

PALM BEACH COUNTY DISTRICT SCHOOL BOARD

Financial, Operational, and Federal Single Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2012-13 fiscal year are listed below:

	<u>District No.</u>
Dr. Monroe Benaim to 11-19-12	1
Mike Murgio from 11-20-12	1
Chuck Shaw, Chair from 11-20-12	2
Karen M. Brill	3
Jennifer Prior Brown, Esq.	4
Frank A. Barbieri, Jr., Esq., Chair to 11-19-12	5
Marcia Andrews	6
Dr. Debra Robinson, Vice Chair	7

E. Wayne Gent, Superintendent

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 Ilene Gayle, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. For the information technology portion of this audit, the audit team leader was William Allbritton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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

**PALM BEACH COUNTY DISTRICT SCHOOL BOARD
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	15
Statement of Activities	16
Balance Sheet – Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Statement of Net Position – Proprietary Fund	25
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	26
Statement of Cash Flows – Proprietary Fund	27
Statement of Fiduciary Net Position – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	29
Notes to Financial Statements	30
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	74
Budgetary Comparison Schedule – Other Special Revenue Fund	75
Budgetary Comparison Schedule – ARRA Economic Stimulus Program – Special Revenue Fund	76
Schedule of Funding Progress – Other Postemployment Benefits Plan	77
Notes to Required Supplementary Information	78
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	80
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 <i>GOVERNMENT AUDITING STANDARDS</i>	
	82
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	
	84
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	86
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS	92
EXHIBIT A MANAGEMENT'S RESPONSE	93

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the District'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; however, we noted certain additional matters as summarized below.

ADDITIONAL MATTERS

Finding No. 1: Controls over miscellaneous cash collections could be enhanced.

Finding No. 2: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Finding No. 3: The Board had not adopted a plan for the use of unspent workforce development education funds accumulated over several years.

Finding No. 4: Controls over facilities construction and maintenance activities could be enhanced.

Finding No. 5: The District had not developed a written, comprehensive information technology (IT) risk assessment.

Finding No. 6: District IT security controls related to user authentication and data loss prevention needed improvement.

Summary of Report on Federal Awards

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I and School Improvement Grant Cluster programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

Audit Objectives and Scope

Our audit objectives were to determine whether the Palm Beach County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District'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 or on a major Federal program;
- Established internal controls that promote and encourage: 1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; 2) the economic and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in previous financial audit reports.

The scope of this audit included an examination of the District's basic financial statements and the Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.



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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Palm Beach County District School Board, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for the aggregate discretely presented component units, is based solely on the reports 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the Palm Beach County District School Board as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, BUDGETARY COMPARISON SCHEDULES - GENERAL AND MAJOR SPECIAL REVENUE FUNDS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare

the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Palm Beach County District School Board'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 the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The School District of Palm Beach County, Florida's (the "District") discussion and analysis is designed to provide an objective and easy to read analysis of the District's financial activities for the fiscal year ended June 30, 2013, based on currently known facts, decisions or conditions. It is intended to provide a broad overview using a short-term and long-term analysis of the District's activities based on information presented in the financial report and fiscal policies that have been adopted by the seven elected members of the school board (the "Board"). Specifically, this section is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position (its ability to address the next and subsequent year challenges), identify any material deviations from the financial plan (the approved budget), and identify individual fund issues or concerns.

As with other sections of this financial report, the information contained within this Management Discussion and Analysis (MD&A) should be considered only a part of a greater whole. The reader of this statement should take time to read and evaluate all sections of this report, including the notes that are provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

- The net position of the District decreased \$82.7 million from \$2.086 billion to \$2.003 billion as expected. The District used foresight to set aside funds accumulated in the fiscal year 2011 from the Education Jobs Fund program to minimize the impact of the anticipated loss of State funding in the fiscal years 2012 and 2013 due to the slow recovery from the economic downturn.
- The District's total long-term debt decreased by \$107.9 million, or 5.4 percent, primarily due to debt repayments of \$60.8 million, refunding/defeased transactions (discussed in Note 10), and an increase in fair value of hedging derivative instruments of \$43.7 million.
- Total revenues increased by \$58.8 million, or 3.5 percent, from \$1.669 billion to \$1.728 billion when compared to the prior fiscal year.
 - General revenue accounted for \$1.2 billion, or 69.4 percent, of all revenues and increased \$51.9 million, or 4.5 percent. This increase is primarily attributed to additional funding from the Florida Education Finance Program (FEFP) revenue of \$87.8 million and a \$4.6 million increase in impact fees, partially offset by a decrease in property taxes of \$46.2 million, due to a decrease in the millage rate from 8.180 in fiscal year 2012 to 7.778 in fiscal year 2013.
 - Program specific revenue in the form of charges for services, grants, and contributions accounted for \$528.0 million, or 30.6 percent of all revenues, and increased \$6.9 million or 1.3 percent. The increase is primarily attributed to \$3.9 million additional funding for class size reduction and \$3.1 million additional funding for school recognition.
- Total expenses increased \$55.8 million from \$1.755 billion to \$1.811 billion. The increase in expenses is due primarily to an increase in salary and benefits as a result of negotiated employee raises, a one-time bonus totaling \$38.1 million, \$5.8 million in costs to provide an additional hour of reading for 16 schools determined to be in the low 100 in the State for reading performance, an additional increase of \$3.4 million in interest on long-term debt, and an increase in food services expense of \$4.0 million resulting from an expansion of the free breakfast program.
- In the prior fiscal year, the District made a nonrecurring interfund transfer of \$6.7 million related to the closure of the maintenance internal service fund.

- The District's governmental funds reported combined fund balances of \$486.2 million.
 - The General Fund (the primary operating fund), reflected on a current financial resources basis, ended the fiscal year with a fund balance of \$133.3 million. Of this amount, \$44.4 million is classified as unassigned that is available to cover unanticipated financial needs and includes the Board-approved contingency, \$49.7 million is classified as assigned, \$27.8 million is classified as restricted, and \$11.3 million is classified as nonspendable. During the current fiscal year, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$33.4 million.
 - Capital project funds ended the fiscal year with fund balances of \$217.5 million, which is restricted or assigned to fund existing and future capital projects.
 - Debt service funds ended the fiscal year with fund balances of \$110.8 million, which is restricted to cover debt service payments.
 - Special revenue funds ended the fiscal year with fund balances of \$24.9 million, of which \$20.9 million is restricted to child nutrition costs, \$2.9 million is nonspendable inventory, and \$1.1 million is committed to The Education Network Program.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the government-wide statements.
- The *governmental funds* statements tell how *basic* services like instruction and instructional support services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as group health self-insurance.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

Figure 1 Major Features of Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as instructional costs	Activities the District operates similar to private businesses: health internal service fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenue, expenditures, and changes in fund balances	• Statement of net position • Statement of revenue, expenses, and changes in fund net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

Figure 1, above, summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the District's nonfiduciary assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how they have changed. Net position – the difference between the District's assets, deferred outflows and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, the reader needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, all the District's nonfiduciary activities are reported in the following categories:

- *Governmental activities* – All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of the activities.
- *Component units* – The District presents 34 charter schools as separate legal entities in this report. Although legally separate organizations, the component units are included in this report because the Florida Department of Education has required Districts to report financial information of charter schools. Financial

information for these component units is reported separately from the financial information presented for the primary government.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like Federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, the District provides additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. There are two types of proprietary funds:
 - *Enterprise funds* account for goods and services provided to those outside the District, generally on a user-charge basis. Currently, the District has no enterprise funds.
 - *Internal service funds* report activities that provide supplies and services for the District's other programs and activities.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The District excludes these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also provides certain required supplementary information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net position was \$2.0 billion at June 30, 2013. The largest portion of the District's net position, \$1.8 billion, or 89.6 percent, reflects its investment in capital assets (i.e., land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay

this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position (\$301.1 million) represents resources that are subject to external restrictions on how they may be used.

Capital assets (net) decreased \$45.2 million, or 1.2 percent, compared to prior fiscal year and primarily reflects the impact of current fiscal year depreciation exceeding capital spending.

The analyses in Table 1 and Table 2 focus on the summary of net position and summary of changes in net position for the District's governmental activities.

Table 1 Summary of Net Position Governmental Activities (in thousands)				
	June 30, 2013	June 30, 2012	Increase (Decrease)	Percentage Change
Current and other assets	\$ 727,329	\$ 818,027	\$ (90,698)	(11.1%)
Capital assets (net)	<u>3,581,926</u>	<u>3,627,119</u>	<u>(45,193)</u>	(1.2%)
Total assets	<u>4,309,255</u>	<u>4,445,146</u>	<u>(135,891)</u>	(3.1%)
Deferred outflows of resources	<u>94,964</u>	<u>138,619</u>	<u>(43,655)</u>	(31.5%)
Current and other liabilities	181,441	176,750	4,691	2.7%
Long-term liabilities	<u>2,219,771</u>	<u>2,321,311</u>	<u>(101,540)</u>	(4.4%)
Total liabilities	<u>2,401,212</u>	<u>2,498,061</u>	<u>(96,849)</u>	(3.9%)
Net position:				
Net investment in capital assets	1,794,798	1,825,814	(31,016)	(1.7%)
Restricted	301,111	334,924	(33,813)	(10.1%)
Unrestricted (deficit)	<u>(92,902)</u>	<u>(75,034)</u>	<u>(17,868)</u>	(23.8%)
Total net position	<u>\$ 2,003,007</u>	<u>\$ 2,085,704</u>	<u>\$ (82,697)</u>	(4.0%)

The results of this fiscal year's operations for the District as a whole are reported in the Statement of Activities. Table 2, takes the information from that statement and rearranges them slightly so the reader can see the total revenues for the current fiscal year compared to the prior fiscal year.

As reported in the Statement of Activities, the cost of all of the governmental activities this fiscal year was \$1.8 billion. Some costs were paid by those who benefited from the programs (\$46.2 million), or by other governments and organizations who subsidized certain programs with grants and contributions (\$481.7 million). The District paid for the remaining "public benefit" portion of the governmental activities with \$1.0 billion in property taxes, \$144.8 million in grants and contributions not restricted to specific programs, \$1.2 million in investment earnings, and \$53 million in other general revenue.

Table 2

Summary of Changes in Net Position
Governmental Activities
(in thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues:				
Program revenue:				
Charges for services	\$ 46,241	\$ 47,266	\$ (1,025)	(2.2%)
Operating grants and contributions	471,831	461,369	10,462	2.3%
Capital grants and contributions	9,887	12,401	(2,514)	(20.3%)
General revenue:				
Property taxes	1,001,130	1,047,289	(46,159)	(4.4%)
Grants and contributions not restricted	144,821	55,613	89,208	160.4%
Investment earnings	1,155	4,195	(3,040)	(72.5%)
Other general revenue	53,006	41,142	11,864	28.8%
Transfers	-	6,713	(6,713)	0.0%
Total revenues and transfers	<u>1,728,071</u>	<u>1,675,988</u>	<u>52,083</u>	3.1%
Functions/Programs Expenses				
Instruction	949,936	910,896	39,040	4.3%
Instructional support services	161,937	157,679	4,258	2.7%
Board	5,495	4,806	689	14.3%
General administration	9,887	9,108	779	8.6%
School administration	92,887	89,247	3,640	4.1%
Facilities acquisition and construction	29,525	31,494	(1,969)	(6.3%)
Fiscal services	5,726	4,999	727	14.5%
Food services	70,710	66,675	4,035	6.1%
Central services	13,550	12,771	779	6.1%
Pupil transportation services	46,955	48,105	(1,150)	(2.4%)
Operation and maintenance of plant	187,037	186,293	744	0.4%
Administrative technology services	7,260	8,096	(836)	(10.3%)
Community services	33,897	30,861	3,036	9.8%
Unallocated interest on long-term debt	84,780	81,386	3,394	4.2%
Unallocated depreciation/amortization	111,186	112,587	(1,401)	(1.2%)
Total expenses	<u>1,810,768</u>	<u>1,755,003</u>	<u>55,765</u>	3.2%
Change in net position	(82,697)	(79,015)	(3,682)	4.7%
Net Position - beginning	<u>2,085,704</u>	<u>2,164,719</u>	<u>(79,015)</u>	(3.7%)
Net Position - ending	<u>\$ 2,003,007</u>	<u>\$ 2,085,704</u>	<u>\$ (82,697)</u>	(4.0%)

Operating grants and contributions increased \$10.5 million or 2.3 percent, which is primarily attributed to the an increase in school food service lunch and breakfast reimbursements of \$4.3 million as a result of the expansion of the breakfast program, and an increase in class size reduction revenue of \$3.9 million, and an increase in school recognition funds of \$3.1 million.

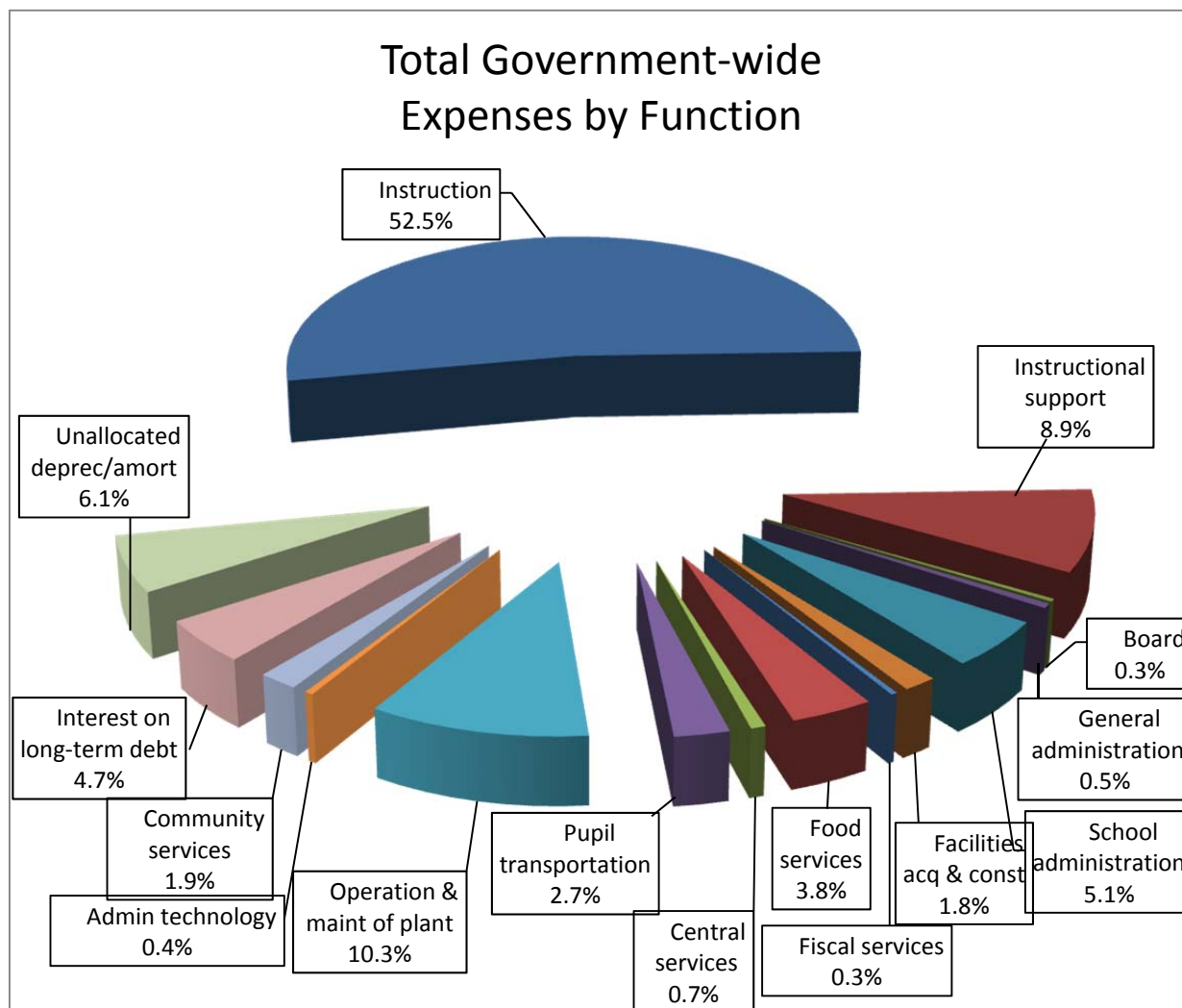
Capital grants and contributions decreased \$2.5 million, or 20.3 percent, primarily due to reduction in Federal Emergency Management Administration revenue received. Funds received fiscal year 2013 are for Hurricane Isaac, and the funds received in fiscal year 2012 were the remaining funds related to Hurricanes Francis, Jeanne, and Wilma (storms in fiscal years 2005 and 2006).

Property taxes decreased \$46.2 million, or 4.4 percent, which is primarily attributed to the decrease in the maximum property tax levy from 8.180 to 7.778, partially offset by a slight increase in property values.

Grants and contributions not restricted increased \$89.2 million or 160.4 percent, which is primarily related to an increase of \$87.9 million in FEFP revenue partly due to the decrease in property tax.

Investment earnings decreased \$3.0 million, or 72.5 percent, and is primarily attributed to a nonrecurring gain on sale of an interest rate swap of \$1.9 million (in fiscal year 2012), and a decrease in investment revenue resulting from lower cash balances and lower interest rates.

The pie chart below represents total expenditures from governmental funds classified by function.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As of June 30, 2013, the District's governmental funds reported a combined fund balance of \$486.2 million, which is a decrease of \$118.4 million, or 19.6 percent, under the prior fiscal year.

The General Fund, which is the chief operating fund of the District and is always considered a major fund, had a fund balance of \$133.3 million, which is a decrease of \$33.4 million. This decrease is mainly related to salary increases and

one-time bonuses paid to employees in the current fiscal year. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$44.4 million.

The Other Special Revenue Fund, a major fund this year due to a \$5.9 million increase in receivables from a delay in cash reimbursement as a result of Federal sequestration, had an ending committed fund balance of \$1.1 million, which is a \$0.2 million decrease as a result of spending in excess of revenue in the current fiscal year for The Education Network Program.

