

PALM BEACH STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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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 Samantha Palaigos, 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 or by telephone at (850) 922-2263.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

Our audit objectives were to determine whether 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, 2012. 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. 2013-036.

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of 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, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit column. 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, 2012, 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, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
February 22, 2013

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, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2012, and June 30, 2011, and its component unit, Palm Beach State College Foundation, Inc., for the fiscal years ended December 31, 2011, and December 31, 2010.

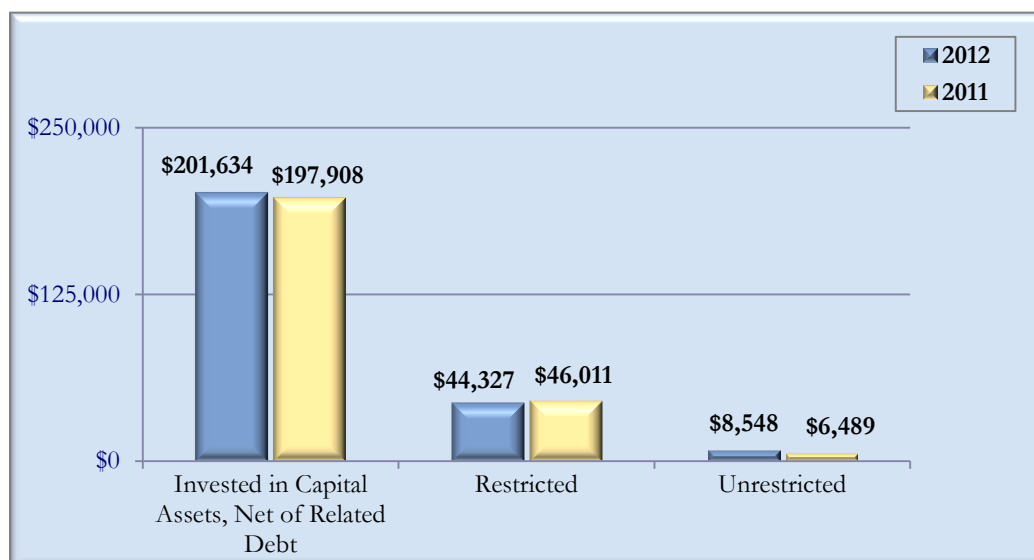
FINANCIAL HIGHLIGHTS

The College's assets totaled \$290.8 million at June 30, 2012. This balance reflects a \$15.3 million, or 5.5 percent, increase as compared to the 2010-11 fiscal year, resulting from increased student fees and capital projects completed. While assets grew, liabilities increased by \$11.2 million, or 44.5 percent, totaling \$36.3 million at June 30, 2012, as compared to \$25.1 million at June 30, 2011. As a result, the College's net assets increased by \$4.1 million, reaching a year-end balance of \$254.5 million.

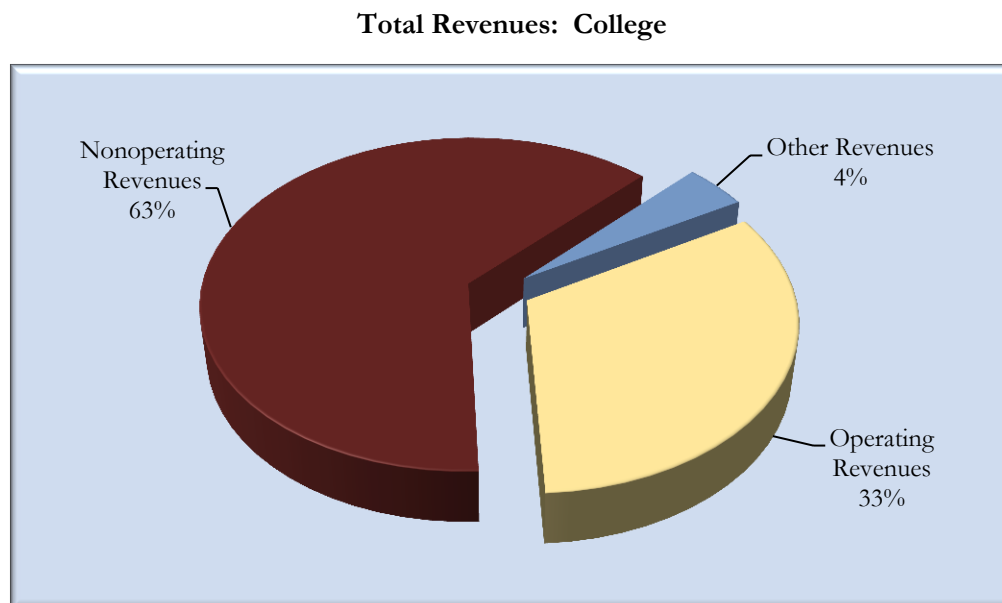
The College's operating revenues totaled \$52.9 million for the 2011-12 fiscal year, representing a 5.3 percent increase over the 2010-11 fiscal year due mainly to increased tuition and fee rates, offset by a decrease in State and local grants and contracts. Operating expenses totaled \$158.3 million for the 2011-12 fiscal year, representing a decrease of 3.4 percent as compared to the 2010-11 fiscal year due mainly to a decrease in employee benefit costs and scholarship expense.

