b>45,342</b>	<b>4,947</b>	<b>6,480</b>
Less, Operating Expenses	146,940	129,923	7,003	7,814
<b>Operating Loss</b>	<b>(99,910)</b>	<b>(84,581)</b>	<b>(2,056)</b>	<b>(1,334)</b>
<b>Nonoperating Revenues</b>				
State Appropriations	47,715	46,131		
Other Nonoperating Revenues	48,478	30,209	3,389	
Nonoperating Expenses	(621)	(987)		(5,184)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>95,572</b>	<b>75,353</b>	<b>3,389</b>	<b>(5,184)</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>				
	(4,338)	(9,228)	1,333	(6,518)
Capital Appropriations	5,522	14,554		
Capital Grants, Contracts, Gifts, and Fees	4,209	3,464		
Additions to Permanent Endowments			840	5,832
<b>Increase (Decrease) in Net Assets</b>	<b>5,393</b>	<b>8,790</b>	<b>2,173</b>	<b>(686)</b>
Net Assets, Beginning of Year	220,611	211,821	21,109	21,795
<b>Net Assets, End of Year</b>	<b>\$ 226,004</b>	<b>\$ 220,611</b>	<b>\$ 23,282</b>	<b>\$ 21,109</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 chart presents the College’s operating revenues for the 2009-10 and 2008-09 fiscal years:

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



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

- An increase of \$1.8 million in net student tuition and fees, primarily from an increase in enrollment ranging from approximately 10 percent for fall and spring terms to 5 percent for summer coupled with a 10 percent tuition increase.
- An increase of \$0.4 million in Federal grants and contracts, or 10.9 percent.
- A decrease of \$0.2 million, or 23.6 percent, in State and local grants and contracts.

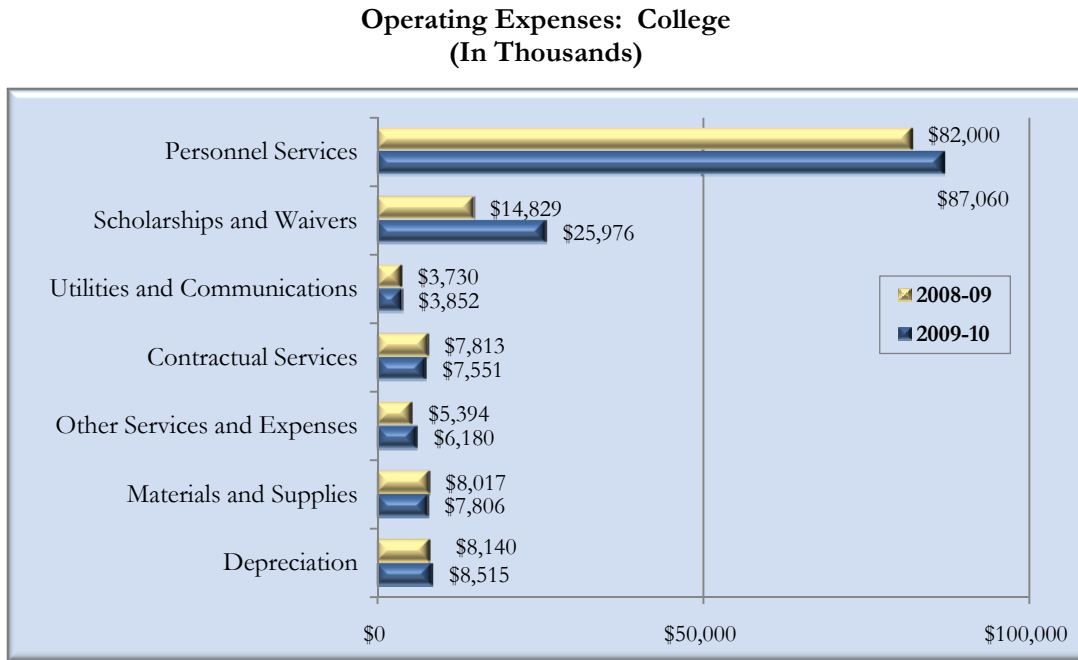
**Operating Expenses**

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

Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

	<b>Operating Expenses (In Thousands)</b>			
	College		Component Unit	
	6-30-10	6-30-09	12-31-09	12-31-08
<b>Operating Expenses</b>				
Personnel Services	\$ 87,060	\$ 82,000	\$	\$
Scholarships and Waivers	25,976	14,829	1,916	1,905
Utilities and Communications	3,852	3,730		
Contractual Services	7,551	7,813		
Other Services and Expenses	6,180	5,394	5,087	5,909
Materials and Supplies	7,806	8,017		
Depreciation	8,515	8,140		
<b>Total Operating Expenses</b>	<b>\$146,940</b>	<b>\$129,923</b>	<b>\$ 7,003</b>	<b>\$ 7,814</b>