The ARRA Economic Stimulus Special Revenue Fund is used to account for all ARRA-related funding, including targeted and competitive grant funds of \$0.002 million and \$2.384 million. Since the revenues in this fund are typically equal to amounts expended, there is no ending fund balance.

The Certificates of Participation (COPs) Debt Service Fund reported an ending fund balance of \$109.6 million, which is an increase of \$3.5 million or 3.3 percent when compared with the prior fiscal year. The increase is related to amounts accumulated for debt service payments the District will need to make in early in fiscal year 2014.

The ARRA Economic Stimulus Debt Service Fund reported an ending fund balance of \$0.554 million, which is a decrease of \$0.142 million, or 20.4 percent, when compared with the prior fiscal year. The decrease is due to debt service interest payments in excess of the Federal subsidy for the Series 2010A Qualified School Construction Bonds (QSCB).

The Capital Improvement Fund reported an ending fund balance of \$44.7 million, which is a decrease of \$31.7 million, or 41.5 percent, due to the timing of revenue and capital outlay spending. It should be noted that \$6.9 million of fund balance has been encumbered for specific projects.

The ARRA Economic Stimulus Capital Projects Fund reported an ending fund balance of \$12.4 million, which is a decrease of \$43.7 million, or 77.9 percent, compared to the prior fiscal year. The decrease is mainly due to the expenditure of \$43.8 million of QSCB proceeds for capital outlay. It should be noted that \$7.5 million of fund balance has been encumbered for specific projects.

Other nonmajor governmental funds, which represent an aggregation of all the other governmental funds, ended the fiscal year with total fund balance of \$184.5 million, a decrease of \$12.8 million, or 6.5 percent. This decrease is primarily due to increases in transfers out in the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, appropriations increased \$22.8 million from original budget to final budget. The increase in appropriations is primarily attributed to unanticipated revenue and other financing sources received of \$17.2 million comprised of the following: \$6.1 million tax revenues for prior fiscal year tax collections, additional miscellaneous revenue of \$6.8 million, and loss recoveries of \$4.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As shown in Table 3, at June 30, 2013, the District had \$3.6 billion invested in a broad range of capital assets, including land; construction in progress; improvements other than buildings; buildings and improvements; furniture, fixtures, and equipment; motor vehicles; and audio visual materials and computer software. This amount represents a net decrease (including additions, deletions and depreciation) of \$45.2 million from last fiscal year. The decrease is primarily due to depreciation expense of \$109.6 million exceeding capital spending of \$64.7 million. Capital spending in the current fiscal year reflects the ongoing modernization of Galaxy Elementary, Gove Elementary, and North

Palm Beach Elementary. Additionally, there has been an upgrade to the radio repeaters tower and the completion of several covered walkways.

Banyan Creek Elementary was the only modernization project completed in fiscal year 2013. See Note 7 of the notes to the financial statements for more information on capital assets.

The District's successful building program is winding down, as the proceeds of the referendum sales tax that ended in December 2010 and capital millage proceeds decline. Between fiscal year 2001 and fiscal year 2013, forty-one (41) new schools were built and fifty-four (54) others were replaced or totally renovated. The District is currently modernizing Galaxy Elementary, Gove Elementary, and North Palm Beach Elementary in its continuing effort to provide state-of-the-art facilities for all of its students. Future school renovations and replacements will be scheduled based upon the availability of funding.

Table 3
Capital Assets at Year End
Governmental Activities
(in thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>
Land	\$ 341,459	\$ 341,463	\$ (4)
Construction in progress	60,224	16,281	43,943
Improvements other than buildings	55,630	53,665	1,965
Buildings and fixed equipment	4,058,975	4,055,510	3,465
Furniture, fixtures and equipment	136,980	130,127	6,853
Motor vehicles	97,253	97,526	(273)
Audio visual materials and computer software	58,273	61,785	(3,512)
Less: accumulated depreciation	<u>(1,226,868)</u>	<u>(1,129,238)</u>	<u>(97,630)</u>
Total capital assets, net	<u>\$ 3,581,926</u>	<u>\$ 3,627,119</u>	<u>\$ (45,193)</u>

Long-term Debt

As shown in Table 4, at the end of this fiscal year, the District had \$1.9 billion in debt outstanding, which is comparable to \$2.0 billion last fiscal year. The \$107.9 million decrease in outstanding debt is due to the \$43.7 million decrease in negative fair value of hedging derivative instruments, debt repayments of \$60.8 million and the impact of refunding transactions and regular amortization. See Notes 10 and 11 of the notes to the financial statements for more information on long-term liabilities and derivatives.

Table 4

Long-term Debt Outstanding at Year End Governmental Activities (in thousands)			
	June 30, 2013	June 30, 2012	Increase (Decrease)
Capital outlay bond issues	\$ 26,370	\$ 30,650	\$ (4,280)
Certificates of participation	1,771,333	1,832,003	(60,670)
Borrowing-Swap Upfront Payment	8,017	8,522	(505)
Derivative Instruments - Hedging	94,964	138,619	(43,655)
Plus: issuance premiums	40,020	35,339	4,681
Less: deferred amounts	(36,768)	(33,315)	(3,453)
Total	<u>\$ 1,903,936</u>	<u>\$ 2,011,818</u>	<u>\$ (107,882)</u>

The District's certificates of participation are rated Aa3 by Moody's Investors Service, and AA- by Standard & Poor's, and AA- by Fitch Ratings Services.

State statutes require that no more than 75 percent of the capital millage levy be used for COPs debt service. The District's debt policy limits the issuance of COPs by stating that the debt service cannot exceed half of the capital millage levy. In fiscal year 2009, when the capital millage levy was reduced to 1.75 mills, the debt policy was amended to allow debt service to be up to 1 mil but should be within 50 percent of the capital millage levy within five years. The capital millage levy was subsequently reduced from 1.75 to 1.5 mills in fiscal year 2010. Based on the reduction of the capital millage levy and declining property values, the District's capacity to issue new COPs debt has been dramatically reduced.

Other long-term obligations include liabilities for compensated absences, estimated insurance claims, and postemployment benefits.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Based upon internally-prepared budgetary projection documents, FEEP funding for the fiscal year 2014 is expected to increase by \$1.1 billion. The District's portion of this increase is expected to be \$84 million of which approximately \$7.4 million will be passed through directly to the charter schools. The increase is mainly due to changes in three components: a 4.6 percent increase in base student allocation generating an additional \$38 million, the new teacher salary allocation of \$33 million, and additional property tax revenues of \$11 million.

The District projects its enrollment to increase by 2,000 students. However, charter school enrollment is projected to increase by 2,700 students, while the remaining District school enrollment is projected to decline by 700 students. This trend is expected to continue, due to growing charter school enrollment. By fiscal year 2018, charter school enrollment is projected to grow to 20,300 students, up from 11,900 in fiscal year 2013. Eleven new charter schools are scheduled to open August 2013.

Statewide, local property tax revenues account for 45 percent of the Florida Education Finance Program funding. Property valuations in Palm Beach County continue to improve, and may begin producing additional revenues that will ease the funding constraints experienced by K-12 education for the past few fiscal years.

The capital budget for fiscal year 2014 is expected to decrease \$114 million as the District's carryover balances continue to decline. Since the capital millage rates allowed by statute were lowered from 2.0 mills to 1.5 mills in fiscal year 2009 and 2010, the District has utilized carryover balances to bridge the gap in revenue for maintenance

and non-construction project operational costs. Looking forward, the District is in need of additional revenue to properly maintain school facilities and equipment. If the Legislature does not restore the 2.0 mills, the District must find other avenues to solve the shortage of funds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Michael J. Burke, Chief Operating Officer
The School District of Palm Beach County, Florida
3328 Forest Hill Boulevard, Suite C-316
West Palm Beach, FL 33406

Visit our website at:

<http://www.palmbeachschools.org/>

View an electronic copy of our CAFR at:

<http://www.palmbeachschools.org/accounting/>

BASIC FINANCIAL STATEMENTS

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF NET POSITION
JUNE 30, 2013
(amounts expressed in thousands)

	Primary Government Governmental Activities	Component Units
ASSETS		
Cash, cash equivalents and investments	\$ 626,963	\$ 13,498
Derivative instrument investments	307	
Taxes receivable	22,465	
Accounts, deposits and interest receivable	1,138	1,353
Due from other agencies	43,966	1,339
Inventories	14,184	35
Cash and cash equivalents restricted	3,232	2,508
Other assets	15,074	873
Capital assets:		
Land	341,459	3,059
Construction in progress	60,224	
Improvements other than buildings	55,630	4,237
Buildings and improvements	4,058,975	25,689
Furniture, fixtures and equipment	136,980	7,087
Motor vehicles	97,253	988
Property under capital leases		242
Audio video materials and software	58,273	781
Other capital assets		212
Less accumulated depreciation	(1,226,868)	(8,924)
Total capital assets, net of depreciation	3,581,926	33,371
TOTAL ASSETS	4,309,255	52,977
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	94,964	
LIABILITIES		
Accounts and contracts payable	32,603	3,477
Accrued payroll and payroll deductions	100,773	1,384
Retainage payable on contracts	2,036	
Due to other agencies		502
Deposits payable	184	
Accrued Interest payable	44,729	
Unearned revenue	1,116	422
Other liabilities		168
Noncurrent liabilities:		
Portion due or payable within one year:		
Notes payable		1,572
Obligations under capital leases		95
Accrued rent		455
Bonds payable	4,485	105
Liability for compensated absences	16,155	435
Certificates of participation payable	63,865	
Borrowing-swap upfront payment	708	
Estimated claims	21,407	
Portion due or payable after one year:		
Notes payable		9,222
Obligations under capital leases		147
Accrued rent		11,770
Bonds payable	23,565	8,451
Liability for compensated absences	164,678	121
Certificates of participation payable	1,709,040	
Borrowing-swap upfront payment	7,309	
Derivative instrument - Hedging	94,964	
Estimated claims	26,298	
Other postemployment benefits obligation	87,297	
TOTAL LIABILITIES	2,401,212	38,326
DEFERRED INFLOWS OF RESOURCES		
Tenant allowance		61
NET POSITION		
Net investment in capital assets	1,794,798	5,211
Restricted for:		
Categorical carryover programs	2,250	4
Debt service	66,050	1,501
Capital projects	180,706	1,216
School food service	23,784	
Other purposes	28,321	
Unrestricted (deficit)	(92,902)	6,658
TOTAL NET POSITION	\$ 2,003,007	\$ 14,590

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Instruction	\$ 949,936	\$ 2,783	\$ 306,067	\$ 2,992
Instructional support services	161,937		61,721	
Board	5,495			
General administration	9,887		4,250	
School administration	92,887		6,979	
Facilities acquisition and construction	29,525		70	1,256
Fiscal services	5,726		21	
Food services	70,710	15,024	57,379	
Central services	13,550		595	
Pupil transportation services	46,955	2,576	25,872	
Operation of plant	123,343		4,525	
Maintenance of plant	63,694			
Administrative technology services	7,260		69	
Community services	33,897	25,858	4,283	
Unallocated interest on long-term debt	84,780			5,639
Unallocated depreciation expense	109,590			
Unallocated amortization expense	1,596			
Total primary government				
Governmental activities	\$ 1,810,768	\$ 46,241	\$ 471,831	\$ 9,887
Component Units:				
Charter schools	\$ 89,393	\$ 2,000	\$ 6,011	\$ 1,930
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for capital projects				
Grants and entitlements not restricted to specific programs				
Investment earnings				
Miscellaneous				
Total general revenues				
Change in net position				
Net Position - beginning				
Adjustment to beginning net position				
Net Position - beginning, as restated				
Net Position - ending				

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

Net (Expense) Revenue and Changes in Net Position	
Primary	Component
Government	Units
Governmental Activities	
\$ (638,094)	\$
(100,216)	
(5,495)	
(5,637)	
(85,908)	
(28,199)	
(5,705)	
1,693	
(12,955)	
(18,507)	
(118,818)	
(63,694)	
(7,191)	
(3,756)	
(79,141)	
(109,590)	
(1,596)	
\$ (1,282,809)	\$
	(79,452)
802,052	
199,078	
144,821	78,229
1,155	110
53,006	256
1,200,112	78,595
(82,697)	(857)
2,085,704	15,647
	(200)
2,085,704	15,447
\$ 2,003,007	\$ 14,590

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2103
(amount expressed in thousands)

	General Fund	Other Special Revenue Fund	ARRA Economic Stimulus Special Revenue Fund	COPS Debt Service Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash, cash equivalents and investments	\$ 205,071	\$ 298	\$ 1,326	\$ 109,569
Taxes receivable	17,999			
Accounts and interest receivable	1,134			4
Due from other agencies	7,909	19,342		
Due from other funds	7,500			
Inventories	11,312			
Other assets		177		
Cash with fiscal agent	1,592			
	<u>1,592</u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 252,517</u>	<u>\$ 19,817</u>	<u>\$ 1,326</u>	<u>\$ 109,573</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts and contracts payable	\$ 14,050	\$ 3,269		\$ 23
Accrued payroll and payroll deductions	99,032	6,817	1,326	
Due to other funds		7,500		
Retainage payable on contracts				
Deposits payable	184			
Deferred/Unearned revenue	5,977	1,116		
	<u>5,977</u>	<u>1,116</u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>119,243</u>	<u>18,702</u>	<u>1,326</u>	<u>23</u>
FUND BALANCES				
Nonspendable	11,312			
Restricted	27,816			109,550
Committed		1,115		
Assigned	49,746			
Unassigned	44,400			
	<u>44,400</u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>133,274</u>	<u>1,115</u>	<u>-</u>	<u>109,550</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 252,517</u>	<u>\$ 19,817</u>	<u>\$ 1,326</u>	<u>\$ 109,573</u>

ARRA Economic Stimulus Debt Service Fund	Capital Improvement Fund	ARRA Economic Stimulus Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 554	\$ 45,027 4,466	20,831	\$ 171,692	\$ 554,368 22,465 1,138 42,236 7,500 14,184 177 1,592
<u>554</u>	<u>49,493</u>	<u>20,831</u>	<u>189,549</u>	<u>643,660</u>
\$	\$ 4,549	6,941	\$ 3,116 1,285	\$ 31,948 108,460 7,500 2,036 184 7,342
	195	1,467	374	
			249	
<u>-</u>	<u>4,744</u>	<u>8,408</u>	<u>5,024</u>	<u>157,470</u>
554	44,749	12,423	2,872 120,475 61,178	14,184 315,567 1,115 110,924 44,400
<u>554</u>	<u>44,749</u>	<u>12,423</u>	<u>184,525</u>	<u>486,190</u>
<u>\$ 554</u>	<u>\$ 49,493</u>	<u>20,831</u>	<u>\$ 189,549</u>	<u>\$ 643,660</u>

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013
 (amounts expressed in thousands)

Total Fund Balances - Governmental Funds \$ 486,190

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Cost of the assets	\$ 4,808,794	
Accumulated depreciation	(1,226,868)	
Total capital assets, net of depreciation		3,581,926

Debt issuance charges are reported as expenditures in the governmental funds when first incurred, however, they are included as deferred charges in the governmental activities in the statement of net position. 10,801

Expenditures for insurance extending over more than one accounting period not allocated between or among accounting periods, but accounted for as expenditures of the period of acquisition in the funds. 4,096

Deferred outflow of resources are reported at the fair values of corresponding hedging derivative instruments in the statement of net position. 94,964

Derivative instruments - investment assets reported on the statement of net position. 307

An internal service fund is used by management to charge the costs of maintenance activities and health premiums to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

Assets	\$ 75,965	
Liabilities	13,553	
Net position		62,412

Revenues that have been deferred or unearned in the governmental funds but are recognized as revenue in the governmental-wide financial statements. 6,226

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities (net of discounts/premiums and deferred amounts on refundings) at year-end consist of:

Bonds payable	\$ 28,050	
Certificates of participation payable	1,772,905	
Borrowing-swap upfront payment	8,017	
Hedging derivative instruments	94,964	
Liability for compensated absences	172,996	
Long-term claims payable (less internal service fund amount)	35,005	
Other postemployment benefits (less internal service fund amount)	87,249	
Accrued interest on long-term debt	44,729	
		(2,243,915)

Net Position - Governmental Activities \$ 2,003,007

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

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THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	General Fund	Other Special Revenue Fund	ARRA Economic Stimulus Special Revenue Fund	COPS Debt Service Fund	ARRA Economic Stimulus Debt Service Fund
Revenues					
Local sources:					
Ad valorem taxes	\$ 802,052	\$	\$	\$ 79	\$
Interest income and other	523				
School age child care fees	25,858				
Food service sales	234				
Impact fees					
Local grants and other	30,065	4,579		15	
Total local sources	858,732	4,579	-	94	-
State sources:					
Florida education finance program	187,320				
Capital outlay and debt service	102				
Food service					
Class size reduction	206,594				
State grants and entitlements	33,589	403			
Total state sources	427,605	403	-	-	-
Federal sources:					
Federal grants and entitlements	7,194	115,357	2,386		3,512
National school lunch act					
Total federal sources	7,194	115,357	2,386	-	3,512
Total Revenues	1,293,531	120,339	2,386	94	3,512
Expenditures					
Current:					
Instruction	906,203	55,930	2,007		
Instructional support services	106,931	56,520	202		
Board	5,417	50			
General administration	5,509	4,154	96		
School administration	93,535	49	81		
Facilities acquisition and construction	490				
Fiscal services	5,554	22			
Food services	37				
Central services	13,023	698			
Pupil transportation services	45,908	1,902			
Operation of plant	124,609	45			
Maintenance of plant	64,252				
Administrative technology services	7,446				
Community services	33,912	327			
Total Current Expenditures	1,412,826	119,697	2,386	-	-
Capital outlay	1,038	817			
Debt service:					
Retirement of principal				56,535	
Interest	53			79,742	3,654
Fiscal charges				656	5
TOTAL EXPENDITURES	1,413,917	120,514	2,386	136,933	3,659
Excess (Deficiency) of Revenues Over (Under) Expenditures	(120,386)	(175)	-	(136,839)	(147)
OTHER FINANCING SOURCES (USES):					
Transfers In	83,171			140,178	5
Transfers out	(287)				
Issuance of long-term and refunded debt				67,145	
Net premium (discount) from issuance of long-term and refunded debt				10,990	
Payments to refunded debt escrow agent				(77,969)	
Proceeds of loss recoveries	4,109				
Sale of capital assets and other	-				
TOTAL OTHER FINANCING SOURCES (USES)	86,993	-	-	140,344	5
NET CHANGE IN FUND BALANCES	(33,393)	(175)	-	3,505	(142)
FUND BALANCES, JULY 1, 2012	166,667	1,290		106,045	696
FUND BALANCES, JUNE 30, 2013	\$ 133,274	\$ 1,115	\$ -	\$ 109,550	\$ 554