Net assets represent the residual interest in the College's assets after deducting liabilities. The College's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2011-12 fiscal year:



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	
	6-30-12	6-30-11	12-31-11	12-31-10
Assets				
Current Assets	\$ 35,021	\$ 41,287	\$ 9,532	\$ 8,673
Capital Assets, Net	222,704	209,583	11	11
Other Noncurrent Assets	33,060	24,647	17,452	16,405
Total Assets	<u>290,785</u>	<u>275,517</u>	<u>26,995</u>	<u>25,089</u>
Liabilities				
Current Liabilities	5,768	4,294	418	573
Noncurrent Liabilities	30,508	20,815		
Total Liabilities	<u>36,276</u>	<u>25,109</u>	<u>418</u>	<u>573</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	201,634	197,908	11	11
Restricted	44,327	46,011	27,286	25,283
Unrestricted	8,548	6,489	(720)	(778)
Total Net Assets	<u>\$ 254,509</u>	<u>\$ 250,408</u>	<u>\$ 26,577</u>	<u>\$ 24,516</u>
Increase in Net Assets	<u>\$ 4,101</u>	1.6%	<u>\$ 2,061</u>	8.4%

The College's net assets increased \$4.1 million or 1.6 percent. This is mainly attributed to capital asset increases, a slight increase in operating revenues, and decreases in operating expenses.

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)

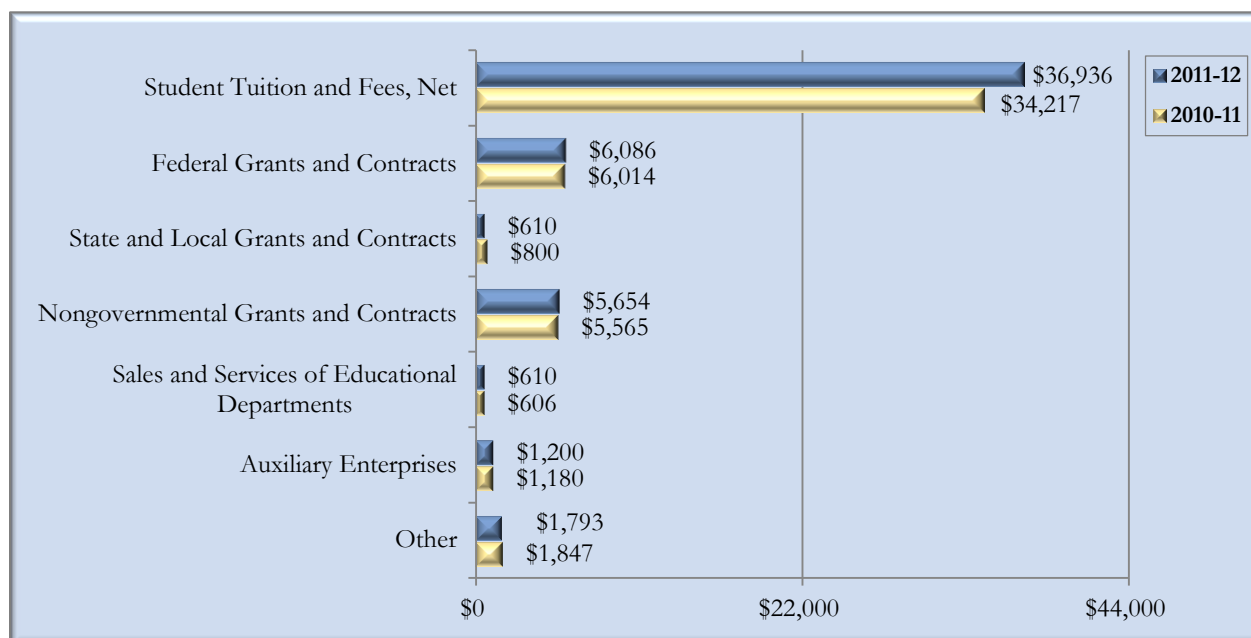
	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 36,936	\$ 34,217	\$	\$
Federal Grants and Contracts	6,086	6,014		
State and Local Grants and Contracts	610	800		
Nongovernmental Grants and Contracts	5,654	5,565	5,920	5,123
Sales and Services of Educational Departments	610	606		
Auxiliary Enterprises	1,200	1,180		
Other Operating Revenues	1,793	1,847	630	103
Total Operating Revenues	52,889	50,229	6,550	5,226
Less, Operating Expenses	158,255	163,878	6,449	6,623
Operating Income (Loss)	(105,366)	(113,649)	101	(1,397)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	50,341	51,302		
Other Nonoperating Revenues	53,100	60,918		2,050
Nonoperating Expenses	(972)	(541)	(91)	
Net Nonoperating Revenues (Expenses)	102,469	111,679	(91)	2,050
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,897)	(1,970)	10	653
State Capital Appropriations	2,408	22,045		
Capital Grants, Contracts, Gifts, and Fees	4,590	4,329		
Additions to Permanent Endowments			2,051	581
Increase in Net Assets	4,101	24,404	2,061	1,234
Net Assets, Beginning of Year	250,408	226,004	24,516	23,282
Net Assets, End of Year	\$ 254,509	\$ 250,408	\$ 26,577	\$ 24,516