The following chart presents the College’s operating expenses for the 2009-10 and 2008-09 fiscal years:



College operating expenses increased by \$17 million, or 13.1 percent, as a result of the following factors:

- Personnel services expenses increased by \$5.1 million, or 6.2 percent, primarily due to increased enrollment resulting in increased instructional staff and corresponding employee benefits costs.
- Scholarship expenses increased by \$11.1 million, or 75.2 percent, primarily due to increased financial aid enrollment activities.
- Other services and expenses increased by \$0.8 million, or 14.6 percent, which included instructional and custodial outsourcing operations.

**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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
State Appropriations	\$ 47,715	\$ 46,131
Gifts and Grants	46,816	30,438
Investment Income (Loss)	1,662	(229)
Loss on Disposal of Capital Assets	(57)	(461)
Interest on Capital Asset-Related Debt	(564)	(526)
<b>Net Nonoperating Revenues</b>	<b>\$ 95,572</b>	<b>\$ 75,353</b>

Net nonoperating revenues increased by \$20.2 million, or 26.8 percent, primarily due to an increase in gifts and grants. The increase in gifts and grants was due to the College receiving American Recovery and Reinvestment Act funds and an increase in other Federal grants.

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

This category is composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Capital Appropriations	\$ 5,522	\$ 14,554
Capital Grants, Contracts, Gifts, and Fees	4,209	3,464
<b>Total</b>	<b>\$ 9,731</b>	<b>\$ 18,018</b>

Capital appropriations decreased by \$9 million due to decreased State funding appropriated to support future capital projects. Capital grants, contracts, gifts, and fee increased slightly by \$0.7 million primarily due to increased capital improvement fee rates.

**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 2009-10 and 2008-09 fiscal years is presented in the following table:

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

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (91,678)	\$ (75,799)
Noncapital Financing Activities	93,779	76,361
Capital and Related Financing Activities	(3,065)	5,943
Investing Activities	1,522	420
<b>Net Increase in Cash and Cash Equivalents</b>	558	6,925
Cash and Cash Equivalents, Beginning of Year	33,295	26,370
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 33,853</b>	<b>\$ 33,295</b>

Major sources of funds came from State appropriations (\$47.6 million), net student tuition and fees (\$33.2 million), and nonoperating gifts and grants (\$46.1 million). Major uses of funds were for payments to employees, including salaries and benefits (\$86.9 million), payments for scholarships (\$26 million) and to providers of goods and services, including capital uses (\$46.9 million).

Changes in cash and cash equivalents were the result of the following factors:

- Cash used by operating activities increased by \$15.9 million primarily due to an increase in financial aid scholarship funds.
- Cash provided by noncapital financing activities increased by \$17.4 million primarily due to increases in gifts and grants funding offset by a decrease in State appropriations.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2010, the College had \$301.5 million in capital assets, less accumulated depreciation of \$97.2 million, for net capital assets of \$204.3 million. Depreciation charges for the current fiscal year totaled \$8.5 million. The following table summarizes the College’s capital assets at June 30:

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

Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 5,021	\$	\$	\$ 5,021
Buildings	227,628	16,005		243,633
Other Structures and Improvements	24,930	1,453	233	26,150
Furniture, Machinery, and Equipment	14,177	2,118	588	15,707
Construction in Progress	8,921	18,026	15,942	11,005
<b>Total</b>	<b>280,677</b>	<b>37,602</b>	<b>16,763</b>	<b>301,516</b>
Less, Accumulated Depreciation:				
Buildings	58,975	5,786		64,761
Other Structures and Improvements	18,632	1,185	180	19,637
Furniture, Machinery, and Equipment	11,839	1,544	583	12,800
<b>Total Accumulated Depreciation</b>	<b>89,446</b>	<b>8,515</b>	<b>763</b>	<b>97,198</b>
<b>Capital Assets, Net</b>	<b>\$ 191,231</b>	<b>\$ 29,087</b>	<b>\$ 16,000</b>	<b>\$ 204,318</b>

Major capital additions completed during the 2009-10 fiscal year and the resources that funded their acquisition included:

**Major Capital Additions  
(In Thousands)**

	Amount
Central Campus:	
PST C Firing Range (PECO)	\$ 6,570
R/R Administration Building 111 (PECO, CO&DS)	1,513
R/R Finance Building 110 (PECO, CO&DS)	1,180
Mechanical Building 124 - Chiller (PECO)	343
Parking Lots (PECO)	306
Signage (PECO, Transfer Funds)	190
North Campus:	
LLRC/ Lab Building (PECO, Transfer Funds)	5,421
Burt Reynolds Building 106 (PECO, Transfer Funds)	276
Signage (PECO, Transfer Funds)	95
South Campus:	
Signage (PECO, Transfer Funds)	32
Glades Campus:	
Roadwork (PECO)	277
<b>Total Major Capital Additions Completed</b>	<b>\$ 16,203</b>

Note: PECO = Public Education Capital Outlay  
CO&DS = Capital Outlay and Debt Service

Capital expenditures totaling \$26.2 million for significant projects are planned for the 2010-11 fiscal year. Projects planned include: Lake Worth “Central” Campus: (1) Criminal Justice/Crime Scene/Fire Classroom Building - \$10.3 million; (2) Central Energy Plant #3 - \$3.7 million; (3) Fire Training Tower - \$1.7 million; (4) Emergency Vehicle Operator Course Skid Pad - \$0.7 million; (5) new BAS Building - \$7.9 million; (6) Student Commons Landscape Project - \$0.2 million; and District Expenditures – All campuses as needed: (1) District Re-roofing - \$0.4 million; (2) HVAC Air Handler Replacements - \$0.9 million; (3) General Renovations - \$0.4 million. Additional information about the College’s capital assets is presented in the notes to the financial statements.

**DEBT ADMINISTRATION**

At fiscal year-end, the College had \$12.3 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2010, and June 30, 2009:

**Long-Term Debt, at June 30: College  
(In Thousands)**

	2010	2009
SBE Capital Outlay Bonds	\$ 3,835	\$ 4,075
Capital Improvement Revenue Bonds	8,425	8,740
<b>Total</b>	<b>\$ 12,260</b>	<b>\$ 12,815</b>

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2009-10 fiscal year, there were no bond sales and debt repayments totaled \$555,000. Additional information about the College’s long-term debt is presented in the notes to financial statements.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Palm Beach State College’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the coming year. In response to a decrease in State appropriations, the Board of Trustees increased the tuition rate eight percent to take effect beginning with the Fall 2010 term. The College has also monitored budgeted expenditures closely and has maintained a committee to continue to analyze potential further cuts. Despite the lack of increases in State funding, the College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in enrollment and growth in grant activities will enable it to maintain consistent mission-critical services over the coming year.

**REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Administration and Business Services, Palm Beach State College, 4200 Congress Avenue, Lake Worth, Florida 33461.

**BASIC FINANCIAL STATEMENTS**

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS  
June 30, 2010**

	College	Component Unit
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 14,269,634	\$ 4,247,520
Restricted Cash and Cash Equivalents	583,150	
Restricted Investments		4,169,155
Accounts Receivable, Net	1,975,998	343,950
Due from Other Governmental Agencies	9,523,893	
Due from Component Unit	41,361	
Inventories	8,625	
Prepaid Expenses	993,214	
Deposits - Other	890	
Other Assets		2,479
<b>Total Current Assets</b>	<b>27,396,765</b>	<b>8,763,104</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	19,000,286	
Investments	951,984	
Restricted Investments	108,193	12,503,268
Depreciable Capital Assets, Net	188,291,660	
Nondepreciable Capital Assets	16,026,269	11,000
Other Assets		2,361,229
<b>Total Noncurrent Assets</b>	<b>224,378,392</b>	<b>14,875,497</b>
<b>TOTAL ASSETS</b>	<b>\$ 251,775,157</b>	<b>\$ 23,638,601</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 470,032	\$ 356,481
Salary and Payroll Taxes Payable	1,382,824	
Retainage Payable	544,463	
Deposits Held for Others	1,121,049	
Long-Term Liabilities - Current Portion:		
Bonds Payable	585,000	
Compensated Absences Payable	463,643	
<b>Total Current Liabilities</b>	<b>4,567,011</b>	<b>356,481</b>
Noncurrent Liabilities:		
Bonds Payable	11,675,000	
Compensated Absences Payable	8,969,680	
Other Postemployment Benefits Payable	142,453	
Other Noncurrent Liabilities	417,004	
<b>Total Noncurrent Liabilities</b>	<b>21,204,137</b>	
<b>TOTAL LIABILITIES</b>	<b>25,771,148</b>	<b>356,481</b>

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS (Continued)**  
**June 30, 2010**