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

Capital Improvement Fund	ARRA Economic Stimulus Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 199,078	\$	\$ 221	\$ 1,001,130
206	117		1,146
			25,858
		14,790	15,024
		12,808	12,808
4,681		3,994	43,334
203,965	117	31,813	1,099,300
			187,320
		6,798	6,900
		948	948
			206,594
		2,992	36,984
-	-	10,738	438,746
		97	128,546
		56,431	56,431
-	-	56,528	184,977
203,965	117	99,079	1,723,023
			964,140
			163,653
			5,467
			9,759
			93,665
			490
			5,576
		70,535	70,572
			13,721
			47,810
			124,654
			64,252
			7,446
			34,239
-	-	70,535	1,605,444
38,036	43,829	10,171	93,891
		4,280	60,815
		1,441	84,890
		38	699
38,036	43,829	86,465	1,845,739
165,929	(43,712)	12,614	(122,716)
(197,633)		14,283	237,637
		(39,717)	(237,637)
			67,145
			10,990
			(77,969)
			4,109
		56	56
(197,633)	-	(25,378)	4,331
(31,704)	(43,712)	(12,764)	(118,385)
76,453	56,135	197,289	604,575
\$ 44,749	\$ 12,423	\$ 184,525	\$ 486,190

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

Total net change in fund balances - governmental funds **\$ (118,385)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense (\$109,590) in excess of capitalized capital outlay (\$64,706) in the current period. (44,884)

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Issuance Cost Amortization	\$ (1,596)	
Issuance Cost on Current Year Refunding	577	
Premium/Discount and Deferred Refunding Amortization	3,075	
Premium on Current Year Issuance	<u>(10,990)</u>	(8,934)

Investment loss related to derivative instruments reported in the statement of activities that are not reported as revenue in the governmental funds. (78)

Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 6,226

Revenues reported in the governmental funds that were reported as revenue in the statement in activities in the prior fiscal year under full accrual. (6,463)

Revenues deducted by the Florida Department of Education for prior fiscal year audits that were recognized in the government-wide financial statements. 1,402

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bonds repayment	\$ 4,280	
COPs repayment	<u>56,535</u>	60,815

COPs refunding proceeds provided current financial resources to governmental funds. COPs refunding payments are expenditures in the governmental funds. The amount by which the refunding payment (\$77,969) exceeded refunding proceeds (\$67,145) in the current period. 10,824

The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net position. (309)

Expenses in the statement of activities that do not require the use of current financial resources are not reported in the governmental funds.

Prepaid insurance	\$ 173	
Compensated absences	(2,871)	
Long-term claims payable	4,273	
Other postemployment benefits	(8,596)	
Borrowing swap upfront payment	505	
Accrued interest on long-term debt	<u>(3,349)</u>	(9,865)

An internal service fund is used by management to charge the costs of maintenance activities and health premiums to individual funds. The net income of the internal service fund is reported with governmental activities. 26,954

Change in net position of governmental activities **\$ (82,697)**

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013
(amounts expressed in thousands)

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current Assets:	
Cash, cash equivalents and investments	\$ 72,595
Due from other agencies	1,730
Total Current Assets	<u>74,325</u>
Noncurrent Assets:	
Restricted cash	1,640
Total Noncurrent Assets	<u>1,640</u>
Total assets	<u>\$ 75,965</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 655
Accrued payroll and payroll deductions	30
Total Current Liabilities	<u>685</u>
Noncurrent liabilities:	
Portion due or payable within one year:	
Estimated unpaid claims	12,700
Portion due or payable after one year:	
Liability for compensated absences	120
Other post-employment benefits obligation	48
Total Noncurrent Liabilities	<u>12,868</u>
Total liabilities	<u>13,553</u>
NET POSITION	
Unrestricted	<u>\$ 62,412</u>

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
 (amounts expressed in thousands)

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Premium revenue	\$ 185,731
Other operating revenue	6,208
TOTAL OPERATING REVENUES	<u>191,939</u>
OPERATING EXPENSES	
Salaries	620
Benefits	166
Purchased services	373
Insurance claims	163,899
Other expenses	14
TOTAL OPERATING EXPENSES	<u>165,072</u>
OPERATING INCOME	<u>26,867</u>
NONOPERATING REVENUES:	
Interest and other income	87
TOTAL NONOPERATING REVENUES	<u>87</u>
CHANGE IN NET POSITION	26,954
NET POSITION - Beginning of year	<u>35,458</u>
NET POSITION - End of year	<u><u>\$ 62,412</u></u>

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers and interfund services provided	\$ 185,731
Cash payments for insurance claims	(164,599)
Cash payments to suppliers for goods and services	(1,417)
Cash payments for salaries and benefits	(785)
Other receipts	5,682
Net cash provided by operating activities	24,612
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and other income	87
Net cash provided by investing activities	87
Net increase in cash and cash equivalents	24,699
Cash and cash equivalents, beginning of year	49,536
Cash and cash equivalents, end of year*	\$ 74,235
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	26,867
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in due from other agencies	(526)
Increase in accrued payroll and payroll deductions	1
Decrease in accounts payable	(1,030)
Decrease in estimated unpaid claims	(700)
Total adjustments	(2,255)
Net cash provided by operating activities	\$ 24,612

*Includes Restricted Cash

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013
(amounts expressed in thousands)

	PRIVATE- PURPOSE TRUST FUND FLORIDA FUTURE EDUCATORS OF AMERICA	AGENCY FUND SCHOOL INTERNAL FUNDS
ASSETS		
Cash, cash equivalents and investments	\$ 424	\$ 16,514
Accounts receivable		1,045
Interest receivable		1
TOTAL ASSETS	\$ 424	\$ 17,560
LIABILITIES		
Accounts payable		\$ 563
Due to student organizations		16,997
TOTAL LIABILITIES	-	\$ 17,560
NET POSITION		
Held in trust for scholarships	424	
TOTAL NET POSITION	\$ 424	

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013
 (amounts expressed in thousands)

	PRIVATE PURPOSE TRUST FUND FLORIDA FUTURE EDUCATORS OF AMERICA
ADDITIONS	
Donations	\$ 48
Interest	1
TOTAL ADDITIONS	<u>49</u>
DEDUCTIONS	
Scholarship disbursements	<u>73</u>
TOTAL DEDUCTIONS	<u>73</u>
CHANGE IN NET POSITION	(24)
NET POSITION - Beginning of year	<u>448</u>
NET POSITION - End of year	<u><u>\$ 424</u></u>

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

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of Palm Beach County, Florida (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to Florida Statutes, Section 1010.01, each school district is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies.

A. Reporting Entity

The District and its governing board are organized and operated under Section 4, Article IX, of the Constitution of Florida and Chapter 1001 of Florida Statutes. The District's boundaries are coterminous with those of Palm Beach County. Management of the School District is independent of county and city governments. The membership of the governing board of the District (the "Board") consists of seven members elected from single member districts for overlapping four-year terms. The Superintendent is appointed by the Board to act as executive officer of the District.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units" and GASB 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component unit and/or joint venture reportable within the accompanying financial statements are the Palm Beach School Board Leasing Corporation (the "Corporation") and 34 of 36 Charter Schools operating within the District.

Blended Component Unit - The Corporation's sole purpose is to provide for financing and construction of certain District school facilities. Additionally, the Corporation is legally separate from the District and the Board of the Corporation consists of the seven Board members of the District. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Discretely Presented Component Units – The charter schools are considered to be component units of the District because the District is financially accountable for the charter schools based on the State’s educational structure as established by statutory and constitutional provisions. The District is also financially accountable for the charter schools as the District established the charter schools by approval of the charters, and there is the potential for the charter schools to impose specific financial burdens on the District.

Complete financial statements of the individual charter schools can be obtained from administrative offices.

The thirty-six component unit charter schools in operation at fiscal year-end are listed below:

Academy for Positive Learning
 128 North C. Street
 Lake Worth, Florida 33460

Believers Academy
 5840 Corporate Way, Suite 100
 West Palm Beach, Florida 33407

Ben Gamla Palm Beach
 8600 Jog Road
 Boynton Beach, Florida 33472

Boca Raton Charter School
 269 NE 14th Street
 Boca Raton, Florida 33432

Bright Futures Academy
 10350 Riverside Drive
 Palm Beach Gardens, Florida 33410

Charter School of Boynton Beach
 1375 Gateway Boulevard
 Boynton Beach, Florida 33426

DayStar Academy of Excellence
 970 North Seacrest Boulevard
 Boynton Beach, Florida 33435

Ed Venture Charter School
 117 East Coast Avenue
 Hypoluxo, Florida 33462

Everglades Preparatory Academy
 360 East Main Street, Building C
 Pahokee, Florida 33476

Excel Leadership Academy (closed June 2013)
 (Formerly Life Skills Center, Palm Beach)
 600 North Congress Avenue, Suite 560
 Delray Beach, Florida 44335

G-STAR School of the Arts
 2065 Prairie Road, Building J
 West Palm Beach, Florida 33406

Gardens School of Technology
 9153 Roan Lane
 Palm Beach Gardens, Florida 33403

Glades Academy
 1200 East Main Street
 Pahokee, Florida 33476

Gulfstream Goodwill Transition to
 L.I.F.E. Academy
 3800 South Congress Avenue, Suite 12
 Boynton Beach, Florida 33426

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Hope Learning Community of Riviera Beach
 (Noah's Ark International)
 21 West 22nd Street
 Riviera Beach, Florida 33404

Imagine Schools - Chancellor Campus
 3333 High Ridge Road
 Boynton Beach, Florida 33426

Inlet Grove Community High School, Inc.
 7071 Garden Road
 West Palm Beach, Florida 33404

JFK Medical Center Charter School
 4696 Davis Road
 Lake Worth, Florida 33461

Joseph Littles-Nguzo Saba Charter School
 5829 Corporate Way, 2nd Floor
 West Palm Beach, Florida 33407

Lakeside Academy Charter School
 716 South Main Street
 Belle Glade, Florida 33430

Mavericks HS at Palm Springs
 3525 South Congress Avenue
 Palm Springs, Florida 33461

Montessori Academy of Early Enrichment
 6300 Lake Worth Road
 Greenacres, Florida 33463

Palm Beach School for Autism, Inc.
 1199 West Lantana Road, Cottage #16
 Lantana, Florida 33462

Quantum High School
 1275 Gateway Blvd
 Boynton Beach, Florida 33426

Renaissance Charter School at West Palm
 Beach
 1889 Palm Beach Lakes Blvd
 West Palm Beach, Florida 33409

Renaissance Learning Academy
 5841 Corporate Way, Suite 101
 West Palm Beach, Florida 33407

Renaissance Learning Center
 5800 Corporate Way
 West Palm Beach, Florida 33407

Riviera Beach Maritime Academy
 251 West 11th Street
 Riviera Beach, Florida 33404

Somerset Academy Boca
 333 S.W. 4th Avenue
 Boca Raton, Florida 33432

South Tech Charter Academy
 1300 S.W. 30th Avenue
 Riviera Beach, Florida 33426

Tomorrow's Promise Community School
 601 North Congress Avenue, Suite 110
 Delray Beach, Florida 33445

Toussaint L'Ouverture
 1325 Gateway Boulevard
 Boynton Beach, Florida 33426

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Western Academy Charter School
 500 F-K Royal Plaza Road
 Royal Palm Beach, Florida 33411

Worthington High School
 1711 Worthington Road
 West Palm Beach, Florida 33409

The charter schools listed below are not included in the component unit columns as the financial reports were unavailable.

Florida International Language Academy
 (Opened and Closed Fiscal Year 2013)
 7719 South Dixie Highway
 West Palm Beach, Florida 33405

Leadership Academy West
 2030 South Congress Avenue
 West Palm Beach, Florida 33406

Prior Year Adjustments

There has been an adjustment to the beginning net position for the Component Unit column in the Statement of Activities due to the availability of component unit (charter school) audit reports as follows:

Net Position - Beginning of year, as previously reported	\$ 15,647
Prior Period Adjustments to Beginning Net Position	
Charter School of Boynton Beach	39
Joseph Little-Nguzo Saba Charter School	(78)
Leadership Academy West	(148)
Life Skills Center, Palm Beach	9
Worthington High School (opened in 2013)	(22)
	<u> </u>
Net Position - Beginning of year, adjusted	<u>\$ 15,447</u>

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. Internal Service Fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the Proprietary Fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The governmental funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Fund is accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Fund reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

GOVERNMENTAL FUNDS

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's major Governmental Funds:

General Fund

The General Fund is the primary operating fund of the District. Ad valorem tax revenues, revenues from the Florida Education Finance Program ("FEFP") and other receipts not allocated by law or contractual agreement to other funds are accounted for in this fund. Similarly, general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from this fund.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Other Special Revenue Fund

To account for federal, state and local grant revenue sources which are legally restricted or committed by formal action of the School Board.

ARRA Economic Stimulus Special Revenue Fund

Under the American Recovery and Reinvestment Act (ARRA), the district received targeted assistance funds. To ensure transparency and accountability for the use of these funds, they are held in separate funds. Targeted assistance funds are provided to states for the intended use of avoiding job losses. Targeted assistance funds of \$2.4 million were received through ARRA as extensions of the Federal entitlement grants, mainly School Improvement Cluster grants.

COPS Debt Service Fund

The COPS Debt Service Fund accounts for the repayment of the certificates of participation.

ARRA Economic Stimulus Debt Service Fund

This fund was established to accumulate resources to pay the interest and principal obligations associated with the QSCB issued during fiscal year 2011.

Capital Improvement Fund

The Capital Improvement Fund accounts for locally received funds, primarily ad valorem tax revenue, for the acquisition, construction or renovation of capital facilities, including land and equipment.

ARRA Economic Stimulus Capital Projects Fund

This fund was established to account for financial resources used for the acquisition and construction of facilities and equipment funded by the QSCB issued during fiscal year 2011.

Other Nonmajor Governmental Funds

The other nonmajor governmental funds columns in the fund financial statement are aggregations of all the nonmajor governmental funds.

PROPRIETARY FUND

Proprietary funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. The only proprietary fund that the District has is an internal service fund. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Internal service funds are used to account for the financing of goods and services provided by one department to another on a cost reimbursement basis. The District has one Internal Service Fund for group health. Operating expenses for the District's internal service fund includes salaries, benefits, administrative expenses, and insurance claims paid. All items not meeting this definition are reported as nonoperating revenues and expenses.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District. The Fiduciary Funds are prepared under the economic resources measurement focus, except for the agency funds which have no measurement focus.

Agency Funds

Agency funds consist of activity funds, which are established at each school to account for the receipts and disbursements of various school activities administered for the general welfare of the students and completion of certain planned objectives and special programs of school groups. The District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private Purpose Trust Fund

A trust fund was established in January 1993, and is used to account for a District-supported Florida Future Educators of America program. Revenues consist of employee donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with the trust requirements.

BASIS OF ACCOUNTING

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and Fiduciary Funds use the accrual basis of accounting.

The charter schools are accounted for as governmental organizations and follow the same accounting model as the District's governmental activities.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Current year property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments, and certain prepaid items, which are recognized when due/paid.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as deferred/unearned revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned, and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources – Significant revenues from State sources for current operations are primarily from the Florida Education Finance Program (“FEFP”), administered by the Florida Department of Education (“FDOE”), under the provisions of Chapter 1011, Florida Statutes. The District files reports on full time equivalent (“FTE”) student membership with the FDOE. The FDOE accumulates information from these reports and calculates the allocation of FEFP funds to the District. After review and verification of FTE reports and supporting documentation, the FDOE may adjust subsequent fiscal period allocations of FEFP funding for prior year errors disclosed by its review. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

The District receives revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical educational programs.

Property Taxes – On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

Use of Resources – When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Budgetary Policies

Revenues and expenditures are controlled by budgetary systems in accordance with various legal and administrative requirements that govern the District’s operations. The budget represents a process through which policy decisions are made, implemented and controlled. The budget is adopted on a basis consistent with GAAP, except for encumbrances. The budgetary process includes encumbrances

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

in the current year budget. The encumbrances are reported as expenditures on the budgetary basis of accounting.

Annual budgets are legally adopted for all funds except the Fiduciary Funds. The budget amounts for revenues and expenditures reflect all amendments to the original budget dated September 5, 2012 the date of the final amendment approved by the Board. Significant dates in the budgeting timetable follow:

1. The Palm Beach County Property Appraiser certifies to the District the taxable value of all nonexempt District property by July 1 of each year, or the Clerk of the Circuit Court is required to certify an interim tax roll.
2. Within 24 days of tax roll certification, the Board considers and approves for advertising a tentative budget.
3. Within 29 days after tax roll certification, the District advertises the tentative budget and the millage rates therein.
4. A public hearing to adopt the tentative budget and proposed millage rate is held not less than two nor more than five days after the budget is advertised.
5. Within 35 days of tax roll certification, the District notifies the Palm Beach County Property Appraiser of proposed millage rates.

At a final public hearing within 80 days, but not less than 65 days, after tax roll certification, the Board adopts the District budget.

The major functional level is the legal level of budgetary control. Per Board policy, management is authorized to make budget amendments at function level with Board approval. All interim budget amendments between major functional areas within each fund are submitted to the Board for approval. Federal and State grant budget amendments which require State approval prior to processing are also submitted to the Board for approval with monthly amendments.