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 2011-12 and 2010-11 fiscal years:

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



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

- An increase of \$2.7 million, or 7.9 percent, in net student tuition and fees, primarily an increase in tuition and fee rates of 7.7 percent.
- A decrease of \$0.2 million, or 23.8 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.

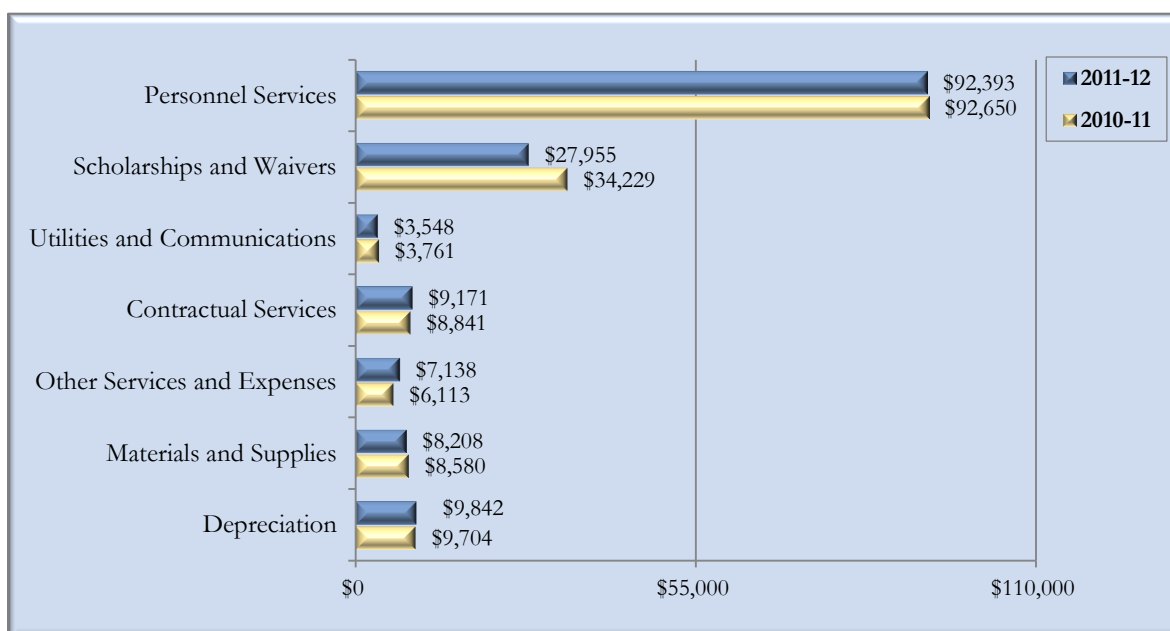
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

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

	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Expenses				
Personnel Services	\$ 92,393	\$ 92,650	\$	\$
Scholarships and Waivers	27,955	34,229	2,578	1,733
Utilities and Communications	3,548	3,761		
Contractual Services	9,171	8,841		
Other Services and Expenses	7,138	6,113	3,871	4,890
Materials and Supplies	8,208	8,580		
Depreciation	9,842	9,704		
Total Operating Expenses	\$ 158,255	\$ 163,878	\$ 6,449	\$ 6,623

The following chart presents the College's operating expenses for the 2011-12 and 2010-11 fiscal years:

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



College operating expenses decreased by \$5.6 million, or 3.4 percent, as a result of the following factors:

- A decrease in personnel expenses of \$0.3 million for salaries and benefits, or 0.3 percent. This included an increase in salaries of \$1.9 million offset by a decrease of \$2.2 million in employee benefits primarily due to a decrease in required employer contributions to the State retirement program.
- A decrease in scholarship expense of \$6.3 million, or 18.3 percent, primarily due to changes in Federal student financial aid requirements that substantially reduced student participation, particularly in the summer terms.
- An increase of \$1 million, or 16.8 percent, of other services and expenses which includes various instructional, technical, and custodial outsourcing operations.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital 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 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)

	2011-12	2010-11
State Noncapital Appropriations	\$ 50,341	\$ 51,302
Federal and State Student Financial Aid	51,840	55,818
Gifts and Grants	52	4,301
Investment Income	1,208	799
Interest on Capital Asset-Related Debt	(601)	(541)
Loss on Disposal of Capital Assets	(371)	
Net Nonoperating Revenues	\$ 102,469	\$ 111,679

Nonoperating revenues decreased by \$9.2 million, or 8.2 percent, primarily due to decreases in Federal and State student financial aid, gifts and grants, and State noncapital appropriations.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
State Capital Appropriations	\$ 2,408	\$ 22,045
Capital Grants, Contracts, Gifts, and Fees	4,590	4,329
Total	\$ 6,998	\$ 26,374

Capital appropriations decreased significantly by \$19.6 million, or 89.1 percent, primarily due to reduced planned Public Education Capital Outlay (PECO) projects.

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 2011-12 and 2010-11 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College
(In Thousands)

	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (95,032)	\$ (104,255)
Noncapital Financing Activities	102,111	111,698
Capital and Related Financing Activities	4,801	(1,598)
Investing Activities	<u>1,131</u>	<u>651</u>
Net Increase in Cash and Cash Equivalents	13,011	6,496
Cash and Cash Equivalents, Beginning of Year	<u>40,349</u>	<u>33,853</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 53,360</u></u>	<u><u>\$ 40,349</u></u>

Major sources of funds came from State noncapital appropriations (\$50.3 million), net student tuition and fees (\$36.6 million), and Federal and State student financial aid (\$51.8 million). Major uses of funds were for payments to employees for salaries and payments for employee benefits (\$91.2 million), payments for scholarships (\$28 million), payments to suppliers, including payments for utilities and communications (\$28.3 million), and purchase or construct capital assets (\$23.3 million).

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

- Cash provided by student tuition and fees increased by \$2.3 million primarily due to tuition rate increases.
- Cash provided by Federal and State student financial aid decreased by \$4.4 million due to decreases in scholarship funding.
- Cash provided by gifts and grants, other than capital, decreased by \$4.2 million primarily due to the elimination of American Reinvestment Recovery Act funding.
- Cash provided by proceeds of capital appropriations increased by \$4.5 million due to receipt of PECO funds appropriated in prior years.
- Cash provided by proceeds from capital debt increased by \$10 million due to a new bonds issue.
- Cash used by scholarships and waivers decreased by \$6.3 million due to decreases in scholarship funding.
- Cash used to purchase and build capital assets increased by \$8.4 million due to new construction on the Central Campus.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$338.1 million in capital assets, less accumulated depreciation of \$115.4 million, for net capital assets of \$222.7 million. Depreciation charges for the current fiscal year totaled \$9.8 million. The following table summarizes the College's capital assets at June 30:

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

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 5,021	\$ 5,021
Construction in Progress	17,240	5,572
Buildings	266,053	259,675
Other Structures and Improvements	32,271	28,660
Furniture, Machinery, and Equipment	17,476	17,020
Total	338,061	315,948
Less, Accumulated Depreciation:		
Buildings	77,111	70,928
Other Structures and Improvements	23,231	21,471
Furniture, Machinery, and Equipment	15,015	13,966
Total Accumulated Depreciation	115,357	106,365
Capital Assets, Net	\$ 222,704	\$ 209,583

Major Capital additions completed during the 2011-12 fiscal year and the resources that funded their acquisition included:

**Major Capital Additions
(In Thousands)**

	<u>Amount</u>
Central Campus:	
R/R Cafeteria #105 (PECO, Transfers)	\$ 200
R/R Central Mechanical Building #124 (PECO)	493
Public Safety Training Complex Energy Plant #539 (PECO)	4,461
Security Initiative (Transfer Funds)	161
SKID pad (PECO)	1,207
Student Commons (Parking Decal Fees, PECO)	422
Softball Field (PECO)	1,098
North Campus:	
R/R Philip D. Lewis Building #107 (Transfer Funds, PECO)	520
Glades Campus:	
Technical Education Center #105 (Capital Improvement Bond, Private Donations, Transfer Funds)	120
District:	
Signage (Transfer Funds, PECO)	387
Total Major Capital Additions Completed	\$ 9,069