	<b>College</b>	<b>Component Unit</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 192,057,930	\$ 11,000
Restricted:		
Nonexpendable:		
Endowment		13,423,422
Expendable:		
Grants and Loans	1,583,669	
Scholarships	865,934	10,984,870
Capital Projects	26,492,952	
Debt Service	99,187	
Unrestricted	4,904,337	(1,137,172)
<b>Total Net Assets</b>	226,004,009	23,282,120
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 251,775,157</b>	<b>\$ 23,638,601</b>

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2010**

	<u>College</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$20,823,412	\$ 33,056,091	\$
Federal Grants and Contracts	4,388,103	
State and Local Grants and Contracts	711,563	113,702
Nongovernmental Grants and Contracts	5,339,941	4,737,729
Sales and Services of Educational Departments	628,770	
Auxiliary Enterprises	984,778	
Other Operating Revenues	1,920,132	95,896
<b>Total Operating Revenues</b>	<u>47,029,378</u>	<u>4,947,327</u>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	87,060,090	
Scholarships and Waivers	25,975,956	1,916,400
Utilities and Communications	3,852,081	
Contractual Services	7,551,224	
Other Services and Expenses	6,179,328	5,086,523
Materials and Supplies	7,805,670	
Depreciation	8,515,276	
<b>Total Operating Expenses</b>	<u>146,939,625</u>	<u>7,002,923</u>
<b>Operating Loss</b>	<u>(99,910,247)</u>	<u>(2,055,596)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	47,715,293	
Gifts and Grants	46,816,088	
Investment Income	1,662,253	3,388,776
Loss on Disposal of Capital Assets	(57,300)	
Interest on Capital Asset-Related Debt	(563,777)	
<b>Net Nonoperating Revenues</b>	<u>95,572,557</u>	<u>3,388,776</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<u>(4,337,690)</u>	<u>1,333,180</u>
Capital Appropriations	5,522,177	
Capital Grants, Contracts, Gifts, and Fees	4,208,658	
Additions to Permanent Endowments		839,921
<b>Total Other Revenues</b>	<u>9,730,835</u>	<u>839,921</u>
<b>Increase in Net Assets</b>	5,393,145	2,173,101
<b>Net Assets, Beginning of Year</b>	<u>220,610,864</u>	<u>21,109,019</u>
<b>Net Assets, End of Year</b>	<u>\$ 226,004,009</u>	<u>\$ 23,282,120</u>

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2010**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 33,191,116
Grants and Contracts	10,183,382
Payments to Suppliers	(21,414,214)
Payments for Utilities and Communications	(3,852,081)
Payments to Employees	(71,622,637)
Payments for Employee Benefits	(15,252,935)
Payments for Scholarships	(25,975,956)
Sales and Service of Educational Departments	628,770
Auxiliary Enterprises	984,778
Other Receipts	1,451,687
	<b>(91,678,090)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	47,642,751
Gifts and Grants Received for Other Than Capital or Endowment Purposes	46,136,215
	<b>93,778,966</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Appropriations	15,434,924
Capital Grants and Gifts	4,278,658
Purchases of Capital Assets	(21,659,721)
Principal Paid on Capital Debt and Leases	(555,000)
Interest Paid on Capital Debt and Leases	(563,777)
	<b>(3,064,916)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	1,522,193
	<b>1,522,193</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>558,153</b>
Cash and Cash Equivalents, Beginning of Year	33,294,917
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 33,853,070</b>

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For the Fiscal Year Ended June 30, 2010**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (99,910,247)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	8,515,276
Changes in Assets and Liabilities:	
Receivables, Net	(138,531)
Inventories	(563)
Prepaid Expenses	47,599
Accounts Payable	(34,921)
Deposits Held for Others	(462,690)
Compensated Absences Payable	300,141
Other Postemployment Benefits Payable	5,846
	<u>5,846</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (91,678,090)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL RELATED</b>	
<b>FINANCING ACTIVITIES</b>	
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (57,300)

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** The governing body of Palm Beach State College<sup>1</sup>, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of five 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 Palm Beach 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 Palm Beach State College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2009.

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

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<sup>1</sup> The College's Board of Trustees approved the name change from Palm Beach Community College to Palm Beach State College effective January 12, 2010, pursuant to Section 1001.60(2)(b), Florida Statutes.

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

**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
- Other Required Supplementary Information

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

The College's component unit uses the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting for not-for-profit organizations.