Unreserved appropriations are cancelled at the end of the fiscal year. However, encumbered appropriations for funds do not lapse at the end of the fiscal year. Restricted, committed, and assigned fund balances at June 30, 2013, for funds under budgetary control have been re-appropriated for the fiscal year 2014 operating budget within the appropriate fund. Programs restricted for carryover include all State categorical grants required to be expended on specific programs and District approved carryover programs.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

E. Cash, Cash Equivalents and Investments

The District maintains a Treasurer's pool for the District's cash and investments. Each fund's portion of the pool is presented on the financial statements. Investments are stated at fair value, based on quoted market prices or recognized pricing sources. Investments consist of direct obligations of the United States Treasury, U.S. Government instrumentality (U.S. Government sponsored agencies) securities, money market funds investing in U.S. Treasury Securities, AAA rated local government investment pools, corporate notes, commercial paper, and other investments allowable by the District's investment policy. All money market mutual funds are AAAM rated by the various rating agencies, and each fund is registered as a 2a-7 fund with the SEC. Rule 2a-7 of the Investment Company Act of 1940, comprises the rules governing money market funds. For purposes of the statement of cash flows, cash equivalents are considered to be the money market funds and all highly liquid investments with a maturity of three months or less when purchased.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The District's investments in the Florida Education Investment Trust Fund (FEITF), which FEITF indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

F. Inventories

Inventories are valued at cost, which approximates market, using the average cost method. The District's inventories include various items consisting of school supplies, paper, textbooks, fuel, donated foods, etc. USDA donated foods received from the Federal government are recorded at the value established by the Federal government using the average cost method. Inventory items are recorded as expenditures when shipped to schools and department offices (the consumption method). The nonspendable fund balance at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are nonspendable.

G. Prepaid Items

Expenditures for insurance and similar services extending over more than one accounting period are not allocated between or among accounting periods in the governmental funds and are instead accounted for as expenditures in the period of acquisition (purchases method).

H. Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the District. Purchased assets are recorded as expenditures in the fund financial statements and are capitalized at cost on the government-wide statement of net position. Gifts or contributions are recorded at fair value at the time received.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

The District's capitalization levels are \$1,000 on tangible personal property, \$100,000 on building improvements, \$50,000 on improvements other than buildings, and \$100,000 on intangible assets. Other costs incurred for repairs and maintenance are expensed as incurred. All reported capital assets except land and construction in progress are depreciated/amortized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	3 – 15 years
Motor Vehicles	5 – 10 years
Audio/Video Materials & Software	3 – 5 years
Buildings and Improvements	15 – 50 years
Improvements Other Than Buildings	15 years

I. Long Term Debt

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Debt premiums/discounts and issuance cost are amortized over the life of the debt, while deferred gains and losses on advance refundings are amortized over the shorter of the remaining life of the refunded debt or the life of the new debt in a systematic and rational method, which approximates the effective-interest method.

The District enters into interest rate swap agreements to modify interest rates on outstanding debt. The fair value of these instruments is reflected on the government-wide financial statements (See Notes 10 and 11).

J. Self-Insurance

The District is self-insured for portions of its general and automobile liability insurance and workers' compensation. Claim activity (expenditures for general and automobile liability and workers' compensation) is recorded in the governmental funds as payments become due each period. The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but not reported (See Note 8). Consistent with GAAP guidelines, for the governmental funds, in the fund financial statements, the liability for self-insured risks is considered long-term, and therefore, is not a fund liability (except for any amounts due and payable at fiscal year-end) and represents a reconciling item between the fund and government-wide presentations.

The District is also self-insured for health insurance. The District provides health insurance for its employees and eligible dependents. The estimated liability for self-insured risks represents an estimate of the amount to be paid on insurance claims reported and on insurance claims incurred but

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

not reported (See Note 8). Consistent with GAAP guidelines, in the proprietary fund financial statements, the liability for self-insured risks is recorded under the accrual basis of accounting.

K. Compensated Absences

Compensated absences are payments to employees for accumulated vacation and sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused vacation and sick leave up to a specified amount depending on their date of hire. Vacation and sick leave are payable to employees upon termination or retirement at the current rate of pay on the date of termination or retirement.

The District uses the vesting method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The portion related to employees in the Internal Service Fund is recorded at the fund level. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

L. Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

M. Impact of Recently Issued Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement 25*. GASB Statement No. 67 improves financial reporting by state and local governmental pension plans. The requirements of this Statement will improve financial reporting for pension plans primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This statement is effective for financial statements for fiscal years beginning after June 15, 2013. This statement will not impact the District's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement 27*. GASB Statement No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for fiscal years beginning after December 15, 2013. The adoption of GASB Statement No. 69 does not have any impact on the District's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This statement also requires a government that is required to repay a grantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being released of the obligation. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. This statement is effective for fiscal years beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

2. AD VALOREM TAXES

The Board is authorized by Florida Statutes to levy property taxes for District operations, capital improvements and debt service. Property taxes consist of ad valorem taxes on real and personal property within the District. The Palm Beach County Property Appraiser assesses property values and the Palm Beach County Tax Collector collects the property taxes.

Property taxes are assessed as of January 1 each year. The Board levies the property tax at the final budget hearing each year based on the assessed valuation of all non-exempt property. This levy finances the expenditures of the current fiscal year. Taxes become an enforceable lien on property on January 1. Tax bills are mailed by the Palm Beach County Tax Collector on November 1 and are due no later than April 1. Discounts of up to four percent are available for early payment. The majority of ad valorem taxes are collected in November and December and remitted to the School Board. Section 197.383, Florida Statutes, requires the Palm Beach County Tax Collector to distribute the taxes collected to each taxing authority at least four times during the first two months after the tax roll comes into the Tax Collector's possession, and at least once per month thereafter. Taxes are considered delinquent if not paid prior to April 1. State law provides for enforcement of collection of

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

taxes by the sale of tax certificates on real property and for levy upon, seizure and sale of personal property after the Palm Beach County Tax Collector initiates a sequence of required procedures resulting in a court order to carry out the action.

The State Legislature prescribes the maximum nonvoted millage that may be levied by the Board for each fiscal year. The total millage rate levy was 7.778 mills and the total assessed value, on which the 2012 levy was based, was \$133 billion. Gross taxes levied were approximately \$1.0 billion. Total revenue, net of discounts, was approximately \$1.0 billion. A portion of the taxes levied for the Local Capital Improvement Capital Project Fund, designated for repairs and maintenance programs, are transferred to the General Fund as provided by Section 1013, Florida Statutes. For the fiscal year 2013, the maintenance transfer amounted to approximately \$72.2 million. Additionally, approximately \$8.0 million was transferred for property insurance, and approximately \$3.0 million was transferred for charter school capital outlay, bringing the total transfer from capital projects funds to approximately \$83.2 million.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Florida Statutes authorize the deposit of District funds in demand deposits or time deposits of financial institutions approved by the State Treasurer and are defined as public deposits. All District public deposits are held in qualified public depositories pursuant to chapter 280, Florida Statutes, the "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral pledging level. The collateral pledging level may range from 50 percent to 125 percent depending upon the depository's financial condition and the length of time that the depository has been established. All collateral must be deposited with the State Treasurer. Any losses to public depositors resulting from insolvency are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessment against other qualified public depositories of the same type as the depository in default. All bank balances of the District are fully insured or collateralized. At June 30, 2013, the carrying amount of the District's cash deposits was approximately \$263.8 million and the bank balance was approximately \$273.2 million. The carrying amount of the Fiduciary Fund - School Internal Funds cash deposits was approximately \$16.5 million.

The District receives interest on all collected balances in its cash accounts from the qualified public depository acting as its banking agent. Interest earnings are allocated to all funds based on the average daily balance of each fund's equity in the Treasurer's Pool.

Cash equivalents consist of cash deposits, amounts invested in money market funds and Florida Education Investment Trust Fund (FEITF) and Florida State Board of Administration (SBA) investment pools.

Investments

The District's investment policy permits investments in the SBA Local Government Surplus Funds

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Trust Fund, Florida Education Investment Trust Fund, securities of the United States Government, U.S. Government agencies, Federal instrumentalities, interest bearing time deposit or savings accounts, repurchase agreements, commercial paper, corporate notes, bankers' acceptances, state and/or local government debt, and money market mutual funds. The District's investment advisor used the effective duration method to calculate effective duration measures for the securities held by the District. Besides measuring the sensitivity of the securities market value to changes in interest rates, the effective duration method accounts for any call (early redemption) features which a security may have.

As of June 30, 2013, the District had the following unrestricted cash and investments and maturities:

PORTFOLIO / INVESTMENTS	CARRYING VALUE (in thousands)	EFFECTIVE DURATION (In Years)
Cash Deposits	\$ 263,770	N/A
Money Market Funds:		
Dreyfus Treasury and Agency	63,128	0.14
Federated Government Obligation	25,179	0.15
Fidelity Institutional Government Fund	16,709	0.14
Goldman Sachs Government Fund	5,001	0.15
Morgan Stanley US Government	5,000	0.05
Florida Education Investment Trust Fund (FEITF)	87,377	0.12
Florida State Board of Administration (SBA) PRIME	10	0.11
Commercial Paper	4,031	0.33
Core Fund Investments		
US Treasury - Notes	113,720	2.07
Federal Instrumentality Notes	29,686	1.66
Corporate Notes	10,832	2.18
Municipal Bonds	2,520	0.25
Primary Government Cash, Cash Equivalents and Investments	<u>626,963</u>	
Primary Government Restricted Cash with Fiscal Agent	<u>\$ 3,232</u>	N/A
Total Primary Government	<u>630,195</u>	
Fiduciary Funds:		
Cash Deposits	<u>16,938</u>	N/A
Total Cash, Cash equivalents, and Investments, Reporting Entity	<u>\$ 647,133</u>	

Interest Rate Risk

Interest rate risk is the risk of losses due to potential changes in the prevailing interest rates. To limit exposure to fair value losses resulting from increases in interest rates, the District's Investment Policy limits operating funds to maturities of two years or less. Investments of reserves, project funds, debt proceeds and other nonoperating funds ("core funds") shall have a term appropriate to the need for

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

funds and in accordance with debt covenants, but in no event shall exceed five (5) years and the average duration of the funds as a whole may not exceed three (3) years. The District's investment in the Federal Home Loan Mortgage Corporation matures between August 2014, and September 2014. The District's investments in the Federal National Mortgage Association mature between March 2015, and March 2016. The District's investments in the Freddie Mac Global mature between September 2014, and August 2015. As of June 30, 2013, the District held approximately \$3.6 million in market value of callable securities issued by Federal instrumentalities, which permit the issuer to redeem the securities prior to their original maturity date.

Florida PRIME had a weighted average days to maturity (WAM) of 40 days and FEITF had a WAM of 44 days. 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 portfolio to interest rate changes.

Credit Risk

Credit risk is the risk of losses due to credit worthiness of the issuer of security investments. The District's Investment Policy lists the authorized investment types as well as the minimum allowable credit rating for each investment type. Corporate notes purchased for investment must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating, at the time of purchase, at a minimum "Aa" by Moody's and a minimum long term debt rating of "AA" by Standard & Poor's ("S&P"). The maximum length to maturity for corporate notes shall be three (3) years from the date of purchase. As of June 30, 2013, the District held \$10.8 million of corporate notes of which had an S&P rating between AA- and AA+. The money market funds were all rated AAAm by S&P and Aaa-mf by Moody's. All investments in the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association were rated AA+ by S&P. All other rated investments were rated between AA and AA+ by S&P. As of June 30, 2013, the FEITF and the Local Government Investment Pool were rated AAAm by S&P.

Concentration of Credit Risk

Concentration of credit risk is the risk of losses due to too high a concentration of investments in a single investment. The District's Investment Policy specifies the maximum percentage allocation to any single investment type as well as the maximum percentage holding per issuer. Up to 100 percent of the portfolio may be invested in U.S. Government securities, 80 percent may be invested in Federal instrumentalities (US government sponsored agencies) with no more than 50 percent with a single issuer, and 50 percent may be invested in US Government agencies with no more than 25 percent with a single issuer. Corporate notes are limited to 15 percent of the portfolio with no more than 5 percent with a single issuer.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

PORTFOLIO / INVESTMENTS	CARRYING VALUE (in thousands)	PERCENTAGE OF INVESTMENT BALANCE
Cash Deposits	\$ 263,770	42.07%
Money Market Funds		
Dreyfus Treasury and Agency	63,128	10.07%
Federated Government Obligation	25,179	4.02%
Fidelity Institutional Government Fund	16,709	2.67%
Goldman Sachs Government Fund	5,001	0.80%
Morgan Stanley US Government	5,000	0.80%
Florida Education Investment Trust Fund (FEITF)	87,377	13.94%
Florida State Board of Administration (SBA) PRIME	10	0.00%
Commercial Paper		
Fortis Funding, LLC	1,503	0.24%
Bank of Tokyo Mitsubishi Ltd	2,528	0.40%
Investments in Fixed Income Securities		
US Treasury - Notes/Bill	113,720	18.14%
Toyota Motor Corporation	2,008	0.32%
Berkshire Hathaway	624	0.10%
General Electric Capital Corporation	3,745	0.60%
Wal-Mart	567	0.09%
Apple	891	0.14%
IBM	2,466	0.39%
Chevron	531	0.08%
Fannie Mae	11,326	1.81%
Farmer Mac	923	0.15%
Freddie Mac	13,107	2.09%
Federal Home Loan Mortgage Corporation	4,330	0.69%
Municipal Bonds	2,520	0.40%
Total Cash, Cash Equivalents, and Investments, Primary Government	\$ 626,963	100.00%

As of June 30, 2013, all District investments were in compliance with the District's Investment Policy or Debt Management Policy and did not exceed portfolio allocation or issuer maximums.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Custodial Credit Risk

Custodial credit risk is the risk of losses due to the failure of a counterparty that is in possession of investments or collateral securities. The District's investment policy requires that all securities, with the exception of certificates of deposit, be held with a third party custodian; and all securities purchased by, and all collateral obtained by the District should be properly designated as an asset of the District. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal government, the state of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the state of Florida. Certificates of deposit will be placed in the provider's safekeeping department for the term of the deposit. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities are made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. As of June 30, 2013, the District's investment portfolio was held with a third-party custodian.

4. INVESTMENT DERIVATIVE INSTRUMENTS

The District amended the 2001B/2011B pay fixed interest swap for the first three years (August 1, 2011 through August 1, 2014) from a pay fixed 4.59 percent to a pay fixed 4.48 percent and receive 70 percent of USD-LIBOR. After the three-year term, the pay fixed rate reverts to 4.59 percent, and the received rate reverts to SIFMA. All critical terms of the rest of the original underlying swap remain the same. The 11 basis point spread between the original 4.59 percent fixed rate and the amended 4.48 percent fixed rate results in an investment derivative. At June 30, 2013, the fair value of the 11 basis point spread is approximately \$268,000 in asset position and will amortize to zero by the end of the 3-year term.

In exchange for an upfront premium payment of \$3,010,000 received by the District, the swap counterparty has the right to terminate the 2003B Interest Rate Swap if the 180 day average of the BMA Index exceeds 7.0 percent in the future. The barrier feature was effective June 2003, and is exercisable anytime until August 2018. Once the barrier option expires, the District will be left with a fixed-payer swap that matures August 2029. Therefore, for accounting and financial reporting purposes, the barrier option derivative instrument is considered an investment derivative instrument. At June 30, 2013, the fair value of the barrier option is approximately \$39,000 in asset position.

5. DUE FROM OTHER AGENCIES

At June 30, 2013, the District had a total of approximately \$44.0 million in "Due from other agencies". Approximately \$20.9 million is due from Federal, State and local governments for various grant programs. Approximately \$2.9 million is due from Medicaid for reimbursement for services performed which is also recorded as deferred revenue at the fund level. Approximately \$3.6 million is due from telecommunication companies related to reimbursement for E-Rate. Approximately \$1.7

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

million is due from United Health Care pharmacy and FBMC benefits management rebates. Approximately \$12.8 million is due from Palm Beach County related to impact fees. Approximately \$1.0 million is due from the Federal Emergency Management Agency. Another \$1.1 million is due from other state and local agencies for miscellaneous items.

6. INTERFUND ACTIVITIES

Due to/from other funds consisted of the following balances at June 30, 2013 (amounts in thousands):

	Interfund Receivables	Interfund Payables
General Fund	\$ 7,500	\$ -
Other Special Revenue Fund	-	7,500
Total Interfund	<u>\$ 7,500</u>	<u>\$ 7,500</u>

The amount payable by the Other Special Revenue Fund to the General Fund is to cover temporary cash shortages related to sequestration and timing of receipts.

Interfund transfers for the year ended June 30, 2013 were as follows (amounts in thousands):

Transfer from:	Transfer to:				Total
	General Fund	ARRA Economic Stimulus Debt Service Fund	COPS Debt Service Fund	Other Nonmajor Funds	
Capital Improvement Fund	\$ 76,766	\$ 5	\$ 120,862	\$ -	\$ 197,633
General Fund	-		-	287	287
Other Nonmajor Governmental Funds	6,405		19,316	13,996	39,717
Total	<u>\$ 83,171</u>	<u>\$ 5</u>	<u>\$ 140,178</u>	<u>\$ 14,283</u>	<u>\$ 237,637</u>

The majority of interfund transfers were for recurring annual operating and debt service expenditures.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 is as follows (amounts in thousands):

	Ending Balance June 30, 2012	Additions and Transfer In	Retirements and Transfers Out	Ending Balance June 30, 2013
<u>Non-Depreciable Assets:</u>				
Land	\$ 341,463	\$ -	\$ 4	\$ 341,459
Construction in Progress	16,281	51,385	7,442	60,224
Total Non-Depreciable Assets	357,744	51,385	7,446	401,683
<u>Depreciable Assets:</u>				
Improvements Other Than				
Buildings	53,665	1,965	-	55,630
Buildings and Improvements	4,055,510	5,755	2,290	4,058,975
Furniture, Fixtures & Equipment	130,127	12,326	5,473	136,980
Motor Vehicles	97,526	328	601	97,253
Audio Video Materials & Software	61,785	389	3,901	58,273
Total Depreciable Assets	4,398,613	20,763	12,265	4,407,111
<u>Less Depreciation For:</u>				
Improvements Other Than				
Buildings	(16,667)	(3,651)	-	(20,318)
Buildings and Improvements	(895,811)	(85,583)	(2,290)	(979,104)
Furniture, Fixtures & Equipment	(96,560)	(11,120)	(5,179)	(102,501)
Motor Vehicles	(67,903)	(6,545)	(602)	(73,846)
Audio/Video Materials & Software	(52,297)	(2,691)	(3,889)	(51,099)
Total Accumulated Depreciation	(1,129,238)	(109,590)	(11,960)	(1,226,868)
Capital Assets, Net	\$ 3,627,119	\$ (37,442)	\$ 7,751	\$ 3,581,926

Depreciation expense for the year ended June 30, 2013, of approximately \$109.6 million was not allocated to specific functions. The District's capital assets essentially serve all functions and as such the depreciation expense is included as a separate line item in the statement of activities.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; administrative errors and omissions; injuries to employees, students and guests; as well as natural disasters. The District is self-insured for portions of its general and automobile liability insurance, workers compensation and health insurance. Losses involving auto and general liability claims are limited (generally) by provisions of Section 768.28, Florida Statutes. These self-insured funds are administered by a third party. The District purchases commercial insurance for other risks including property, construction and other miscellaneous risks.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

The employee health insurance claims liability is based on an analysis performed by management, which is based on historical trends. The remaining claims liability is based on an actuarial evaluation performed by an independent actuary as of June 30, 2013, using a discounted rate factor of 4.0 percent. The liability consists of claims reported and payable, as well as an estimate for claims incurred but not reported. At June 30, 2013, the liability for insurance claims consisted of approximately \$12.7 million, \$6.8 million, and \$28.2 million for employee health, auto and general liability, and workers' compensation, respectively.

