

# PALM BEACH STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2013



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

David H. Talley, Vice Chair to 8-14-12,  
Chair from 8-15-12 (1)  
Carolyn L. Williams, Vice Chair from 8-15-12 (1)  
William Berger, Chair to 8-14-12  
John W. Dowd, III  
Wendy S. Link

Dr. Dennis P. Gallon, President

Notes: (1) Board member served beyond the end of  
term, May 31, 2013.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Samantha M. Palaigos, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 412-2869.

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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

### Audit Objectives and Scope

Our audit objectives were to determine whether Palm Beach State College and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

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

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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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 Palm Beach State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Palm Beach State College and of its discretely presented component unit as of June 30, 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 Matter***

#### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

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

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
March 26, 2014

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The management’s discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2013, and June 30, 2012, and its component unit the Palm Beach State College Foundation, Inc., for the fiscal years ended December 31, 2012, and December 31, 2011.

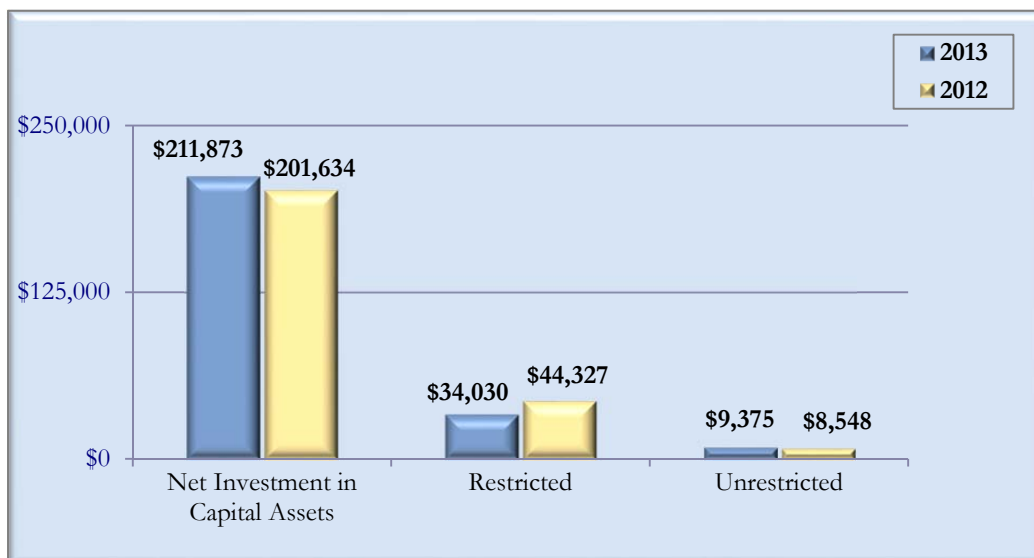
**FINANCIAL HIGHLIGHTS**

The College’s assets totaled \$297.1 million at June 30, 2013. This balance reflects a \$6.3 million, or 2.2 percent, increase as compared to the 2011-12 fiscal year. Liabilities increased by \$5.5 million, or 15.4 percent, totaling \$41.8 million at June 30, 2013, compared to \$36.3 million at June 30, 2012. As a result, the College’s net position increased by \$0.8 million, resulting in a year-end balance of \$255.3 million.

The College’s operating revenues totaled \$53 million for the 2012-13 fiscal year, representing a 0.2 percent increase as compared to the 2011-12 fiscal year due mainly to increased tuition and fees. Operating expenses totaled \$160.1 million for the 2012-13 fiscal year, representing an increase of 1.2 percent as compared to the 2011-12 fiscal year due mainly to increased materials and supplies, contractual services, and depreciation expenses, but were largely offset by decreased personnel services and utilities expenses reductions.