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

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party 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 with the State Board of Administration (SBA) Florida PRIME investment pool, formerly known as the Local Government Surplus Fund Trust Fund Investment Pool and the Special Purpose Investment Account (SPIA) investments with the State Treasury. For 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 Treasury SPIA and SBA Florida PRIME 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 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, 2010, the College reported as cash equivalents at fair value \$24,963,532 of moneys held in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 1.81 years at June 30, 2010. The College relies on policies developed by the State Treasury for managing

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2010, the College reported as cash equivalents at fair value \$8,101,158 of moneys held in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 46 days as of June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

**Capital Assets.** College capital assets consist of land; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. 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
  - Portables – 10 years

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

## 2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration; interest-bearing time deposits and

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College’s investments at June 30, 2010, are reported at fair value, as follows:

Investment Type	Amount
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 534,980
State Board of Administration Debt Service Accounts	99,187
Equity Securities	9,006
Money Market Funds	417,004
<b>Total College Investments</b>	<b>\$ 1,060,177</b>

**State Board of Administration Fund B Surplus Funds Trust Fund**

On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund to establish the Fund B Surplus Funds Trust Fund (Fund B). Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2010, the College reported investments at fair value of \$534,980 for amounts held in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 at June 30, 2010. The weighted-average life (WAL) of Fund B at June 30, 2010, was 8.05 years. A portfolio’s WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2010. WAL measures the sensitivity of Fund B to interest rate changes. The College’s investment in Fund B is unrated.

**State Board of Administration Debt Service Accounts**

The College reported investments at fair value totaling \$99,187 at June 30, 2010, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

bonds issued by the State Board of Education for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**Component Unit Investments**

Investments held by the College's component unit (Foundation) at December 31, 2009, were reported at fair market value with the following maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less Than 1	1-5	6-10	11-15	More Than 15
<b>Investment in Debt Obligations:</b>						
U.S. Government Securities	\$ 2,486,183	\$ 1,120,712	\$ 767,143	\$ 375,084	\$	\$ 223,244
Mortgage Backed Pass-Throughs	2,434,359		443,055	272,362	345,367	1,373,575
Corporate Bonds	1,177,208	15,119	344,758	219,799	11,226	586,306
<b>Total Investment in Debt Obligations</b>	<b>6,097,750</b>	<b>\$ 1,135,831</b>	<b>\$ 1,554,956</b>	<b>\$ 867,245</b>	<b>\$ 356,593</b>	<b>\$ 2,183,125</b>
<b>Other Investments:</b>						
Mutual Funds	1,015,412					
Equity Securities	9,559,261					
<b>Total Other Investments</b>	<b>10,574,673</b>					
<b>Total Component Unit Investments</b>	<b>\$ 16,672,423</b>					

The Foundation has developed an investment objective of growth and income over the long term. Per the Foundation investment policy, the spending policy of the Foundation is to make available on an annual basis an amount equal to approximately three percent of the market value of the Foundation's assets as of the beginning of each fiscal year, plus approximately one percent to account for administrative expenses. These distributions may be from any combination of income, earnings, or principal value of contributions that are not donor or Board restricted. The following risks may apply to the Foundation's investments:

*Interest Rate Risk:* The Foundation's investment policy recognizes that assets are exposed to risk and the fluctuation of market value from year-to-year. This volatile performance is acceptable, as long as the Foundation is invested primarily for capital appreciation over the long term. The policy does not limit debt obligation maturities; however, the Foundation manages its exposure to fair value losses arising from increasing interest rates through the segmented time-distribution method.

*Credit Risk:* The Foundation's investment policy limits investments to equity securities, convertible securities, real estate securities, fixed-income securities, and certain international securities. Convertible securities should be rated "BBB" (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. The policy also recommends a target asset allocation strategy of 60 percent equities (minimum 50 percent and maximum 70 percent limits) and 40 percent fixed income and cash equivalents (minimum 30 percent and maximum 50 percent limits). Obligations of United States government agencies and instrumentalities and domestic equities do not require disclosure of credit quality.

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

Mortgage-backed pass-throughs were not rated. Corporate bonds held by the Foundation at December 31, 2009, were rated as follows:

Investment Type	Fair Value	Credit Quality Ratings	
		Moody's	Standard & Poor's
Corporate Bonds	\$ 184,035	AAA	AAA
	390,217	AA1 to BAA1	AA to A
	578,921	BAA1 to B1	BBB to B
	24,035	CAA1	CCC+
<b>Total Corporate Bonds</b>	<b>\$ 1,177,208</b>		

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investment securities that are held by someone other than the Foundation and are not registered in the Foundation's name. The Foundation's investment policy does not address custodial credit risk.