A summary of changes in the estimated liability for self-insured risks is as follows (amounts in thousands):

	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2013
Beginning Balance	\$ 57,314	\$ 52,678
Additions:		
Current year claims and changes in estimates	172,824	165,629
Reductions:		
Claim payments	(177,460)	(170,602)
Ending Balance	<u>\$ 52,678</u>	<u>\$ 47,705</u>

The District maintains excess insurance coverage for health care costs. There have been no other significant reductions in insurance coverage. There have been no settlements that exceeded the District's coverage for fiscal years ended June 30, 2011, 2012, and 2013. At June 30, 2013, the internal service fund reports net position of \$62.4 million, which is available to cover health claims incurred during the off contract period (summer break) and for future catastrophic claims.

9. SHORT-TERM DEBT

Short-term debt activity for the year ended June 30, 2013 was as follows (amounts in thousands):

	Beginning Balance July 1, 2012	Issued	Redeemed	Ending Balance June 30, 2013
Tax anticipation notes	<u>\$ -</u>	<u>\$ 115,000</u>	<u>\$ (115,000)</u>	<u>\$ -</u>

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Tax Anticipation Notes

On October 04, 2012, the District issued Tax Anticipation Notes ("TANS"), Series 2012, for \$115.0 million. Note proceeds were used to pay fiscal year 2013 District operating expenditures prior to the receipt of ad valorem taxes. The notes were paid in January 2013.

10. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013, is as follows (amounts in thousands):

	Beginning Balance June 30, 2012	Additions	Reductions	Ending Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Capital Outlay Bond Issue	\$ 30,650	\$ -	\$ (4,280)	\$ 26,370	\$ 4,485
Certificates of Participation	1,832,003	67,145	(127,815)	1,771,333	63,865
Borrowing-Swap Upfront Payment	8,522	12	(517)	8,017	708
Derivative Instruments-Hedging	138,619	-	(43,655)	94,964	-
	<u>2,009,794</u>	<u>67,157</u>	<u>(176,267)</u>	<u>1,903,684</u>	<u>69,058</u>
Plus (Less) Issuance Premium (Discount)	35,339	10,990	(6,309)	40,020	-
Less Deferred Amount on Refundings	<u>(33,315)</u>	<u>(6,688)</u>	<u>3,235</u>	<u>(36,768)</u>	<u>-</u>
Total Bonds and Leases Payable	<u>2,011,818</u>	<u>71,459</u>	<u>(179,341)</u>	<u>1,903,936</u>	<u>69,058</u>
Other Liabilities:					
Compensated Absences	178,053	18,059	(15,279)	180,833	16,155
Claims and Judgments:					
Insurance Claims	52,678	165,629	(170,602)	47,705	21,407
Postemployment Benefits	<u>78,701</u>	<u>12,678</u>	<u>(4,082)</u>	<u>87,297</u>	<u>-</u>
Total Other Liabilities	<u>309,432</u>	<u>196,366</u>	<u>(189,963)</u>	<u>315,835</u>	<u>37,562</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 2,321,250</u>	<u>\$ 267,825</u>	<u>\$ (369,304)</u>	<u>\$ 2,219,771</u>	<u>\$ 106,620</u>

The compensated absences, claims and judgments (other than health) and postemployment benefits are generally liquidated by the General Fund. Health insurance claims are liquidated by the Health Internal Service Fund.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

State Board of Education Capital Outlay Bond Issues

State Board of Education Capital Outlay Bond Issues ("COBI") are serviced entirely by the State using a portion of the District's share of revenue derived from motor vehicle license taxes pursuant to Chapter 320, Florida Statutes, and Article XII, Section 9(d), of the Florida Constitution. The State Board of Administration determines the annual sinking fund requirements. The amounts necessary to retire bonds and interest payable are withheld from the entitlement to the District. Interest rates on the COBI bonds range from 3.0 percent to 5.0 percent. Interest is payable semiannually on January 1 and July 1. The bonds are redeemable at par.

A summary of bond terms are presented as follows (amounts in thousands):

Capital Outlay Bond Issues	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)	Final Maturity Date	Debt Outstanding June 30, 2012	Debt Issued	Debt Matured/ Refunded FY 12-13	Debt Outstanding June 30, 2013
COBI 2003-A (1)	7/15/2003	\$ 6,050	-	1/1/2013	\$ 260	\$ -	\$ 260	\$ -
COBI 2005-A	5/1/2005	21,200	5.0%	1/1/2017	10,770	-	2,310	8,460
COBI 2005-B	7/1/2005	2,675	5.0%	1/1/2020	1,940	-	250	1,690
COBI 2009-A	9/10/2009	1,655	5.0%	1/1/2019	1,220	-	150	1,070
COBI 2010-A	10/14/2010	9,700	3.5% to 5.0%	1/1/2030	8,850	-	425	8,425
COBI 2010-A	10/14/2010	1,790	4.0% to 5.0%	1/1/2022	1,790	-	115	1,675
COBI 2011-A	12/7/2011	5,820	3.0% to 5.0%	1/1/2023	5,820	-	770	5,050
		<u>\$48,890</u>			<u>\$ 30,650</u>	<u>\$ -</u>	<u>\$ 4,280</u>	<u>\$ 26,370</u>

(1) Advance refund by COBI 2011-A

The debt service requirements through maturity to the holders of the Capital Outlay Bond Issues are as follows (amounts in thousands):

Year Ended June 30	Principal Capital Outlay Bonds	Interest	Total Principal and Interest
2014	\$ 4,485	\$ 1,244	\$ 5,729
2015	4,220	1,020	5,240
2016	4,185	809	4,994
2017	1,970	600	2,570
2018	1,525	501	2,026
2019-2023	6,170	1,515	7,685
2024-2028	2,675	542	3,217
2029-2030	1,140	69	1,209
Total	<u>\$ 26,370</u>	<u>\$ 6,300</u>	<u>\$ 32,670</u>

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Certificates of Participation

On November 16, 1994, the District entered into a Master Lease Purchase Agreement (the "Master Lease") dated November 1, 1994, with the Palm Beach School Board Leasing Corporation (Corporation), a Florida not-for-profit corporation, to finance the acquisition and construction of certain facilities, and equipment for District operations. The Corporation was formed by the Board solely for the purpose of acting as the lessor for certificates of participation (COPs) financed facilities, with the District as lessee. The Corporation issued COPs to third parties, evidencing undivided proportionate interest in basic lease payments to be made by the District, as lessee, pursuant to the Master Lease. Simultaneously therewith, the Board entered into ground leases with the Corporation for the facilities sites.

The District also sold certificates of participation structured as qualified zone academy bonds ("QZABs"). The QZAB program is a financial instrument that provides a different form of subsidy from traditional tax-exempt bonds. Interest on QZABs is paid by the Federal government in the form of an annual tax credit to an eligible financial institution that holds the QZAB. The QZAB issuer is responsible for repayment upon maturity. The tax credits and bonding authority are made available by the Federal government to support innovative school partnerships; enhance reform initiatives, including augmenting Federal education programs, technology and vocational equipment; and development of curriculum or better teacher training to promote market driven technology. To be eligible, a school must:

1. Be located in an Empowerment Zone or an Enterprise Community or have 35 percent or more of its students eligible for free or reduced lunch under the National School Lunch Act.
2. Obtain cash and/or in-kind contribution agreements from partnerships equal to at least 10 percent of the gross proceeds of the QZAB.

The District deposits funds annually in escrow, which when coupled with interest earnings, will be sufficient to pay off the principal at maturity.

The Corporation leases facilities and equipment to the District under the Master Lease. The Master Lease is automatically renewable annually unless terminated, in accordance with the provisions of the Master Lease, as a result of default or the failure of the Board to appropriate funds to make lease payments in its final official budget. Failure to appropriate funds to pay lease payments under any lease will, and an event of default under any lease may, result in the termination of all leases. The remedies on default or upon an event of non-appropriation include the surrender of the COP Series 1995A, Series 1996A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2006A, Series 2007A, Series 2007B, 2007E; QZAB Series 2002, QZAB Series 2004, QZAB Series 2005, and QSCB Series 2010A Facilities by the District and the Trustee's re-letting for the remaining Ground Lease term, or the voluntary sale of the COP Series 1995A, Series 1996A, Series 2001A, Series 2002A, Series 2002B, Series 2002C, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2006A, Series 2007A, Series 2007B, Series 2007E; QZAB

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Series 2002, QZAB Series 2004, QZAB Series 2005, and QSCB Series 2010A, Facilities by the School Board. In either case, the proceeds will be applied against the School Board's obligations under the Master Lease.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

A summary of lease terms are presented as follows (amounts in thousands):

Certificates	Date of Issue	Amount Issued	Remaining Interest Rates (Percent)	Final Maturity Date	Debt Outstanding June 30, 2012	Debt Issued FY 12-13	Debt Matured FY 12-13	Debt Refunded/Defeased June 30, 2013	Debt Outstanding June 30, 2013	Ground Lease Term
Series 2002A (1)	2/1/2002	\$ 115,250	4.25% to 5.375%	8/1/2013	\$ 15,135	\$ -	\$ 7,425	\$ -	\$ 7,710	8/1/2018
Series 2002B	3/20/2002	115,350	4.22% Swap rate *	8/1/2027	115,350	-	-	-	115,350	8/1/2027
Series 2002C (2)	5/15/2002	161,090	-	8/1/2012	3,990	-	3,990	-	-	7/31/2027
QZAB Series 2002	6/11/2002	950	-	6/11/2016	950	-	-	-	950	6/11/2016
Series 2002E (3)	9/1/2002	93,350	4.00% to 5.375%	8/1/2016	48,010	-	10,515	-	37,495	6/30/2016
Series 2003A (4)	6/26/2003	60,865	3.00% to 5.00%	8/1/2015	14,080	-	3,365	-	10,715	8/1/2027
Series 2003B (5)	6/26/2003	124,295	Variable Est. 3.91% **	8/1/2029	124,295	-	-	-	124,295	8/1/2029
Series 2004A (15)	5/4/2004	103,575	3.625% to 5.00%	8/1/2029	84,345	-	3,050	71,280	10,015	8/1/2029
QZAB Series 2004	4/30/2004	2,923	-	5/20/2020	2,923	-	-	-	2,923	4/29/2020
Series 2005A (6)	3/22/2005	124,630	3.60% to 5.00%	8/1/2022	123,505	-	210	-	123,295	8/1/2028
QZAB Series 2005	12/15/2005	2,150	-	12/15/2020	2,150	-	-	-	2,150	12/15/2020
Series 2006A	5/25/2006	222,015	4.00% to 5.00%	8/1/2031	193,400	-	6,045	-	187,355	8/1/2031
Series 2007A	2/28/2007	268,545	3.75% to 5.50%	8/1/2031	228,175	-	11,155	-	217,020	8/1/2031
Series 2007C (7)	3/22/2007	192,310	4.00% to 5.00%	8/1/2027	190,350	-	775	-	189,575	7/31/2027
Series 2007D (8)	5/3/2007	30,485	5.00%	8/1/2015	18,615	-	4,320	-	14,295	6/30/2015
Series 2007E	10/31/2007	147,390	3.70% to 5.00%	8/1/2032	143,310	-	4,240	-	139,070	8/1/2032
QSCB Series 2010A	11/15/2010	67,665	5.40% ***	8/1/2025	67,665	-	-	-	67,665	8/1/2032
Series 2011B (9)	6/29/2011	166,270	1.9% to 5.32%	8/1/2025	166,270	-	1,025	-	165,245	6/30/2025
Series 2011A (10)	7/13/2011	112,425	4.00% to 5.00%	8/1/2032	112,425	-	-	-	112,425	8/1/2032
Series 2011C (11)	11/15/2011	15,355	1.74%	8/1/2018	15,355	-	200	-	15,155	8/1/2018
Series 2011D (12)	11/15/2011	25,065	2.64%	8/1/2021	25,065	-	220	-	24,845	8/1/2021
Series 2012A (13)	5/15/2012	20,085	5.00%	8/1/2028	20,085	-	-	-	20,085	8/1/2028
Series 2012B (14)	6/29/2012	116,555	5.46%	8/1/2028	116,555	-	-	-	116,555	8/1/2028
Series 2012C (15)	8/9/2012	67,145	4.00% to 5.00%	8/1/2029	-	67,145	-	-	67,145	8/1/2029
					\$ 1,832,003	\$ 67,145	\$ 56,535	\$ 71,280	\$ 1,771,333	
					\$ 2,355,738					

*2002B - Variable rate paid to certificate holders based on current market rate. Resets weekly, 0.19380% at 6/30/2013

**2003B - Variable rate paid to certificate holders SIFMA +65 basis points. Resets weekly, 0.71% at 6/30/2013

***2010A QSCB - Average coupon rate before IRS subsidy is 5.4%. Net interest rate with IRS subsidy is .66153%

- (1) Refunded and partially defeased by Series 2005A and Series 2011C Certificates of Participation.
- (2) Refunded and partially defeased by Series 2005A and Series 2007C Certificates of Participation.
- (3) Issued to advance refund and defease a portion of the Series 1995A and Series 1996A Certificates of Participation.
- (4) Refunded and partially defeased by 2011D Certificates of Participation.
- (5) On March 20, 2008, the District converted and remarketed the 2003B (with no change to principal).
- (6) Issued to advance refund and defease a portion the Series 2001A, Series 2002A, Series 2002C and Series 2002D Certificates of Participation. **
- (7) Issued to advance refund and defease a portion of the Series 2001A and Series 2002C Certificates of Participation. **
- (8) Issued to advance refund and defease a portion of Series 1997A Certificates of Participation. **
- (9) Issued to advance refund and defease a portion of Series 2001B Certificates of Participation. **
- (10) Issued to advance refund and defease Series 2007B Certificates of Participation. **
- (11) Issued to advance refund and defease a portion of Series 2002A Certificates of Participation. **
- (12) Issued to advance refund and defease a portion of Series 2003A Certificates of Participation. **
- (13) Issued to advance refund and defease a portion of Series 2002D Certificates of Participation. **
- (14) Issued to advance refund and defease remaining Series 2002D Certificates of Participation. **
- (15) Issued to advance refund and defease a portion of Series 2004A Certificates of Participation. **

** These refunding issues were done in order to achieve debt service savings.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

The certificates are not separate legal obligations of the Board but represent undivided proportionate interests in lease payments to be made from appropriated funds budgeted annually by the School Board for such purpose from current or other funds authorized by law and regulations of the Department of Education, including the local optional millage levy. However, neither the Board, the District, the State of Florida, nor any political subdivision thereof are obligated to pay, except from Board-appropriated funds, any sums due under the Master Lease from any source of taxation. The full faith and credit of the Board and the District are not pledged for payment of such sums due under the Master Lease, and such sums do not constitute an indebtedness of the Board or the District within the meaning of any constitutional or statutory provision or limitation. A trust fund was established with a trustee to facilitate payments in accordance with the Master Lease and the Trust Agreement. Various accounts are maintained by the trustee in accordance with the trust indenture. Interest earned on invested funds is applied toward the basic lease payments. Basic lease payments are deposited with the trustee semi-annually on June 30 and December 30, and are payable to certificate holders on August 1 and February 1.

Due to the economic substance of the issuances of COPs as a financing arrangement on behalf of the Board, the financial activities of the Corporation have been blended in with the financial statements of the District. For accounting purposes, due to the blending of the Corporation within the District's financial statements, basic lease payments are reflected as debt service expenditures when payable to certificate holders. Payment of the outstanding COPs is insured through AMBAC Indemnity Corporation. During the fiscal year ended June 30, 2013, approximately \$1.7 million was expended for capital outlay in the nonmajor Capital Projects - COPs Fund. All COPs issued are subject to arbitrage rebate. At June 30, 2013, the arbitrage liability was zero.