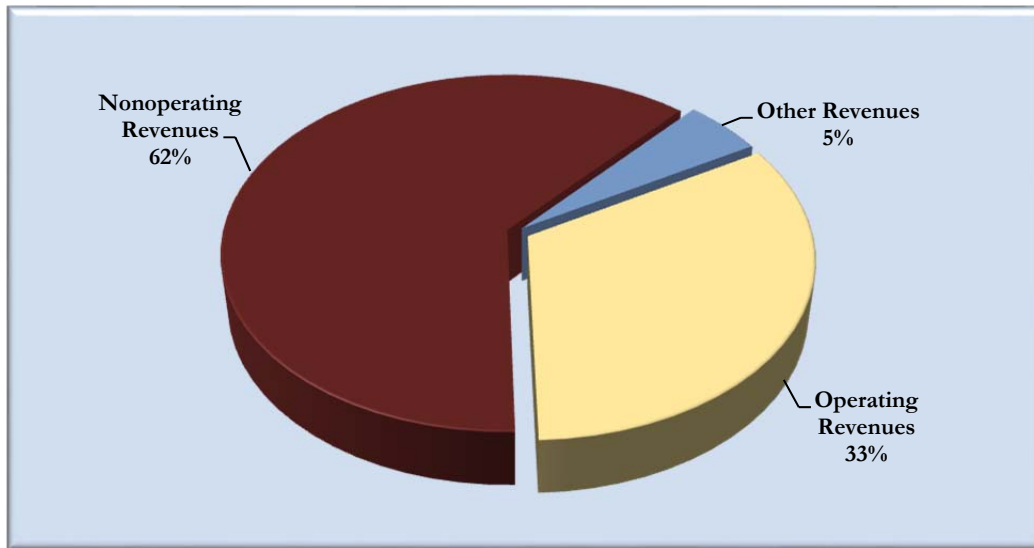
Net position represents the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2012-13 fiscal year:

**Total Revenues: College**



**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

**THE STATEMENT OF NET POSITION**

The statement of net position reflects the assets and liabilities of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets less liabilities equals net position, which is one indicator of the College’s current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College’s financial condition.

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

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
<b>Assets</b>				
Current Assets	\$ 35,209	\$ 35,021	\$ 10,139	\$ 9,532
Capital Assets, Net	238,037	222,704	11	11
Other Noncurrent Assets	23,881	33,060	17,719	17,452
<b>Total Assets</b>	<u>297,127</u>	<u>290,785</u>	<u>27,869</u>	<u>26,995</u>
<b>Liabilities</b>				
Current Liabilities	7,271	5,768	115	418
Noncurrent Liabilities	34,578	30,508		
<b>Total Liabilities</b>	<u>41,849</u>	<u>36,276</u>	<u>115</u>	<u>418</u>
<b>Net Position</b>				
Net Investment in Capital Assets	211,873	201,634	11	11
Restricted	34,030	44,327	27,471	27,286
Unrestricted	9,375	8,548	272	(720)
<b>Total Net Position</b>	<u>\$ 255,278</u>	<u>\$ 254,509</u>	<u>\$ 27,754</u>	<u>\$ 26,577</u>

The College's net position increased \$0.8 million or 0.3 percent. This is mainly attributed to capital asset increases, and a slight increase in operating revenues, and state appropriations.

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

The statement of revenues, expenses, and changes in net position presents the College's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the activities of the College and its component unit for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Operating Revenues	\$ 53,013	\$ 52,889	\$ 4,481	\$ 6,550
Less, Operating Expenses	160,142	158,255	6,141	6,449
<b>Operating Income (Loss)</b>	(107,129)	(105,366)	(1,660)	101
Net Nonoperating Revenues	99,749	102,469	2,596	(91)
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	(7,380)	(2,897)	936	10
Other Revenues	8,149	6,998	241	2,051
<b>Net Increase In Net Position</b>	769	4,101	1,177	2,061
Net Position, Beginning of Year	254,509	250,408	26,577	24,516
<b>Net Position, End of Year</b>	<u>\$ 255,278</u>	<u>\$ 254,509</u>	<u>\$ 27,754</u>	<u>\$ 26,577</u>