*Concentration of Credit Risk:* The Foundation's investment policy requires that invested assets be broadly diversified by asset class, investment style, number of issues, issue type, and other factors consistent with the investment objectives to reduce the risk of wide swings in market value from year to year or incurring large losses that may result from concentrated positions. Subject to the usual standards of fiduciary prudence, and to minimize the risk of large losses, each investment manager is to maintain adequate diversification in their portfolio.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$166,740 allowance for uncollectible accounts.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$7,143,346 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

**5. DUE FROM COMPONENT UNIT**

The \$41,361 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2010. The College's component unit's financial statements are reported as of the most recent fiscal year ended December 31, 2009, for which an audit report is available. Accordingly, although the College has reported an amount due from component unit on the statement of net assets, no amount is reported by the component unit as due to the College.

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**6. INVENTORIES**

Inventories consist of items centrally stored for teaching materials and office supplies, and are valued using the last invoice cost, which approximates the first-in, first-out method of inventory valuation.

**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 5,021,375	\$	\$	\$ 5,021,375
Construction in Progress	8,921,461	18,025,601	15,942,168	11,004,894
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 13,942,836</b>	<b>\$ 18,025,601</b>	<b>\$ 15,942,168</b>	<b>\$ 16,026,269</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 227,627,682	\$ 16,005,565	\$	\$ 243,633,247
Other Structures and Improvements	24,930,040	1,453,138	232,543	26,150,635
Furniture, Machinery, and Equipment	14,177,435	2,117,585	588,321	15,706,699
<b>Total Depreciable Capital Assets</b>	<b>266,735,157</b>	<b>19,576,288</b>	<b>820,864</b>	<b>285,490,581</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	58,974,937	5,786,290		64,761,227
Other Structures and Improvements	18,632,971	1,185,335	180,806	19,637,500
Furniture, Machinery, and Equipment	11,839,301	1,543,651	582,758	12,800,194
<b>Total Accumulated Depreciation</b>	<b>89,447,209</b>	<b>8,515,276</b>	<b>763,564</b>	<b>97,198,921</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 177,287,948</b>	<b>\$ 11,061,012</b>	<b>\$ 57,300</b>	<b>\$ 188,291,660</b>

**8. LONG-TERM LIABILITIES**

Long-term liabilities of the College at June 30, 2010, include bonds payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 12,815,000	\$	\$ 555,000	\$ 12,260,000	\$ 585,000
Compensated Absences Payable	9,133,182	616,821	316,680	9,433,323	463,643
Other Postemployment Benefits Payable	136,607	5,846		142,453	
Other Noncurrent Liabilities	278,920	138,084		417,004	
<b>Total Long-Term Liabilities</b>	<b>\$ 22,363,709</b>	<b>\$ 760,751</b>	<b>\$ 871,680</b>	<b>\$ 22,252,780</b>	<b>\$ 1,048,643</b>

**Bonds Payable.** The various bonds were issued to finance capital outlay projects of the College. The following is a description of the bonded debt issues.

- Capital Outlay Bonds. 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

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Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements.

- Capital Improvement Revenue Bonds, Series 2008A. These bonds are issued by the Florida Department of Education, Division of Bond Finance on behalf of the College and authorized by Article VII, Section 11(d) of the Florida Constitution, Sections 215.57 through 215.83, and 1009.23, Florida Statutes, and other applicable provisions of law. Principal and interest on these bonds is secured by and payable solely from a first lien pledge of the capital improvement fees collected pursuant to Section 1009.23(11), Florida Statutes, by the participating colleges on parity with the outstanding 2006A and 2008A Bonds and any additional bonds issued subsequent to the issuance of the 2008A Bonds. The 2008A Bonds constitute the second series of bonds to be issued pursuant to the Master Authorizing Resolution. Upon the issuance of additional bonds, all bonds will share a parity first lien on the pledged revenues of all colleges participating in any series of bonds then outstanding. These bonds will share the lien of such additional bonds on the 2006A and 2008A pledged revenues and on the revenues pledged by colleges participating in such additional bonds. These bonds were issued for the construction of a technical education center at the Belle Glade Campus.

The College had the following bonds payable at June 30, 2010:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education:			
Capital Outlay Bonds:			
Series 2005A	\$ 1,860,000	4.0 - 5.0	2025
Series 2005B	1,975,000	5.0	2020
Florida Department of Education:			
Capital Improvement Revenue Bonds:			
Series 2008A	<u>8,425,000</u>	3.4 - 5.0	2028
<b>Total</b>	<u>\$ 12,260,000</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Capital Outlay Bonds		
	Principal	Interest	Total
2011	\$ 255,000	\$ 181,050	\$ 436,050
2012	265,000	168,300	433,300
2013	275,000	155,050	430,050
2014	295,000	141,300	436,300
2015	305,000	126,550	431,550
2016-2020	1,680,000	392,550	2,072,550
2021-2025	<u>760,000</u>	<u>97,019</u>	<u>857,019</u>
<b>Total</b>	<u>\$ 3,835,000</u>	<u>\$ 1,261,819</u>	<u>\$ 5,096,819</u>