The debt service requirements through maturity to the holders of the COPs, which will be serviced by the annual lease payments, are as follows (amounts in thousands):

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Year ended June 30	Series 2002A	Series 2002B	Series 2002E	Series 2003A	Series 2003B	Series 2004A	Series 2005A	Series 2006A	Series 2007A
2014	\$ 7,710	\$ -	\$ 11,070	\$ 3,465	\$ -	\$ 3,185	\$ 215	\$ 6,330	\$ 11,660
2015	-	-	11,665	3,570	-	3,335	220	6,585	12,205
2016	-	-	12,295	3,680	-	3,495	17,980	6,850	12,825
2017	-	-	2,465	-	-	-	20,960	7,185	13,455
2018	-	-	-	-	-	-	21,885	7,490	13,990
2019-2023	-	47,520	-	-	8,255	-	62,035	43,185	14,605
2024-2028	-	67,830	-	-	29,015	-	-	54,995	42,700
2029-2033	-	-	-	-	87,025	-	-	54,735	95,580
Total	<u>\$ 7,710</u>	<u>\$ 115,350</u>	<u>\$ 37,495</u>	<u>\$ 10,715</u>	<u>\$ 124,295</u>	<u>\$ 10,015</u>	<u>\$ 123,295</u>	<u>\$ 187,355</u>	<u>\$ 217,020</u>

Year ended June 30	Series 2007C	Series 2007D	Series 2007E	Series 2011A	Series 2011B	Bank Loan		Series 2011D	Series 2012A
						Series 2011B	Series 2011C		
2014	\$ 4,990	\$ 4,535	\$ 4,395	\$ -	\$ 285	\$ 815	\$ 290	\$ 320	\$ -
2015	5,325	4,760	4,585	-	150	835	8,325	330	-
2016	920	5,000	4,795	-	305	845	370	340	-
2017	1,075	-	5,015	-	10,690	-	4,585	4,205	-
2018	605	-	5,215	-	13,840	-	230	4,325	-
2019-2023	32,395	-	29,605	24,610	79,770	-	1,355	15,325	1,795
2024-2028	144,265	-	37,545	19,910	57,710	-	-	-	-
2029-2033	-	-	47,915	67,905	-	-	-	-	18,290
Total	<u>\$ 189,575</u>	<u>\$ 14,295</u>	<u>\$ 139,070</u>	<u>\$ 112,425</u>	<u>\$ 162,750</u>	<u>\$ 2,495</u>	<u>\$ 15,155</u>	<u>\$ 24,845</u>	<u>\$ 20,085</u>

Year ended June 30	Series 2012B	Series 2012C	Series 2002 QZAB	Series 2004 QZAB	Series 2005 QZAB	Series 2010A QSCB	Total Lease Payment	Total Interest	Total Lease Payment & Interest
2014	\$ 4,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,865	\$ 83,784	\$ 147,649
2015	4,645	-	-	-	-	-	66,535	81,093	147,628
2016	85	-	950	-	-	-	70,735	77,903	148,638
2017	105	3,500	-	-	-	-	73,240	74,600	147,840
2018	5,130	3,680	-	-	-	-	76,390	71,229	147,619
2019-2023	15,325	20,970	-	2,923	2,150	-	401,823	300,517	702,340
2024-2028	35,545	26,465	-	-	-	67,665	583,645	183,301	766,946
2029-2033	51,120	12,530	-	-	-	-	435,100	41,889	476,989
Total	<u>\$ 116,555</u>	<u>\$ 67,145</u>	<u>\$ 950</u>	<u>\$ 2,923</u>	<u>\$ 2,150</u>	<u>\$ 67,665</u>	<u>\$ 1,771,333</u>	<u>\$ 914,316</u>	<u>\$ 2,685,649</u>

Series 2002B is a VRDO or variable rate demand bond obligation. The rates on these certificates are reset weekly, but have been synthetically fixed using interest rate swaps. As of August 1, 2011, the District privately placed the 2002B variable rate with JP Morgan. The private placement eliminates the need for liquidity and fixes the interest rate at 70 percent of LIBOR plus a spread.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

State statute requires that no more than 75 percent of the capital millage levy be used for COPs debt service. The District's debt policy limits the issuance of COPs by stating that the debt service could not exceed half of the capital millage levy. In fiscal year 2009, when the capital millage levy was reduced to 1.75 mills, the debt policy was amended to allow debt service to be up to 1 mil but should be within 50 percent of the capital millage levy within five years. The capital millage levy was subsequently reduced from 1.75 to 1.5 mills in fiscal year 2010. Based on the reduction of the capital millage levy and lagging property values, the District's capacity to issue new COPs debt has been dramatically reduced.

Defeased Debt

On August 9, 2012, the District issued Certificates of Participation Series 2012C in the amount of \$67.1 million (plus a premium of \$11.0 million) with net interest cost of 3.46 percent to refund certificates of participation Series 2004A with interest rates ranging from 4.0 to 5.0 percent, which met the requirements of an in-substance current debt defeasance. The District made a principal payment of \$71.3 million and a call premium payment of \$6.7 million, both are recorded in the fund level financial statements as a payment to escrow agent. As a result of the refunding, the District will decrease its total debt service requirement by \$7.1 million, which results in an economic savings (the difference between the present value of the debt service payments on the old and new debt) of \$5.6 million, or 8.3 percent of the principal amount being refunded. The refunding meets the requirements of an in-substance defeasance and the liability for the refunded certificates was removed from the District's financial statements in the current fiscal year.

In prior fiscal years, the District defeased certain certificates of participation by creating separate irrevocable trust funds. New debt has been issued and the proceeds used to purchase U.S. Government Securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments. These investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the financial statements. As of June 30, 2013, the total amount of defeased debt outstanding but removed from the District's financial statements amounted to approximately \$94.9 million.

Certificates of Participation:

		(in thousands)		Defeased by
<u>Series</u>	<u>Maturities</u>	<u>Outstanding</u>	<u>Call Date</u>	<u>COPS Series</u>
2003A	8/2012 - 8/2021	\$ 23,120	8/1/2013	2011D
2004A	8/2012 - 8/2024	71,820	8/1/2014	2012C
Total Defeased COPS		<u>\$ 94,940</u>		

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Qualified School Construction Bonds

As part of the American Recovery and Reinvestment Act (ARRA), the District was authorized to issue up to \$67.7 million of Qualified School Construction Bonds (QSCB) for the purpose of new construction. The District chose to modernize two schools (Galaxy Elementary and Gove Elementary) and replace two roofs (Belle Glade Elementary and Pioneer Park Elementary). To receive the full benefits associated with the QSCB, the construction must be completed, and all costs must be paid by November 15, 2013. The District issued the QSCBs as taxable certificates of participation. The District receives a Federal subsidy from the U.S. Treasury Department equal to the difference between the taxable and tax-exempt rates. The certificates were sold to Bank of America during a competitive sale held on November 3, 2010, and closed on November 15, 2010. The par amount was \$67.7 million, and the interest rate was 5.40 percent. The District will pay interest only until 2019 when deposits to the sinking fund begin. The final maturity of the bonds is August 1, 2025. The total interest that will be paid over the life of the bonds is \$53.8 million. A total subsidy of \$47.8 million will be recorded as revenue in the year earned. Therefore, the amount the District will pay net of the Federal subsidy is \$6.0 million. In the current year, the District recorded \$3.5 million subsidy as revenue and \$3.7 million as interest expense, resulting in a net impact of \$0.2 million.

Subsequent to the sale of the certificates, the District entered into a forward delivery agreement (FDA) classified as a nonparticipating interest-earning investment contract with Barclays Bank related to the COPs 2010A QSCB. A FDA is a type of investment in which the investor purchases eligible securities on a periodic basis from the agreement provider at a fixed rate of return. The Board expects to purchase eligible securities, which consist of direct obligations of or obligations guaranteed by the US Treasury and AAA-rated senior debt obligations of Fannie Mae, Freddie Mac, the FHLB, and Federal Farm Credit System from Barclays on a semi-annual basis beginning July 19, 2019, through the final maturity date of August 1, 2025. The FDA will generate a guaranteed fixed rate of return of 4.262 percent or \$8.1 million. The interest earnings associated with this transaction will completely offset the interest due (net of the Federal subsidy) and will generate an additional \$2.1 million to be used to repay the principal in 2025.

Hedging Derivative Instrument Payments and Hedged Debt

As of June 30, 2013, aggregate debt service requirements of the District's debt (fixed-rate and variable-rate) and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 11 for information on derivative instruments (amounts in thousands):

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Fiscal Year Ending June 30	Principal	Interest	Hedging Derivative Instruments, Net	Total
2014	\$ 4,885	\$ 4,556	\$ 20,912	\$ 30,353
2015	4,795	4,400	20,699	29,894
2016	390	4,283	20,685	25,358
2017	10,795	4,236	20,444	35,475
2018	18,970	4,092	19,690	42,752
2019-2023	150,870	17,188	82,766	250,824
2024-2028	190,100	8,999	43,989	243,088
2029-2033	138,145	334	4,651	143,130
	<u>\$ 518,950</u>	<u>\$ 48,088</u>	<u>\$ 233,836</u>	<u>\$ 800,874</u>

Borrowings of Hybrid Derivative Instruments

The District sold two swaptions with the 2002D and 2001B certificates with notional amounts of \$116,555,000 and \$162,980,000, respectively. Upon entering into the swaptions, the District received upfront payments of \$4,240,000 and \$6,250,000, respectively, from the counterparty. The up-front payments were composed of the swaptions' intrinsic value and time value. Accordingly, the swaptions are hybrid instruments consisting of a borrowing and an embedded derivative instrument. The embedded derivative instrument – the option – was recorded at a value equal to the time value of the option only, and the remaining value of the swaption was allocated to the companion instrument (borrowing). The intrinsic value of the borrowing was calculated using the net present value method and is recorded at historical cost. During the option period interest accretes at the market rate at inception of the borrowing of 4.40 percent and 4.20 percent, respectively, totaling \$882,451 and \$1,166,422, respectively, through June 30, 2013. The ending balances of borrowings including accreted interest from inception at June 30, 2013 are \$3,313,166 and \$4,703,631, respectively. The borrowings at inception were \$2,479,792 and \$4,140,292, respectively. The 2001B swaption and 2002D swaption were executed August 1, 2011, and August 1, 2012, respectively. The original borrowing continues to be amortized over the remaining term. Aggregate debt service requirements of the District's borrowing amounts assume that current interest rates on variable-rate bonds is equal to the market rates at inception of the derivative instruments and will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the derivative instruments will vary. Refer to Note 11 for information on derivative instruments. Debt service requirements for both the 2011B/2001B and 2012B/2002D borrowings at June 30, 2013, were as follows (amounts in thousands):

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Fiscal Year Ending June 30	Principal	Interest	Total Principal and Interest
2014	\$ 708	\$ 317	\$ 1,025
2015	724	287	1,011
2016	745	256	1,001
2017	754	224	978
2018	726	194	920
2019-2023	2,951	567	3,518
2024-2028	1,329	121	1,450
2029	80	-	80
	<u>\$ 8,017</u>	<u>\$ 1,966</u>	<u>\$ 9,983</u>

11. DERIVATIVE INSTRUMENTS

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments are as follows (amounts in thousands; debit (credit)):

Changes in Fair Value			Fair Value at June 30, 2013		
Classification	Amount		Classification	Amount	Notional
Governmental Activities					
<u>Hedging Derivatives:</u>					
2002B Pay-fixed Interest Rate Swap	Deferred outflow of resources	\$ 9,555	Liability	\$ (25,829)	\$ 115,350
2003B Pay-fixed Interest Rate Swap	Deferred outflow of resources	13,279	Liability	(19,536)	124,295
2001B/2011B Pay fixed Interest Rate Swap	Deferred outflow of resources	10,317	Liability	(27,296)	162,980
2002D/2012B Pay-fixed Interest Rate Swap	Deferred outflow of resources	10,504	Liability	(22,303)	116,555
Total Hedging Derivative Instruments		<u>\$ 43,655</u>		<u>\$ (94,964)</u>	
<u>Investment Derivatives:</u>					
2011B-11 Basis point spread	Investment earnings	\$ (177)	Asset	\$ 268	\$ 162,980
2003B-Barrier Option at 7%	Investment earnings	99	Asset	39	100,000
Total Investment Derivative Instruments		<u>\$ (78)</u>		<u>\$ 307</u>	

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

The basis swaps, swaptions and barrier option are considered investment derivative instruments. Refer to Note 4, Investment Derivative Instruments, for information on investment derivative instruments. All other derivative instruments are considered hedging derivative instruments.

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps.

Fair values of options may be based on an option pricing model, such as the Black-Scholes-Merton model. That model considers probabilities, volatilities, time, settlement prices, and other variables.

Objective and Terms of Derivative Instruments

The table below displays the objective and terms of the District's derivative instruments outstanding at June 30, 2013, along with the credit rating of the associated counterparty (amounts in thousands):

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Objective	Notional	Effective Date	Maturity Date	Amount of Cash Received	Terms	Counterparty	Counterparty Credit Rating
Governmental Activities							
<u>Hedging Derivatives:</u>							
2002B -Interest Rate Swap	Hedge changes in cash flows on the 2002B Certificates	\$ 115,350	3/20/2002	8/1/2027	N/A	Pay 4.22%; receive 67% of USD LIBOR or SIFMA Swap Index	Citigroup Financials Products Inc. Baa2,A-,A
2003B -Interest Rate Swap	Hedge changes in cash flows on the 2003B Certificates	124,295	6/26/2003	8/1/2029	N/A	Pay 3.91%; receive SIFMA Swap Index	UBS AG, Stamford Branch A2,A,A
2002D/2012B - Interest Rate Swap	Hedge changes in cash flows on the 2012B Certificates	116,555	8/1/2012	8/1/2028	\$ 4,240	Pay 4.71%; receive SIFMA Swap Index	Citigroup Financials Products Inc. Baa2,A-,A
2001B/2011B - Interest Rate swap	Hedge changes in cash flow on the 2011B certificates	162,980	8/1/2011	8/1/2025	6,250	See Note 1	Citigroup Financials Products Inc. Baa2,A-,A
<u>Investment Derivatives:</u>							
2003B -Barrier option at 7%	Hedge against future increase in interest rates	100,000	6/26/2003	8/1/2018	3,010	See Note 2	UBS AG, Stamford Branch A2,A,A
2011B -11 Basis point spread	Reduced the net borrowing	162,980	8/1/2011	8/1/2014	N/A	Reduction of pay fixed rate from 4.59% to 4.48%	Citigroup Financials Products Inc. Baa2,A-,A

Note 1 Pay 4.48%; receive SIFMA Swap Index 8/1/11 to 8/1/14 and 4.59% thereafter, receive 70% of LIBOR 8/1/11 to 8/1/14 and SIFMA thereafter.

Note 2 Counterparty has right to terminate the 2003B Interest Rate Swap if the 180 day average of the BMA index exceeds 7.0% in the future.

Risks

Credit Risk. The District is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the District's policy to require counterparty collateral posting provisions on all swap agreements. These terms require full collateralization of the fair value of derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below AA as issued by Standard & Poor's or Aa as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The District has never failed to access collateral when required.

It is the District's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

The District has investment derivative instruments in asset position of \$0.3 million and no hedging derivative instruments in asset position at June 30, 2013.

Interest rate risk. The District is exposed to interest rate risk on its interest rate swaps. On its pay-fixed, receive-variable interest rate swaps, as LIBOR or the SIFMA swap index decreases, the District's net payment on the swap increases which is offset by the variable rate paid on the hedged debt.

Basis risk. The District is exposed to basis risk on its pay-fixed 2002B and pay-fixed 2012B interest rate swap hedging derivative instrument because the variable-rate payments received by the District on these hedging derivative instruments are based on a rate or index other than interest rates the District pays on its hedged variable-rate debt, which is remarketed every 7 days. As of June 30, 2013, the weighted-average interest rate on the District's hedged variable-rate debt is 0.87 percent, while the fiscal year 2013 average of the SIFMA swap index rate is 0.13 percent, 67 percent of LIBOR is 0.14 percent, and 70 percent of LIBOR is 0.15 percent.

Termination risk. The District or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract including if either parties credit rating falls below designated levels. In addition, the District is exposed to termination risk on its 2003B interest rate swap with barrier option because the counterparty has the option to terminate the swap if the 180 day average of the BMA index exceeds 7.0 percent at any time beginning on the commencement date. If at the time of termination, a hedging derivative instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

12. RETIREMENT PLANS

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, "except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 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, "except for members classified as special risk who are

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

eligible for normal retirement benefits at age 60 or at any age after 30 years of 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, except that certain instructional personnel may participate for up to 96 months. 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. District employees participating in DROP are not eligible to participate in this program. 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, Elected County Officers, 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.

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

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
FRS, Regular	3.00	5.18
FRS, Elected County Officers	3.00	10.23
FRS, Senior Management Service	3.00	6.30
FRS, Special Risk	3.00	14.90
Teacher's Retirement System - Plan E	6.25	11.35
DROP - Applicable to		
Members from All of the Above Classes or Plans	0.00	5.44
FRS, 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 District'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 District. The District's contributions including employee contributions for the fiscal year ended June 30, 2011, June 30, 2012, and

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

June 30, 2013, totaled \$88,128,246, \$59,831,710, and \$64,762,515, respectively, which were equal to the required contributions, for each fiscal year.

There were 3,322 District participants in the Investment Plan during the fiscal year 2013. The District's contributions including employee contributions to the Investment Plan totaled \$10,613,939, which was equal to the required contribution for the 2012-13 fiscal year.

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

13. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The District follows the guidance contained in GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB 45); for certain postemployment health care benefits provided by the District for the fiscal year ended June 30, 2013.

Plan Description. The Other Postemployment Benefits (OPEB) Plan is a single-employer defined benefit plan administered by the District. Pursuant to Section 112.0801, Florida Statutes, the District is required to permit participation in the health insurance program by retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Retirees pay 100 percent of the blended (active and retiree combined) equivalent premium rates. The blended 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.

Funding Policy. Plan contribution requirements of the District and OPEB Plan are established and may be amended by the Board. The District is financing the postemployment benefits on a pay-as-you-go basis. Expenditures for these insurance premiums are prorated between the General Fund and other funds where the personnel are located. For fiscal year 2013, 1,152 retirees received health care benefits. The District provided required contributions of approximately \$4.1 million toward the annual OPEB cost. Retiree contributions totaled approximately \$8.6 million, which represents 0.9 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the retiree health plan (amounts in thousands):

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Annual Required Contribution	\$ 12,743
Interest on Net OPEB Obligation	3,148
Adjustment to Annual Required Contribution	(3,213)
Annual OPEB Cost (Expense)	12,678
Contribution Towards OPEB Cost	(4,082)
Increase in Net OPEB Obligation	8,596
Net OPEB Obligation - Beginning of Year	78,701
Net OPEB Obligation - End of Year	<u>\$ 87,297</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013, and the two previous fiscal years, was as follows (amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 12,678	32%	\$ 87,297
June 30, 2012	13,735	43%	78,701
June 30, 2011	13,275	37%	70,869

Funded Status and Funding Progress. As of June 30, 2013, the actuarial accrued liability for benefits was \$130.2 million, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$933.9 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 13.9 percent.