Note: R/R= Renovation and Remodeling
PECO = Public Education Capital Outlay

Capital expenditures totaling \$22.6 million for significant projects are planned for the 2012-13 fiscal year. Projects planned include: Lake Worth "Central" Campus: (1) Public Safety Training Center Classroom Building - \$10.7 million; (2) Security Safety Building - \$1.3 million; (3) Burn Building - \$0.4 million; (4) District Facilities Office Addition - \$0.3 million; (5) Furniture & Equipment for new Buildings - \$0.9 million; (6) Center for Bachelors Program Building - \$3.1 million; Boca Raton Campus: (1) Parking Lot Modifications - \$0.5 million; Loxahatchee Groves: (1) Planning and Design for New Site/Buildings - \$1.3 million; and District Expenditures – All Campuses as Needed: (1) District Security Initiatives - \$2 million; (2) District Re-roofing - \$0.2 million; (3) HVAC Air Handler Replacements -

\$0.9 million; (4) General Renovations - \$0.1 million; (5) Energy Management Systems Renovation - \$0.1 million; (6) Historic Building Windows Renovation - \$0.8 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 \$21.1 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2012, and June 30, 2011:

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

	2012	2011
SBE Capital Outlay Bonds	\$ 3,315	\$ 3,580
Capital Improvement Revenue Bonds	17,755	8,095
Total	\$21,070	\$11,675

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, the SBE issued \$10 million of SBE Capital Improvement Revenue Bonds, Series 2012A for the College and the proceeds were used to finance a portion of the cost of new construction of the Public Safety Training Complex. Debt repayments during the 2011-12 fiscal year totaled \$605 thousand. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

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 slight increase in State funding is anticipated in the 2012-13 fiscal year. The College has also monitored budgeted expenditures closely, reduced the number of new positions, and has maintained a committee that continually analyzes potential cuts. Despite relatively flat revenue projections, the College's current financial and capital plans indicate that the resources from cost savings and increased efficiencies 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, MS #24, 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, 2012

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 20,660,415	\$ 3,400,744
Restricted Cash and Cash Equivalents	924,016	
Restricted Investments		6,124,997
Accounts Receivable, Net	2,937,188	5,803
Due from Other Governmental Agencies	9,243,061	
Due from Component Unit	53,699	
Inventories	5,111	
Prepaid Expenses	1,197,786	
Total Current Assets	35,021,276	9,531,544
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	31,775,434	
Investments	749,695	
Restricted Investments	535,260	17,285,631
Depreciable Capital Assets, Net	200,442,465	
Nondepreciable Capital Assets	22,261,188	11,000
Other Assets		167,163
Total Noncurrent Assets	255,764,042	17,463,794
TOTAL ASSETS	\$ 290,785,318	\$ 26,995,338
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 399,695	\$ 382,865
Salary and Payroll Taxes Payable	2,077,039	
Retainage Payable	886,814	
Deposits Held for Others	831,716	
Annuities Payable		35,418
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,020,000	
Compensated Absences Payable	553,143	
Total Current Liabilities	5,768,407	418,283
Noncurrent Liabilities:		
Bonds Payable	20,050,000	
Compensated Absences Payable	9,455,148	
Other Postemployment Benefits Payable	253,540	
Other Noncurrent Liabilities	749,695	
Total Noncurrent Liabilities	30,508,383	
TOTAL LIABILITIES	36,276,790	418,283