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Fiscal Year Ending June 30	Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2011	\$ 330,000	\$ 360,564	\$ 690,564
2012	340,000	349,014	689,014
2013	350,000	337,114	687,114
2014	365,000	323,989	688,989
2015	380,000	310,301	690,301
2016-2020	2,135,000	1,307,506	3,442,506
2021-2025	2,635,000	810,481	3,445,481
2026-2028	1,890,000	180,075	2,070,075
<b>Total</b>	<b>\$ 8,425,000</b>	<b>\$ 3,979,044</b>	<b>\$ 12,404,044</b>

**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, 2010, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$9,433,323. Of this amount, \$463,643 is considered a current liability as this is expected to be paid in the coming fiscal year. The College calculates the actual fiscal year payouts for all leave for the two fiscal years immediately preceding, including applicable College tax payments, and then averages the two years.

**Other Postemployment Benefits Payable.** The College follows Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain 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. 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 benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the plans at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The College does not offer any explicit subsidies. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. 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.

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*Funding Policy.* Plan benefits are pursuant to provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend the 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 plans are financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 57 retirees received postemployment healthcare benefits. The College provided required contributions of \$33,661 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 \$279,046.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 29,893
Amortization of Unfunded Actuarial Accrued Liability	<u>10,206</u>
<b>Annual Required Contribution</b>	40,099
Interest on Net OPEB Obligation	4,098
Adjustment to Annual Required Contribution	<u>(4,690)</u>
<b>Annual OPEB Cost (Expense)</b>	39,507
Contribution Toward the OPEB Cost	<u>(33,661)</u>
<b>Increase in Net OPEB Obligation</b>	5,846
Net OPEB Obligation, Beginning of Year	<u>136,607</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 142,453</u></u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, July 1, 2007	\$		\$
2007-08	102,071	32.6%	68,817
2008-09	101,842	33.4%	136,607
2009-10	39,507	85.2%	142,453

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*Funded Status and Funding Progress.* As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$297,267 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$297,267 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$54,890,980 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 0.54 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, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the College's 2009-10 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent for the 2009-10 fiscal year, reduced 0.1 to .3 percent per year, to an ultimate rate of 4.5 percent after 18 years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2010, was 27 years.

## **9. RETIREMENT PROGRAMS**

**Florida Retirement System.** Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

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

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$3,449,399, \$3,606,087, and \$3,697,994, respectively, which were equal to the required contributions for each fiscal year.

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

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317 College participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$1,149,325.

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

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

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

There were 95 College participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$667,049.

**10. CONSTRUCTION COMMITMENTS**

The College’s major construction commitments at June 30, 2010, are as follows:

Project Description	Total Contract	Completed to Date	Balance Committed
<b>North Campus:</b>			
Burt Reynolds Center HVAC	\$ 643,634	\$ 141,709	\$ 501,925
LLRC Parking Lot	266,832		266,832
<b>Central Campus:</b>			
R/R Collegewide Services	999,958	343,455	656,503
Parking Lots	881,586	545,502	336,084
<b>Glades Campus:</b>			
New Tech Training Center	9,514,952	8,854,127	660,825
<b>Collegewide:</b>			
Signage	361,830	220,842	140,988
<b>Total</b>	<b>\$ 12,668,792</b>	<b>\$ 10,105,635</b>	<b>\$ 2,563,157</b>

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**11. OPERATING LEASE COMMITMENTS**

The College leased computer equipment under an operating lease, which expires in 2013. These leased assets individually do not meet the capitalization threshold and the related commitments are not reported on the College’s statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from this lease agreement are contingent upon future appropriations. Future minimum lease commitments for this noncancelable operating lease are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 531,409
2012	531,409
2013	131,358
<b>Total Minimum Payments Required</b>	<b>\$ 1,194,176</b>

**12. RISK MANAGEMENT PROGRAMS**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$175 million through February 28, 2010, and \$150 million effective March 1, 2010. 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 coverage in any of the past three fiscal years.