The projection of future benefit payments for an ongoing plan involves 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, mortality, and the healthcare cost trend. 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 the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan 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 plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The projected unit cost method, with benefits attributed from date of hire to expected retirement age, was used in the actuarial valuation as of July 1, 2012. The unfunded actuarial accrued liability is amortized over the maximum acceptable period of thirty years on an open basis. It is calculated assuming a level percentage of projected payroll.

The following assumptions were made:

Retirement Age – Annual retirement probabilities have been determined based on the Florida Retirement System Actuarial Valuation as of July 1, 2011.

Covered Spouses – Assumed number of eligible spouses is based on the current census information.

Per Capita Health Claim Cost – Per capita health claim costs are developed from a combination of historical claim experience and manual claim costs developed using a representative database. The per capita cost at age 60 is \$9,744 and at age 70 is \$5,611.

Age Based Morbidity – The assumed per capita health claim costs are adjusted to reflect expected increases related to age. The increase in per capita health claim costs related to age range from 3.19 percent to 5.06 percent under age 65 and from 0.05 percent to 3.00 percent over age 65.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The RP-2000 Table projected to 2015 using Scale AA and applied on a gender specific basis.

Healthcare Cost Trend Rate— The expected rate of increase in healthcare insurance premiums was based on District historical experience, our market-place knowledge and macro-economic theory. A rate of 10.0 percent for under age 65 and 9.0 percent over age 65 initially, reduced 0.5 percent each year until reaching the ultimate trend rate of 5.0 percent.

Retiree Contributions – Retiree contributions are assumed to increase with healthcare cost trend.

Non-Claim Expenses – Non-claim expenses are based on the current amounts charged per retired employee.

Termination – The rate of withdrawal for reasons other than death and retirement has been developed from the Florida Retirement System Actuarial Valuation as of July 1, 2011. The annual termination probability is dependent on an employee's age, gender, and years of service.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Plan Participation Percentage – It is assumed that 35 percent of all future retirees and their dependents who are eligible for benefits participate in the postemployment benefit plan in fiscal year 2013 and 30 percent participate thereafter.

Census Data – The census data was provided as of June 2013.

Salary Increase Assumption – 2.5 percent per annum.

Discount Rate – 4 percent per annum (the discount rate was increased to 4 percent from 3 percent as a result of the District taking longer a longer term view of short-term US Treasury rates, resulting in a reduction in net OPEB Obligation of \$4.4 million).

Inflation Rate – 3 percent each year.

14. SCHEDULE OF STATE REVENUE

The following is a schedule of the District's state revenue sources for the 2012-13 fiscal year (amounts in thousands):

Source	Amount
Categorical Educational Program - Class Size Reduction	\$ 206,594
Florida Education Finance Program	187,320
Workforce Development Program	18,633
School Recognition/Merit	10,436
Charter School Capital Outlay Funds	2,992
Voluntary Pre-K Program	2,741
Food Service Supplement	948
Adults w/Disabilities	923
Motor Vehicle License Tax (Capital Outlay and Debt Service)	253
Miscellaneous	7,906
Total	<u>\$ 438,746</u>

15. CONSTRUCTION CONTRACT COMMITMENT AND OTHER SIGNIFICANT COMMITMENTS

Encumbrances. Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next year's appropriations are likewise encumbered.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

The following is a schedule of encumbrances at June 30, 2013 (amounts in thousands):

Major Funds						
General Fund	Other Special Revenue Fund	ARRA		ARRA		Total Governmental Funds
		Economic Stimulus Special Revenue Fund	Capital Improvement Fund	Economic Stimulus Capital Projects Fund	Nonmajor Governmental Funds	
\$ 1,550	\$ 1,231	\$ 1	\$ 6,944	\$ 7,534	\$ 10,871	\$ 28,131

Construction Contracts. Encumbrances include the following major construction contract commitments at fiscal year-end (amounts in thousands):

Project	Contract Amount	Completed to Date	Balance Committed
Galaxy Elementary School:			
Architect	\$ 1,497	\$ 1,463	\$ 34
Construction	18,080	14,624	3,456
Glade View Elementary School:			
Architect	1,240	850	390
Construction	170	72	98
Gove Elementary School:			
Architect	1,823	1,626	197
Construction	21,568	16,841	4,727
North Palm Beach Elementary School:			
Architect	1,699	1,250	449
Construction	907	695	212
Rosenwald Elementary School:			
Architect	778	637	141
Construction	1,086	44	1,042
Total	\$ 48,848	\$ 38,102	\$ 10,746

16. FUND BALANCE REPORTING

GASB Statement No. 54 categorizes fund balance as either nonspendable or spendable. Nonspendable is defined as the portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. District nonspendable items include inventories.

Spendable is defined as a hierarchy of fund balance classifications that is available to be spent based on the element to which the District is bound to observe constraints imposed upon the use of resources:

- Restricted fund balance is constrained by external parties, constitutional provisions or enabling legislation and the minimum cash balance required to be maintained for self-insurance programs.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

District restricted balances includes: Carryover balances as a result of revenue received with constraints from Federal laws, Florida Statute, Florida School Board Rules, local ordinances or contract provisions.

- Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the School Board.

District committed balance includes: Funds committed by the School Board on June 2, 2010 for future purchase and installation of equipment needed to transmit and receive programming for The Education Network (TEN).

- Assigned fund balances are amounts that are constrained by the Board or Superintendent to be used for specific purposes.
- Unassigned fund balance is the residual classification for the general fund

Restricted or unrestricted amounts are considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

	Major Funds							
	General Fund	Other Special Revenue Fund	Other Debt Service Fund	ARRA Economic Stimulus Debt Service Fund	Capital Improvement Fund	ARRA Economic Stimulus Capital Projects Fund	Nonmajor Gov't	Total Gov't
FUND BALANCES:								
<u>Nonspendable:</u>								
Inventory:								
Textbooks	\$ 9,743	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,743
Child Nutrition	-	-	-	-	-	-	2,872	2,872
Warehouse	1,071	-	-	-	-	-	-	1,071
Transportation	493	-	-	-	-	-	-	493
Other	5	-	-	-	-	-	-	5
Total Nonspendable	11,312	-	-	-	-	-	2,872	14,184
<u>Restricted for:</u>								
Categorical carryover programs	2,250	-	-	-	-	-	-	2,250
IB, AP, AICE & Industry cert prog	7,149	-	-	-	-	-	-	7,149
School Improvement	777	-	-	-	-	-	-	777
Workforce development	15,386	-	-	-	-	-	-	15,386
Textbooks	662	-	-	-	-	-	-	662
Child nutrition	-	-	-	-	-	-	20,912	20,912
Debt service	-	-	109,550	554	-	-	676	110,780
Capital projects	-	-	-	-	44,749	12,423	98,887	156,059
Cash with fiscal agent	1,592	-	-	-	-	-	-	1,592
Total Restricted	27,816	-	109,550	554	44,749	12,423	120,475	315,567
<u>Committed to:</u>								
The Education Network program	-	1,115	-	-	-	-	-	1,115
Total Committed	-	1,115	-	-	-	-	-	1,115
<u>Assigned to:</u>								
School Operations								
Instruction	862	-	-	-	-	-	-	862
Instructional support services	34	-	-	-	-	-	-	34
Board	62	-	-	-	-	-	-	62
General & School admin	9	-	-	-	-	-	-	9
Central services	43	-	-	-	-	-	-	43
Pupil transportation services	18	-	-	-	-	-	-	18
Operation of plant	475	-	-	-	-	-	-	475
Community services:								
After care/summer camp	6,378	-	-	-	-	-	-	6,378
Pre-K/VPK Fee Based Activities	191	-	-	-	-	-	-	191
Community Schools	708	-	-	-	-	-	-	708
Other	47	-	-	-	-	-	-	47
Capital projects	220	-	-	-	-	-	61,178	61,398
Misc local grants/donations	1,907	-	-	-	-	-	-	1,907
Next year budget appropriations	38,792	-	-	-	-	-	-	38,792
Total Assigned	49,746	-	-	-	-	-	61,178	110,924
Unassigned								
Total fund balance	\$ 133,274	\$ 1,115	\$ 109,550	\$ 554	\$ 44,749	\$ 12,423	\$ 184,525	\$ 486,190

The District has not established a stabilization arrangement. Instead, the Board has established Policy 2.55, Fund Balance for Contingency to set aside 3 percent of total annual operating fund appropriations and transfers from the operating fund to cover unanticipated financial needs and to avoid a budget deficit. At the end of the fiscal year, the unassigned general fund balance was \$44.4 million or 3.14 percent of General Fund total expenditures.

17. COMMITMENTS AND CONTINGENCIES

The District receives funding from the State that is based, in part, on a computation of the number of full time equivalent ("FTE") students enrolled in different types of instructional programs. The accuracy of data compiled by individual schools supporting the FTE count is subject to State audit and, if found to be in error, could result in decreases in future funding allocations. It is the opinion of

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

management that any reductions in future FTE allocations due to additional errors in the FTE count, if any, will not be material to the financial position of the District.

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the District.

The District is involved in various lawsuits arising in the ordinary course of operations. In the opinion of management, the District's estimated aggregate liability with respect to probable losses has been provided for in the estimated liability for insurance risks and pending claims in the accompanying financial statements, after giving consideration to the District's related insurance coverage, as well as the Florida statutory limitations of governmental liability on uninsured risks. It is the opinion of management in consultation with legal counsel that the final settlements of these matters will not result in a material adverse effect on the financial position of the District.

The District entered into a voluntary nonexchange transaction with Dell Marketing L.P. On October 30, 2012, Dell Marketing, L.P. (Dell) agreed to provide \$7.0 million in hardware to the District contingent upon Dell receiving a \$12.0 million purchase order from the District by November 1, 2012, for computers and associated peripheral items. The District has received \$4.7 million of the donated hardware as of June 30, 2013, and recorded the value of the items received as revenue and expenditure in governmental activities.

18. SUBSEQUENT EVENTS

On September 11, 2013, the District issued Tax Anticipation Notes ("TANS") Series 2013. The \$115.0 million issue was sold at a coupon rate of 4.5 percent with an effective yield of 0.12 percent. The notes are dated September 26, 2013, and are due January 30, 2014. The District repaid the TANS on January 30, 2014.

On January 31, 2014 the District privately issued \$115 million in Certificates of Participation, Series 2014A to refund the Series 2002B Certificates. The refinancing of the 2002B COPs is expected to generate \$7.5 million of cash flow relief over the life of the debt.

On February 20, 2014, the District entered into an Equipment Lease Purchase Agreement for \$14 million at an effective yield of 1.24 percent and is due on August 1, 2018.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR FISCAL YEAR ENDED JUNE 30, 2013

(amounts expressed in thousands)

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 848,270	\$ 858,732	\$ 858,732	\$ 10,462	\$ -
State sources	425,928	427,605	427,605	1,677	-
Federal sources	6,366	7,194	7,194	828	-
TOTAL REVENUES	<u>1,280,564</u>	<u>1,293,531</u>	<u>1,293,531</u>	<u>12,967</u>	<u>-</u>
EXPENDITURES:					
Instruction	963,384	964,431	907,397	(1,047)	57,034
Instructional support services	107,131	112,454	106,989	(5,323)	5,465
Board	6,782	6,863	5,479	(81)	1,384
General administration	5,234	5,951	5,520	(717)	431
School administration	92,129	94,144	93,552	(2,015)	592
Facilities acquisition and construction	299	853	490	(554)	363
Fiscal services	5,516	5,803	5,554	(287)	249
Central services	-	49	37	(49)	12
Pupil transportation services	14,883	14,557	13,072	326	1,485
Operation of plant	43,394	47,233	45,926	(3,839)	1,307
Maintenance of plant	126,658	129,880	124,677	(3,222)	5,203
Administrative technology services	67,789	69,059	64,796	(1,270)	4,263
Community services	8,158	8,316	7,460	(158)	856
Capital outlay	37,376	41,939	34,465	(4,563)	7,474
Debt service	150	142	53	8	89
TOTAL EXPENDITURES	<u>1,478,883</u>	<u>1,501,674</u>	<u>1,415,467</u>	<u>(22,791)</u>	<u>86,207</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(198,319)</u>	<u>(208,143)</u>	<u>(121,936)</u>	<u>(9,824)</u>	<u>86,207</u>
OTHER FINANCING SOURCES:					
Transfers in	82,846	83,171	83,171	325	-
Transfers out	(81)	(287)	(287)	(206)	-
Proceeds from loss recoveries	-	4,109	4,109	4,109	-
TOTAL OTHER FINANCING SOURCES	<u>82,765</u>	<u>86,993</u>	<u>86,993</u>	<u>4,228</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (115,554)</u>	<u>\$ (121,150)</u>	<u>\$ (34,943)</u>	<u>\$ (5,596)</u>	<u>\$ 86,207</u>
FUND BALANCE, JULY 1, 2012 (GAAP BASIS)			<u>166,667</u>		
FUND BALANCE, JUNE 30, 2013 (BUDGETARY BASIS)			131,724		
Adjustment To Conform With GAAP:					
Elimination of encumbrances			<u>1,550</u>		
FUND BALANCE, JUNE 30, 2013 (GAAP BASIS)			<u>\$ 133,274</u>		

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
OTHER SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 842	\$ 6,161	\$ 4,579	\$ 5,319	\$ (1,582)
State sources	292	409	403	117	(6)
Federal sources	113,069	133,622	115,357	20,553	(18,265)
TOTAL REVENUES	114,203	140,192	120,339	25,989	(19,853)
EXPENDITURES:					
Instruction	48,850	62,204	56,479	(13,354)	5,725
Instructional support services	54,518	69,086	57,070	(14,568)	12,016
Board	50	50	50	-	-
General administration	4,335	5,005	4,154	(670)	851
School administration	41	51	52	(10)	(1)
Facilities acquisition and construction	-	70	70	(70)	-
Fiscal services	-	22	22	(22)	-
Central services	1,481	909	1,351	572	(442)
Pupil transportation services	2,195	2,109	1,919	86	190
Operation of plant	4	215	213	(211)	2
Maintenance of plant	3	-	-	3	-
Community services	56	622	365	(566)	257
TOTAL EXPENDITURES	111,533	140,343	121,745	(28,810)	18,598
DEFICIENCY OF REVENUES UNDER EXPENDITURES	2,670	(151)	(1,406)	(2,821)	(1,255)
NET CHANGE IN FUND BALANCE	\$ 2,670	\$ (151)	\$ (1,406)	\$ (2,821)	\$ (1,255)
FUND BALANCE, JULY 1, 2012 (GAAP BASIS)			1,290		
FUND BALANCE, JUNE 30, 2013 (BUDGETARY BASIS)			(116)		
Adjustment To Conform With GAAP:					
Elimination of encumbrances			1,231		
FUND BALANCE, JUNE 30, 2013 (GAAP BASIS)			\$ 1,115		

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
ARRA ECONOMIC STIMULUS PROGRAMS - SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR FISCAL YEAR ENDED JUNE 30, 2013
(amounts expressed in thousands)

	Budgeted Amounts		Actual (Budgetary Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 1,932	\$ 2,436	\$ 2,386	\$ 504	\$ (50)
TOTAL REVENUES	1,932	2,436	2,386	504	(50)
EXPENDITURES:					
Instruction	1,680	2,007	2,007	(327)	-
Instructional support services	102	252	202	(150)	50
General administration	78	96	96	(18)	-
School administration	72	81	81	(9)	-
TOTAL EXPENDITURES	1,932	2,436	2,386	(504)	50
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	-	-	-	-
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCE, JULY 1, 2012 (GAAP BASIS)			-		
FUND BALANCE, JUNE 30, 2013 (BUDGETARY BASIS)			-		
Adjustment To Conform With GAAP:					
Elimination of encumbrances			-		
FUND BALANCE, JUNE 30, 2013 (GAAP BASIS)			\$ -		

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION -
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) (1) (in thousands)	Unfunded AAL (UAAL) (in thousands)	Funded Ratio	Covered Payroll (in thousands)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
	(a)	(b)	(b-a)	(a/b)	(c)	
July 1, 2012	\$ -	\$ 130,194	\$ 130,194	0.0%	\$ 933,906	13.9%
July 1, 2010	-	161,375	161,375	0.0%	906,746	17.8%
July 1, 2008	-	216,013	216,013	0.0%	926,287	23.3%
June 30, 2008	-	239,500	239,500	0.0%	930,821	25.7%

Note: (1) The District's OPEB actuarial valuation used the projected unit cost method to estimate the unfunded actuarial liability.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

1. GAAP TO BUDGET COMPARISON

The budget is adopted on a basis consistent with GAAP, except for encumbrances. The budgetary process includes encumbrances in the current year budget. General Fund and Other Special Revenue Fund encumbrances are reported as expenditures in the budgetary basis of accounting.