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	<u>College</u>	<u>Component Unit</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 201,633,653	\$ 11,000
Restricted:		
Nonexpendable:		
Endowment		17,274,631
Expendable:		
Grants and Loans	2,173,015	
Scholarships	2,923,663	10,011,080
Capital Projects	39,143,960	
Debt Service	86,020	
Unrestricted	<u>8,548,217</u>	<u>(719,656)</u>
Total Net Assets	<u>254,508,528</u>	<u>26,577,055</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 290,785,318</u></u>	<u><u>\$ 26,995,338</u></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 REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$28,344,041	\$ 36,935,807	\$
Federal Grants and Contracts	6,086,019	
State and Local Grants and Contracts	610,368	
Nongovernmental Grants and Contracts	5,654,045	5,920,486
Sales and Services of Educational Departments	610,216	
Auxiliary Enterprises	1,199,514	
Other Operating Revenues	1,793,483	630,180
Total Operating Revenues	<u>52,889,452</u>	<u>6,550,666</u>
EXPENSES		
Operating Expenses:		
Personnel Services	92,392,756	
Scholarships and Waivers	27,954,812	2,578,269
Utilities and Communications	3,548,197	
Contractual Services	9,171,123	
Other Services and Expenses	7,138,451	3,871,057
Materials and Supplies	8,207,613	
Depreciation	9,842,013	
Total Operating Expenses	<u>158,254,965</u>	<u>6,449,326</u>
Operating Income (Loss)	<u>(105,365,513)</u>	<u>101,340</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	50,340,614	
Federal and State Student Financial Aid	51,839,989	
Gifts and Grants	51,532	
Investment Income (Loss)	1,207,608	(91,139)
Interest on Capital Asset-Related Debt	(600,588)	
Loss on Disposal of Capital Assets	(370,580)	
Net Nonoperating Revenues (Expenses)	<u>102,468,575</u>	<u>(91,139)</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(2,896,938)</u>	<u>10,201</u>
State Capital Appropriations	2,407,724	
Capital Grants, Contracts, Gifts, and Fees	4,589,554	
Additions to Permanent Endowments		2,050,570
Total Other Revenues	<u>6,997,278</u>	<u>2,050,570</u>
Increase in Net Assets	4,100,340	2,060,771
Net Assets, Beginning of Year	250,408,188	24,516,284
Net Assets, End of Year	<u>\$ 254,508,528</u>	<u>\$ 26,577,055</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, 2012

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 36,609,252
Grants and Contracts	12,065,505
Payments to Suppliers	(24,703,876)
Payments for Utilities and Communications	(3,548,197)
Payments to Employees	(76,590,658)
Payments for Employee Benefits	(14,622,874)
Payments for Scholarships	(27,954,812)
Auxiliary Enterprises	1,199,514
Sales and Service of Educational Departments	610,216
Other Receipts	<u>1,903,896</u>
Net Cash Used by Operating Activities	<u>(95,032,034)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	50,340,614
Federal and State Student Financial Aid	51,718,962
Federal Direct Loan Program Receipts	20,353,884
Federal Direct Loan Program Disbursements	(20,353,884)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	<u>51,532</u>
Net Cash Provided by Noncapital Financing Activities	<u>102,111,108</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	10,000,000
State Capital Appropriations	14,716,036
Capital Grants and Gifts	4,623,556
Purchases of Capital Assets	(23,333,177)
Principal Paid on Capital Debt and Leases	(605,000)
Interest Paid on Capital Debt and Leases	<u>(600,588)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>4,800,827</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	66,620
Purchase of Investments	(143,630)
Investment Income	<u>1,207,608</u>
Net Cash Provided by Investing Activities	<u>1,130,598</u>
Net Increase in Cash and Cash Equivalents	13,010,499
Cash and Cash Equivalents, Beginning of Year	<u>40,349,366</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 53,359,865</u></u>

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (105,365,513)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	9,842,013
Changes in Assets and Liabilities:	
Receivables, Net	(604,183)
Inventories	11,527
Prepaid Expenses	(44,821)
Accounts Payable	380,484
Deposits Held for Others	104,855
Compensated Absences Payable	516,966
Other Postemployment Benefits Payable	126,638
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (95,032,034)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND	
RELATED FINANCING ACTIVITIES	
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.	\$ (370,580)

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, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the 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, 2011.

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

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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

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

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

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

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

The statement of net 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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 determines its scholarship allowance by identifying those student transactions where the student's classes were paid by an applicable financial aid source. To the extent that those resources are used to pay student charges, the College records a scholarship allowance against tuition and fees revenue.

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, cash with escrow agent, and cash with the State Board of Administration (SBA) Florida PRIME 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 pool 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, 2012, the College reported as cash equivalents at fair value \$29,081,035 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 A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2012, the College reported as cash equivalents at fair value \$2,404,447 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, 2012, 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 38 days as of June 30, 2012. 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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 \$50,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

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

The College's investments at June 30, 2012, are reported at fair value, as follows:

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 435,884
State Board of Administration Debt Service Accounts	86,020
Equity Securities	13,356
Money Market Funds	<u>749,695</u>
Total College Investments	<u>\$ 1,284,955</u>

State Board of Administration Fund B Surplus Funds Trust Fund

The Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and 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 on December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2012, the College reported investments at fair value of \$435,884 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 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 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, 2012. 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 totaling \$86,020 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the College's component unit at December 31, 2011, are reported at fair market value with the following maturities:

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less Than 1	1-5	6-10	11-15	More than 15
Investment in Debt Obligations:						
U.S. Government Securities	\$ 1,961,674	\$ 615,112	\$ 775,038	\$ 204,014	\$	\$ 367,510
Mortgage Backed Pass-Throughs	2,660,646	150,359	852,991	7,519	224,160	1,425,617
Corporate Bonds	1,680,708	104,279	566,258	528,626	19,775	461,770
Total Investment in Debt Obligations	6,303,028	\$ 869,750	\$ 2,194,287	\$ 740,159	\$ 243,935	\$ 2,254,897
Other Investments:						
Mutual Funds	2,325,414					
Alternative Investments	1,555,951					
Equity Securities	13,226,235					
Total Other Investments	17,107,600					
Total Component Unit Investments	\$23,410,628					

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 five 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 apply to the Foundation's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's policy for managing its exposure for changes in interest rates is through maintaining diversification of its investments and investment maturity dates to minimize the impact of downturns in the market. As of December 31, 2011, the Foundation had investments in U.S. Government securities, mortgage backed pass-throughs, and corporate bonds and is therefore subject to interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's policy for managing its exposure to credit risk is through maintaining its investments in securities rated "BBB" (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. As of December 31, 2011, the credit quality of the Foundation's fixed income accounts was investment grade "B" or higher. 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 the United States government agencies and instrumentalities and domestic equities do not require disclosure of credit quality. Mortgage backed pass-throughs were not rated. Corporate bonds held by the Foundation at December 31, 2011, were rated as follows:

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investment Type	Fair Value	Credit Quality Ratings	
		Moody's	Standard & Poor's
Corporate Bonds	\$ 608,848 1,071,860	AA1 To BAA1 BAA1 to B1	AA to A BBB to B
Total Corporate Bonds	\$ 1,680,708		

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: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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 food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$406,348 allowance for doubtful accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$7,262,525 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM COMPONENT UNIT

The \$53,699 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships. The College's financial statements are reported for the fiscal year ended June 30, 2012. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2011. Accordingly, although the College reported an amount as due from the component unit on the statement of net assets, no amount is reported by the component unit as due to the College.

6. INVENTORIES

Inventories consist of centrally stored items, primarily office and teaching supplies, held for College-wide use and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 5,021,375	\$	\$	\$ 5,021,375
Construction in Progress	5,572,200	21,890,284	10,222,671	17,239,813
Total Nondepreciable Capital Assets	\$ 10,593,575	\$ 21,890,284	\$ 10,222,671	\$ 22,261,188
Depreciable Capital Assets:				
Buildings	\$ 259,675,019	\$ 6,612,748	\$ 235,201	\$ 266,052,566
Other Structures and Improvements	28,660,890	3,609,924		32,270,814
Furniture, Machinery, and Equipment	17,019,489	1,754,274	1,297,578	17,476,185
Total Depreciable Capital Assets	305,355,398	11,976,946	1,532,779	315,799,565
Less, Accumulated Depreciation:				
Buildings	70,928,509	6,318,748	136,050	77,111,207
Other Structures and Improvements	21,471,930	1,758,518		23,230,448
Furniture, Machinery, and Equipment	13,965,465	1,764,747	714,767	15,015,445
Total Accumulated Depreciation	106,365,904	9,842,013	850,817	115,357,100
Total Depreciable Capital Assets, Net	\$ 198,989,494	\$ 2,134,933	\$ 681,962	\$ 200,442,465

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, 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, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 11,675,000	\$ 10,000,000	\$ 605,000	\$ 21,070,000	\$ 1,020,000
Compensated Absences Payable	9,491,325	1,148,687	631,721	10,008,291	553,143
Other Postemployment Benefits Payable	126,902	154,599	27,961	253,540	
Other Noncurrent Liabilities	607,169	142,526		749,695	
Total Long-Term Liabilities	\$ 21,900,396	\$ 11,445,812	\$ 1,264,682	\$ 32,081,526	\$ 1,573,143

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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- SBE Capital Outlay Bonds. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements.
- Capital Improvement Revenue Bonds, Series 2008A and 2012A. These bonds are authorized by Article VII, Section 11(d) of the Florida Constitution; Sections 215.57 through 215.83 and Section 1009.23, Florida Statutes; and other applicable provisions of law. Principal and interest on these bonds are 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 participating colleges on a parity with outstanding 2008A bonds and any additional bonds issued subsequent to the issuance of the 2008A bonds. The Series 2008A bonds constitute the second series of bonds to be issued pursuant to a Master Authorizing Resolution. The Governing Board authorized the sale of the Series 2012A bonds by the Fourth Supplemental Resolution adopted on October 11, 2011, which also amended 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. The 2008A and 2012A bonds will share the lien of such additional bonds on the 2008A and 2012A pledged revenues and on the revenues pledged by the colleges participating in such additional bonds. The 2008A and 2012A bonds were issued for new construction, renovation, and remodeling of educational facilities.