**13. SCHEDULE OF STATE REVENUE SOURCES**

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

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

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

<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 41,803,877
Education Enhancement Trust Fund (Lottery)	5,897,712
Gross Receipts Tax (Public Education Capital Outlay)	4,756,577
Bright Futures Scholarship Program	3,069,201
Florida Student Assistance Grants	2,655,993
Motor Vehicle License Tax (Capital Outlay and Debt Service)	765,600
Restricted Contracts and Grants	604,485
Other State Sources	48,177
<b>Total</b>	<b><u>\$ 59,601,622</u></b>

**14. 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	\$ 52,679,194
Public Services	468,956
Academic Support	15,884,289
Student Services	17,850,507
Institutional Support	10,424,665
Operation and Maintenance of Plant	15,567,437
Scholarships and Fellowships	24,893,998
Depreciation	8,515,276
Auxiliary Enterprises	655,303
<b>Total Operating Expenses</b>	<b><u>\$ 146,939,625</u></b>

**15. CURRENT UNRESTRICTED FUNDS**

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in

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unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

**Statement of Current Unrestricted Funds Net Assets**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	13,353,651
Investments		534,980
Accounts Receivable, Net		850,960
Due from Other Governmental Agencies		987,211
Inventories		8,625
Prepaid Expenses		993,214
Deposits - Other		890

Noncurrent Assets:

Investments		417,004
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**TOTAL ASSETS**

\$ 17,146,535
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**LIABILITIES**

Current Liabilities:

Accounts Payable	\$	400,914
Salary and Payroll Taxes Payable		1,382,824
Deposits Held for Others		465,680
Compensated Absences Payable		463,643

**Total Current Liabilities**

2,713,061
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Noncurrent Liabilities:

Compensated Absences Payable		8,969,680
Other Postemployment Benefits Payable		142,453
Other Noncurrent Liabilities		417,004

**TOTAL LIABILITIES**

12,242,198
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**TOTAL NET ASSETS**

4,904,337
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**TOTAL LIABILITIES AND NET ASSETS**

\$ 17,146,535
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**Statement of Current Unrestricted Funds Revenues,  
Expenses, and Changes in Net Assets**

**REVENUES**

## Operating Revenues:

Student Tuition and Fees, Net of Scholarship		
Allowances of \$20,823,412	\$	27,436,473
Federal Grants and Contracts		281,058
State and Local Grants and Contracts		17,000
Nongovernmental Grants and Contracts		318,364
Sales and Services of Educational Departments		628,770
Auxiliary Enterprises		984,778
Other Operating Revenues		<u>1,606,005</u>
<b>Total Operating Revenues</b>		<u><b>31,272,448</b></u>

**EXPENSES**

## Operating Expenses:

Personnel Services		79,950,082
Scholarships and Waivers		67,868
Utilities and Communications		3,827,057
Contractual Services		6,874,120
Other Services and Expenses		4,823,957
Materials and Supplies		<u>6,203,440</u>
<b>Total Operating Expenses</b>		<u><b>101,746,524</b></u>
<b>Operating Loss</b>		<u><b>(70,474,076)</b></u>

**NONOPERATING REVENUES**

State Appropriations		47,701,589
Gifts and Grants		25,016,950
Investment Income		<u>838,885</u>
<b>Net Nonoperating Revenues</b>		<u><b>73,557,424</b></u>

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

Capital Appropriations		11,484
Transfers to/from Other Funds		<u>(2,482,423)</u>
<b>Increase in Net Assets</b>		612,409
Net Assets, Beginning of Year		<u>4,291,928</u>
<b>Net Assets, End of Year</b>	\$	<u><u><b>4,904,337</b></u></u>

**PALM BEACH STATE COLLEGE  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS –  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (2) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ -	\$ 640,852	\$ 640,852	0%	\$ 50,661,686	1.30%
7/1/2009	\$ -	\$ 297,267	\$ 297,267	0%	\$ 54,890,980	0.54%

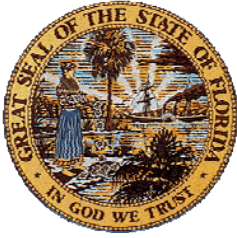
- Notes: (1) The initial OPEB actuarial calculation was performed as of July 1, 2007, for the College as it implemented the provisions of GASB Statement 45.
- (2) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the unfunded actuarial liabilities.

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**PALM BEACH STATE COLLEGE  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

The July 1, 2009, the actuarial accrued liability (AAL) of \$297,267 was significantly lower than the July 1, 2007, AAL of \$640,852. This reduction was primarily a result of updated assumptions (higher withdrawal and reduced percentage married and participation assumptions) resulting in a reduction of \$365,000. Updated claims costs and required retiree contributions also reduced the AAL by \$110,000. The reductions due to assumptions and claims costs were partially offset by an increase due to the expected growth of liabilities and demographic changes of \$143,000 and an updated trend assumption that increased the AAL by \$15,000. The elimination of life insurance benefits to current and future retirees reduced the AAL a further \$27,000.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534  
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 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 Palm Beach 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, 2010, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA  
January 21, 2011