**Operating Revenues**

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

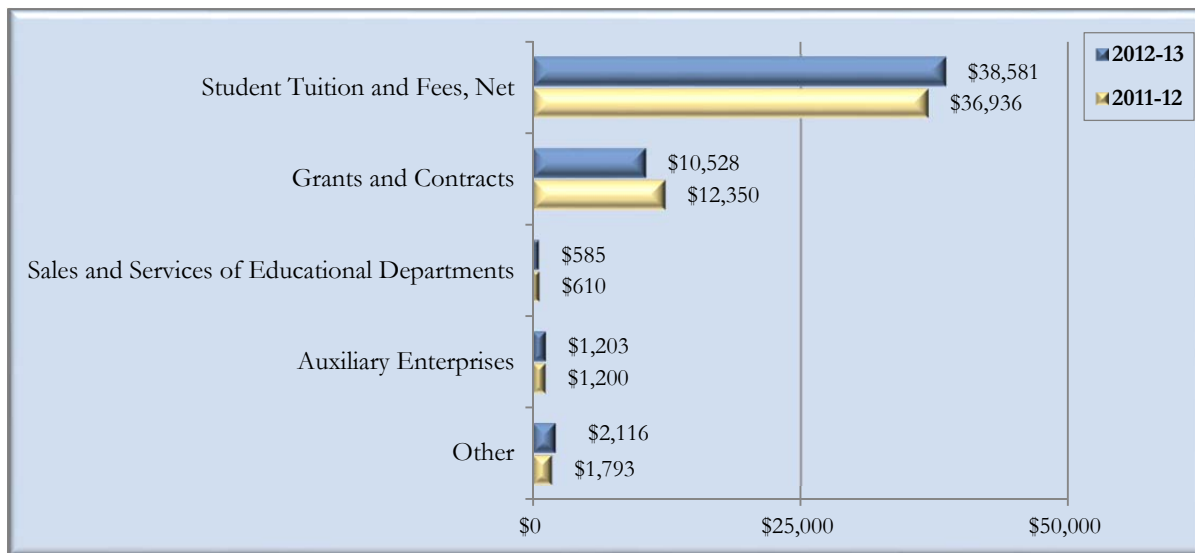
The following summarizes the operating revenues for the College and its component units by source that were used to fund operating activities for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Student Tuition and Fees, Net	\$ 38,581	\$ 36,936	\$	\$
Grants and Contracts	10,528	12,350	3,810	5,920
Sales and Services of Educational Departments	585	610		
Auxiliary Enterprises	1,203	1,200		
Other	2,116	1,793	671	630
<b>Total Operating Revenues</b>	<b>\$ 53,013</b>	<b>\$ 52,889</b>	<b>\$ 4,481</b>	<b>\$ 6,550</b>

The following chart presents the College’s operating revenues for the 2012-13 and 2011-12 fiscal years:

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



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

- An increase of \$1.6 million, or 4.5 percent, in net student tuition and fees, primarily from increases in baccalaureate and nonresident tuition assessment as well as a reduction in scholarship allowances over the prior fiscal year of \$1 million, or 3.5 percent.
- A decrease of \$1.8 million, or 14.8 percent in grants and contracts, primarily due to several Federal grants and contracts ending.