The College had the following bonds payable outstanding at June 30, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2005A	\$ 1,680,000	4.0 - 5.0	2025
Series 2005B	1,635,000	5.0	2020
Florida Department of Education Capital Improvement Revenue Bonds:			
Series 2008A	7,755,000	3.4 - 5.0	2028
Series 2012A	10,000,000	2.0 - 3.625	2032
Total	\$ 21,070,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2013	\$ 1,020,000	\$ 772,964	\$ 1,792,964
2014	1,065,000	738,189	1,803,189
2015	1,095,000	701,651	1,796,651
2016	1,135,000	665,281	1,800,281
2017	1,180,000	621,131	1,801,131
2018-2022	5,900,000	2,472,106	8,372,106
2023-2027	5,960,000	1,383,331	7,343,331
2028-2032	3,715,000	360,669	4,075,669
Total	\$ 21,070,000	\$ 7,715,322	\$ 28,785,322

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Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$10,008,291. The current portion of the compensated absences liability, \$553,143, is the amount expected to be paid in the coming fiscal year, and represents the average fiscal year payouts for all leave for the two fiscal years immediately preceding, including applicable tax payments.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 45 retirees received postemployment benefits. The College provided required contributions of \$27,961 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 \$282,028.

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

PALM BEACH STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 117,396
Amortization of Unfunded Actuarial Accrued Liability	<u>36,357</u>
Annual Required Contribution	153,753
Interest on Net OPEB Obligation	5,076
Adjustment to Annual Required Contribution	<u>(4,230)</u>
Annual OPEB Cost (Expense)	154,599
Contribution Toward the OPEB Cost	<u>(27,961)</u>
Increase in Net OPEB Obligation	126,638
Net OPEB Obligation, Beginning of Year	<u>126,902</u>
Net OPEB Obligation, End of Year	<u><u>\$ 253,540</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, for the two preceding fiscal 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>
2009-10	\$ 39,507	85.2%	\$ 142,453
2010-11	39,625	139.2%	126,902
2011-12	154,599	18.1%	253,540

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$1,090,710 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,090,710 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$50,945,268 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.14 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

**PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 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 4 percent rate of return on invested assets, a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent for the 2011-12 fiscal year, reduced by 0.5 to 1.0 percent per year, to an ultimate rate of 5 percent after 7 years. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 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 the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

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

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. College employees already participating in the State

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$3,697,994, \$4,286,542, and \$3,020,085, respectively, which were equal to the required contributions for each fiscal year.

There were 319 College participants in the Investment Plan during the 2011-12 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$1,063,776, which was equal to the required contribution for the 2011-12 fiscal year.

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

PALM BEACH STATE COLLEGE
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JUNE 30, 2012

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, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 98 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$498,815 and employee contributions totaled \$192,901 for the 2011-12 fiscal year.

10. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2012, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Central Campus:			
Public Safety Training Complex	\$ 22,619,000	\$ 7,631,117	\$ 14,987,883
Center for Bachelors Program	8,200,000	5,122,139	3,077,861
North Campus:			
Lewis Center AHU Replacement	852,420	357,528	494,892
South Campus:			
Parking Lot Reconstruction	511,098	21,281	489,817
Total	\$ 32,182,518	\$ 13,132,065	\$ 19,050,453

11. OPERATING LEASE COMMITMENTS

The College leased computer equipment under an operating lease, which expires in 2013. These leased assets 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. The outstanding commitment resulting from this lease agreement is contingent upon future appropriations. The future minimum lease commitment for this noncancelable operating lease is \$131,358.

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

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primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million to February 29, 2012, and up to \$90 million from March 1, 2012. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 56,941,251
Public Services	456,280
Academic Support	17,089,375
Student Services	18,076,081
Institutional Support	11,183,329
Operation and Maintenance of Plant	15,915,608
Scholarships and Waivers	27,954,812
Depreciation	9,842,013
Auxiliary Enterprises	<u>796,216</u>
Total Operating Expenses	<u>\$ 158,254,965</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 640,852	\$ 640,852	0%	\$ 50,661,686	1.30%
7/1/2009		297,267	297,267	0%	54,890,980	0.54%
7/1/2011		1,090,710	1,090,710	0%	50,945,268	2.14%

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

**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, 2011, unfunded actuarial accrued liability of \$1,090,710 was significantly higher than the July 1, 2009, liability of \$297,267 due to:

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



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

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

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, 2012, 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*.

We noted certain matters that we reported to College management in our operational audit report No. 2013-036.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 22, 2013