GENERAL FUND

<u>Functional Expenditures:</u>	<u>Schedule</u>	<u>Statement</u>	<u>Difference</u>
Instruction	\$ 907,397	\$ 906,203	\$ 1,194
Instructional support services	106,989	106,931	58
Board	5,479	5,417	62
General administration	5,520	5,509	11
School administration	93,552	93,535	17
Facilities acquisition and construction	490	490	-
Fiscal services	5,554	5,554	-
Food Services	37	37	-
Central services	13,072	13,023	49
Pupil transportation services	45,926	45,908	18
Operation of plant	124,677	124,609	68
Maintenance of plant	64,796	64,252	544
Administrative technology services	7,460	7,446	14
Community services	34,465	33,912	553
Capital outlay		1,038	(1,038)
Debt service	53	53	-
	<u>\$ 1,415,467</u>	<u>\$ 1,413,917</u>	<u>\$ 1,550</u>

OTHER SPECIAL REVENUE FUND

<u>Functional Expenditures:</u>	<u>Schedule</u>	<u>Statement</u>	<u>Difference</u>
Instruction	\$ 56,479	\$ 55,930	\$ 549
Instructional support services	57,070	56,520	550
Board	50	50	-
General administration	4,154	4,154	-
School administration	52	49	3
Facilities acquisition and construction	70	-	70
Fiscal services	22	22	-
Central services	1,351	698	653
Pupil transportation services	1,919	1,902	17
Operation of plant	213	45	168
Maintenance of plant	-	-	-
Community services	365	327	38
Capital outlay	-	817	(817)
	<u>\$ 121,745</u>	<u>\$ 120,514</u>	<u>\$ 1,231</u>

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (Continued)
FOR THE YEAR ENDED JUNE 30, 2013

2. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT

The July 1, 2012, unfunded actuarial accrued liability (AAL) of \$130.2 million was significantly lower than the July 1, 2010, liability of \$161.4 million as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The discount rate increased from 3 percent to 4 percent resulting in a \$31.4 million drop in AAL.
- There was a smaller population of retirees.
- There were lower than expected claims for both pre 65 and post Medicare retirees.
- Recent published healthcare trend surveys indicated faster trending for pre 65 and post Medicare retirees.
- There was a reduction in the participation assumption after the first year of retirement from 35% to 30% based on emerging experience.
- Both claims and premiums were lower than expected, however premiums decreased less than claims costs, effectively increasing retiree contributions and lowering AAL.
- While there were some significant decreases in the liability, a few factors such as an increased active population and improved mortality rates increased the liability slightly.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Florida Department of Agriculture and Consumer Services:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	321	\$ 11,743,475	\$ -
National School Lunch Program	10.555 (2)	300	43,019,098	
Summer Food Service Program for Children	10.559	323,325	1,472,634	
Total Child Nutrition Cluster			56,235,207	-
Fresh Fruit and Vegetable Program	10.582	None	195,807	
Total United States Department of Agriculture			56,431,014	-
United States Department of Justice:				
Direct:				
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	N/A	133,630	
United States Department of Transportation:				
Indirect:				
Florida Department of Transportation:				
State and Community Highway Safety	20.600	None	39,769	
United States Department of Education:				
Direct:				
Impact Aid	84.041	N/A	8,228	
Fund for the Improvement of Education	84.215 (4)	N/A	2,725,868	
Advanced Placement Program	84.330	N/A	460,255	
Transition to Teaching	84.350	N/A	327,435	
Arts in Education	84.351	N/A	338,902	
High School Graduation Initiative	84.360	N/A	1,543,298	
			5,403,986	-
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027 (3)	262, 263	37,996,673	2,462,948
Special Education - Preschool Grants	84.173	266, 267	1,122,725	35,874
Putnam County District School Board:				
Special Education - Grants to States	84.027 (3)	None	8,441	
Total Special Education Cluster			39,127,839	2,498,822
School Improvement Grants Cluster:				
Florida Department of Education:				
School Improvement Grants	84.377	126	4,149,178	
ARRA - School Improvement Grants, Recovery Act	84.388	126	2,383,616	
Total School Improvement Grants Cluster			6,532,794	-
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191,193	2,398,869	
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	45,583,086	1,207,939
Migrant Education - State Grant Program	84.011	217	2,004,138	
Career and Technical Education - Basic Grants to States	84.048	161	1,669,090	59,695
Education for Homeless Children and Youth	84.196	127	95,938	
Charter Schools	84.282	298	475,000	475,000
Twenty-First Century Community Learning Centers	84.287	244	1,865,700	
English Language Acquisition Grants	84.365	102	3,891,599	
Improving Teacher Quality State Grants	84.367	224	6,549,433	553,999
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Race-to-the-Top Incentive Grants, Recovery Act	84.395	RG311	2,295	781
Children Services Council:				
Fund for the Improvement of Education	84.215 (4)	None	216,899	
Florida State University:				
Education Research, Development and Dissemination	84.305 (5)	None	99,030	
Florida Atlantic University:				
Education Research, Development and Dissemination	84.305 (5)	None	6,493	
University of Central Florida:				
Mathematics and Science Partnerships	84.366	None	43,345	132
Total Indirect			110,561,548	4,796,368
Total United States Department of Education			115,965,534	4,796,368

**PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Health and Human Services:				
Direct:				
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	N/A	\$ 212,643	\$ -
Indirect:				
Florida Department of Children and Families:				
Refugee and Entrant Assistance - State Administered Programs	93.566	XK021	428,945	
Refugee and Entrant Assistance - Discretionary Grants	93.576	XK021	138,400	
Palm Beach County Department of Community Services:				
Division of Head Start and Children Services:				
Head Start	93.600	04CH3046	790,612	
Total United States Department of Health and Human Services			1,570,600	-
United States Department of Homeland Security:				
Indirect:				
Executive Office of the Governor:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	520	918,972	
Florida Department of Education:				
State Domestic Preparedness Equipment Support Program	97.004	532	167,951	
Total United States Department of Homeland Security			1,086,923	-
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	885,374	
Total Expenditures of Federal Awards			\$ 176,112,844	\$ 4,796,368

Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance - National School Lunch Program. Includes \$3,754,076 of donated food received during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Special Education - Grants to States. Total CFDA No. 84.027 expenditures: \$38,005,114.

(4) Fund for the Improvement of Education. Total CFDA No. 84.215 expenditures: \$2,942,767.

(5) Education Research, Development and Dissemination. Total CFDA No. 84.305 expenditures: \$105,523.



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

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

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Palm Beach County District School Board as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 14, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the Palm Beach County District School Board's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a

timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 additional matters that are discussed in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included in Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 14, 2014



DAVID W. MARTIN, CPA
AUDITOR GENERAL

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The President of the Senate, the Speaker of the
House of Representatives, and the
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Report on Compliance for Each Major Federal Program

We have audited the Palm Beach County District School Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2013. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2013.

Report on Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 14, 2014

**PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers:	Name of Federal Program or Cluster:
84.010	Title I Grants to Local Educational Agencies
84.377 and 84.388	School Improvement Grants Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	Yes

**PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

ADDITIONAL MATTERS

Finding No. 1: Decentralized Collections

District personnel collect moneys at various decentralized locations throughout the District, and transfer these moneys and a remittance transmittal form to the Accounting Services Office (Office). The Office typically makes bank deposits; however, District personnel indicated that checks received in excess of \$1 million are transferred to the Treasury Department for deposit. Effective controls over collections received by decentralized locations require that checks be restrictively endorsed at the initial point of collection, transfer documents be used to fix responsibility for collections, and collections be timely transferred to the Office and timely deposited into the District accounts.

From July 1, 2012, to January 31, 2013, the District received total decentralized collections of approximately \$35 million. We reviewed controls over collections, totaling \$15.7 million, for the Safety and Learning, Purchasing, Risk Management, Maintenance and Facilities, Choice Programs, School Police, and Elementary Education Departments. Our test of 20 collections for this time period totaling \$2.9 million for these seven departments disclosed:

- For one collection of \$1.5 million for a pharmacy rebate, initially received by the Risk Management Department, the Office transferred the check to the Treasury Department for deposit without the use of a transfer document to establish responsibility for the collection.
- For 14 collections, totaling \$1.3 million, for the first five departments mentioned above, the Office restrictively endorsed checks as received, instead of requiring the departments to restrictively endorse checks upon receipt. Subsequent to our inquiry, District personnel indicated that the Safety and Learning Department began restrictively endorsing checks in March 2013.
- For 3 collections, totaling \$6,795, for the Safety and Learning and Maintenance and Facilities departments, the departments did not timely transfer the collections to the Office. The transfers were made from 4 to 6 business days after the collection dates and were deposited between 6 and 8 business days after the initial receipt.
- For 2 collections, totaling \$6,300, for sale of surplus vehicles administered by the Purchasing Department, the remittance document did not identify personnel responsible for the collection at the initial collection point.

To reduce the risk of errors and fraud without timely detection, it is important that the District establish effective controls over decentralized collections, including the use of transfer documents, prompt restrictive check endorsements, and timely deposits. A similar finding was noted in our report Nos. 2008-156 and 2011-168.

Recommendation: The District should enhance decentralized collection procedures to ensure that transfer documents are used to establish responsibility for collections, checks are restrictively endorsed upon receipt, collections are promptly transferred to the Accounting Services Office and deposited, and personnel who collected the funds are appropriately identified.

Finding No. 2: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2012-118, Laws of Florida, Specific Appropriation 106, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2012-13 fiscal year, the District reported to the FDOE 2,310,799 instructional contact hours for 18,280 students enrolled in 28,546 adult general education classes. Our review of 2,687 contact hours reported for 20 students enrolled in 18 adult general education classes disclosed a net of 810 hours over-reported for 12 students in 10 classes. The District did not administratively withdraw the 2 students in 1 class after six consecutive absences, and the District did not report 10 students in 9 classes consistently with the attendance records. Given the number of errors, the full extent of the class hours over-reported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. A similar finding was reported in our audit report No. 2011-168.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

Finding No. 3: Workforce Development and Adult Education Funds

Chapter 2012-118, Laws of Florida, Specific Appropriation 106, provided that workforce development program funds are not to be used to support K-12 programs. The Legislature appropriated State funding totaling \$19.4 million to the District for the 2012-13 fiscal year for workforce development program funds. This revenue, when combined with \$10.9 million of unspent workforce revenues designated to the adult education school from two prior fiscal years, made available \$30.3 million for expenditure in the adult education program during the 2012-13 fiscal year. The adult education program spent or encumbered only \$15 million, or 50 percent of that available, by the end of the 2012-13 fiscal year, and the unencumbered balance carried forward into the 2013-14 fiscal year was \$15.3 million.

District personnel indicated that in November 2013, the District entered into two contracts totaling \$311,420 for new pre-apprenticeship programs in the Western and Northern areas of the District and in January 2014, the Board approved a lease totaling \$360,713 over five years for a new testing center in Palm Beach Gardens. District personnel also indicated that they are in the process of adding additional programs and expanding programs where needed, and that the District restricted use of the funds to adult education programs; however, the Board had not adopted a formal plan establishing the goals and priorities for the use of unspent workforce development and adult education program funds. Although such funds are restricted for adult education purposes and not subject to reversion, carrying forward large balances into subsequent years does not appear to be consistent with legislative intent or benefit the persons and programs for which these funds were generated.

Recommendation: The Board should adopt a spending plan for unspent workforce development and adult education program funds to serve as a guide to ensure that these resources will have a direct, positive impact on these programs.

Finding No. 4: Facilities Management

The District's program management is responsible for managing construction and renovation projects. During the 2012-13 fiscal year, the District employed 11 full-time program management employees and had an operating cost of \$1.1 million. Also, during this fiscal year, the District had expenditures totaling approximately \$91 million for construction and renovation projects and, as shown on the District's Five-Year Capital Plan as approved by the Board on September 11, 2013, the District budgeted \$95.9 million in the 2013-14 fiscal year to fund ongoing capital construction projects. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was \$4.5 billion and, as shown in the FDOE's Florida Inventory of School Houses data, District facilities had an average age of 18 years.

The District's maintenance and plant operations department is responsible for ensuring facilities are safe and suitable for their intended use. The maintenance and plant operations department performed heating, ventilating air conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, this department employed 363 full-time employees to provide maintenance services to the District's 203 schools and ancillary support sites, and the department's operating cost was \$27.2 million. In total, the District had \$64.3 million in maintenance of plant expenditures during the 2012-13 fiscal year.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for program management, and maintenance and plant operations department, employees are achieved. While our review indicated that District procedures were generally adequate, we noted enhancements could be made, as follows:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using the construction management entity method. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance and plant operations department personnel, program management for design and construction procurement, or through annual contracts for maintenance projects that do not require a designer. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each major construction project or significant maintenance-related job, which would be most cost-effective and beneficial. Board-approved policies and procedures, and documented evaluations, may provide additional assurance that the District uses the most cost-effective and beneficial construction method or maintenance technique.
- **Accountability.** The maintenance and operations department has set goals, such as completing maintenance projects that meet or exceed building codes at the lowest possible cost and tracking data to measure productivity in relation to State and national databases. However, the maintenance and operations department has not established and implemented written mechanisms to ensure performance and efficiency

in meeting those goals. Also, program management has not established goals to identify efficiency or cost effectiveness outcomes. To adequately establish outcome measures, program management could set goals such as completing construction or remodeling projects that meet or exceed building code standards at the lowest possible cost. Progress in attaining set goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project or job did not initially meet building code requirements, and to compare project or job costs to industry standards for similar work.

Additional goals for program management and the maintenance and operations department could include setting benchmark time frames for routine projects, and progress toward meeting the goals could be measured by comparing project completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its program management and maintenance and plant operations department are operating as cost-effectively and efficiently as possible.

Recommendation: The District should consider developing written policies and procedures requiring the periodic evaluation of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should consider developing goals and objectives for program management and the maintenance and operations department to identify cost-effectiveness or efficiency outcomes for these personnel.

Finding No. 5: Information Technology – Risk Assessment

Management of information technology (IT)-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks, the evaluation of the likelihood of threats, and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District had informally considered external and internal risks and identified security controls such as selected configuration settings and policies and procedures related to user access to mitigate these risks, the District had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls. Similar findings were noted in the two previous financial audit reports.

Recommendation: The District should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

Finding No. 6: Information Technology – Security Controls – User Authentication and Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to user authentication and data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings regarding user authentication were communicated to District management in connection with the previous financial audit report and our report No. 2011-168.

Recommendation: The District should improve IT security controls related to user authentication and data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

The following table provides information on District recurring audit findings identified in this report:

Current Fiscal Year Finding Numbers	Financial and Federal Single Audit		Operational	
	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers	2006-07 Fiscal Year Audit Report and Finding Numbers
1	NA	NA	Audit Report No. 2011-168, Finding No. 6	Audit Report No. 2008-156, Finding No. 6
2	NA	NA	Audit Report No. 2011-168, Finding No. 8	NA
5	CPA Report Finding No. 2012-02	CPA Report Finding No. 2010-04	NA	NA
6	CPA Report Finding No. 2012-01	NA	Audit Report No. 2011-168, Finding No. 12	NA

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS

*PALM BEACH COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013*

Listed below is the District's summary of the status of prior audit findings on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/ Area	Brief Description	Status	Comments
Ernst & Young, LLP		There were no prior Federal audit findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE



**THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL**

**E. WAYNE GENT
SUPERINTENDENT**

**CHUCK SHAW
CHAIRMAN**

**OFFICE OF THE SUPERINTENDENT
3300 FOREST HILL BOULEVARD, C-316
WEST PALM BEACH, FL 33406-5869**

**FRANK A. BARBIERI, JR., ESQ.
VICE-CHAIRMAN**

**PHONE: 561-434-8203 / FAX: 561-434-8571
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**MARCIA ANDREWS
KAREN M. BRILL
JENNIFER PRIOR BROWN, ESQ.
MIKE MURGIO
DEBRA ROBINSON, M.D.**

March 14, 2014

David W. Martin
Auditor General
220 Congress Park Drive, Suite 232
Delray Beach, FL 33445

Dear Mr. Martin:

Enclosed is our response to the preliminary and tentative audit findings and recommendations on our financial, Federal, and operational audit of the Palm Beach County District School Board for the fiscal year ended June 30, 2013. Pursuant to *Section 11.45(4)(d), Florida Statute*, the District is required to respond within 30 days of receipt, which is March 24, 2014. As requested, our written statement of explanation is submitted electronically in source format with my digitized signature.

Sincerely,

E. Wayne Gent
Superintendent

EWG/MJB/HK:jb

Enclosure

cc: Cheryl C. Alligood, Chief Academic Officer
Michael J. Burke, Chief Operating Officer
Heather Knust, Accounting Department Director

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

March 14, 2014
Auditor General Response Letter
Enclosure

Finding No. 1:

Controls over miscellaneous cash collections could be enhanced.

Management Response:

Certain monies are collected at various decentralized locations throughout the District such as: retiree health premiums, cobra health premiums, and fingerprinting fees. Monies collected at decentralized locations are forwarded to the Accounting Services Department. Accounting Services provided a restrictive endorsement stamp and reinforced the need to transfer collections in a timely manner to each decentralized location. In addition, the Public Auction Cash Collections form (PBSD Form 1946) is being revised to include a "prepared by" and "approved by" signature line.

Finding No. 2:

Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Management Response:

Adult & Community Education programs are located throughout the District and the administrative process varies by location and assistant principal (AP). APs report to the school principal and not the Department of Adult & Community Education (A&CE). The Manager of A&CE has met with each school site AP where there were data reporting issues. Emphasis was placed on the importance of quality data collection and reviewing the APs Community Education policies and procedure manual. It was recommended that the AP have each program coordinator and data processor attend training on FTE data collection policies and procedures including:

- FTE data collection workshop added to the A&CE's Professional Development Week in August, 2014
- TrainU course on procedures for processing student registration
- New TrainU course focused on accurate attendance records available September, 2014

In addition to the trainings available above, the A&CE is piloting an e-Attendance software program. The e-Attendance program is expected to be rolled out in phases over the next two years. The program will improve the accurate reporting of daily attendance records and timely withdrawal of students from the system.

The A&CE have reviewed the adult general hours reported and corrected any discrepancies identified with Florida Department of Education. None of the corrections resulted in a negative financial impact to the District.

Finding No. 3:

The Board had not adopted a plan for the use of unspent workforce development education funds accumulated over several years.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

March 14, 2014
Auditor General Response Letter
Enclosure

Management Response:

The Department of Adult & Community Education is developing a five-year spending plan comprised primarily of one-time nonrecurring initiatives. The plan will include enhancing existing programs and adding a full-time South County Adult Education Center. Over the past several years, A&CE has attempted to expand and open a full-time South County Adult Education Center. There have been location and facility challenges that have occurred which postponed the opening of such a center.

Finding No. 4:

Controls over facilities construction and maintenance activities could be enhanced.

Management Response:

The Maintenance and Plant Operations (M&PO) and Facilities Management Departments are in the process of developing formal written policies and procedures that will include the requirement to periodically evaluate and document the review of alternative facilities construction methods and significant maintenance related job techniques. In addition to formal written policies and procedures, M&PO and Facilities Management are developing written goals and objectives that will be monitored through the use of compliance metrics, process metrics, and workload measures. Both the written policies and procedures and goals and objectives will be completed by July 1, 2014.

Finding No. 5:

The District had not developed a written, comprehensive information technology (IT) risk assessment.

Management Response:

The District developed a written, comprehensive IT risk assessment, which was completed on September 10, 2013.

Finding No. 6:

District IT security controls related to user authentication and data loss prevention needed improvement.

Management Response:

Security controls related to user authentication have been completed and improvements related to data loss prevention will be completed by September 1, 2014.