**Operating Expenses**

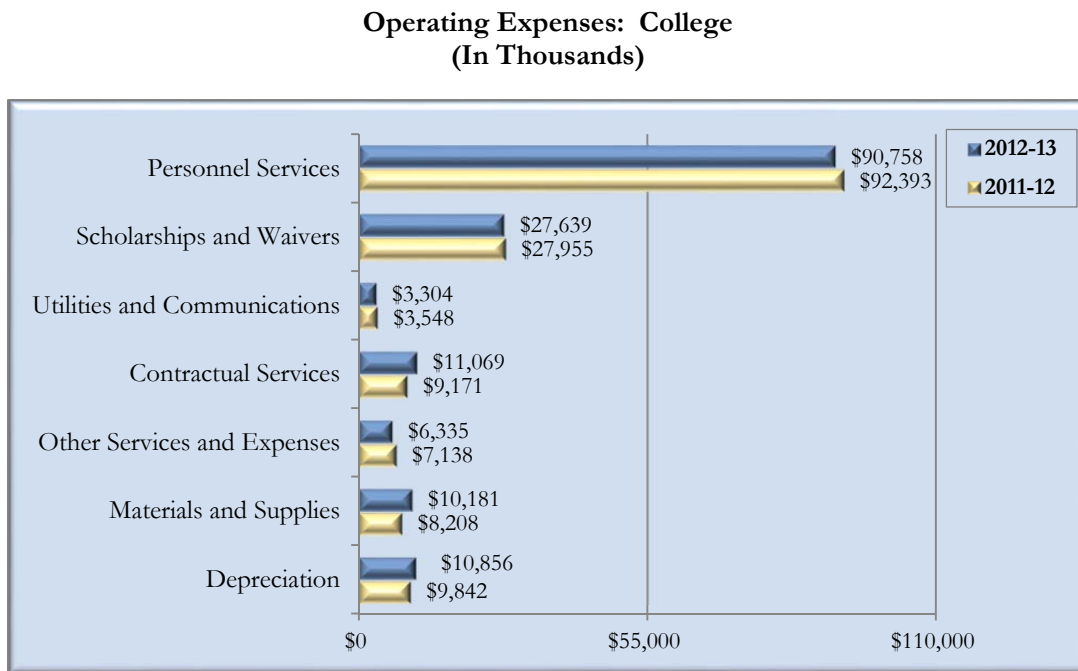
Expenses are categorized as operating or nonoperating. The majority of the College’s expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen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

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

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Personnel Services	\$ 90,758	\$ 92,393	\$	\$
Scholarships and Waivers	27,639	27,955	2,474	2,578
Utilities and Communications	3,304	3,548		
Contractual Services	11,069	9,171		
Other Services and Expenses	6,335	7,138	3,667	3,871
Materials and Supplies	10,181	8,208		
Depreciation	10,856	9,842		
<b>Total Operating Expenses</b>	<b>\$ 160,142</b>	<b>\$ 158,255</b>	<b>\$ 6,141</b>	<b>\$ 6,449</b>

The following chart presents the College’s operating expenses for the 2012-13 and 2011-12 fiscal years:



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

- A decrease in personnel expenses of \$1.6 million, or 1.8 percent, for salaries and benefits primarily due to the retirement of higher salaried full-time employees that were replaced by lower paid employees or part-

time positions. Also, in preparation for the implementation of the Affordable Care Act, part-time employees are restricted to a lower number of hours.

- An increase of \$1.9 million, or 20.7 percent, in contractual services, primarily due to an increase in the use of contracted instructional services.
- A decrease in other services and expenses of \$0.8 million, or 11.2 percent, as a result of outsourcing of certain instructional, technical, and custodial operations and a reduction in rental expense due to completion of construction projects during the prior fiscal year.
- An increase of \$2 million, or 24 percent, in materials and supplies, primarily due to an increase in purchasing noncapitalized capital assets during in the 2012-13 fiscal year.
- An increase of \$1 million, or 10.3 percent, in depreciation attributable to the age of, and addition to, depreciable capital asset inventories.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Noncapital Appropriations	\$50,997	\$ 50,341
Federal and State Student Financial Aid	48,944	51,840
Gifts and Grants	78	52
Investment Income (Loss)	(103)	1,208
Gain (Loss) on Disposal of Capital Assets	633	(371)
Interest on Capital Asset-Related Debt	(800)	(601)
<b>Net Nonoperating Revenues</b>	<b>\$99,749</b>	<b>\$ 102,469</b>

Net nonoperating revenues decreased \$2.7 million, or 2.7 percent, primarily due to a decrease in Federal and State student financial aid of \$2.9 million, or 5.6 percent.

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

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Capital Appropriations	\$ 3,133	\$ 2,408
Capital Grants, Contracts, Gifts, and Fees	5,016	4,590
<b>Total</b>	<b>\$ 8,149</b>	<b>\$ 6,998</b>

Other revenues increased by \$1.2 million, or 16.4 percent, due primarily to a decrease in State capital appropriations of \$0.7 million or 30.1 percent as a result of an increase in Public Education Capital Outlay appropriated funds.

**THE STATEMENT OF CASH FLOWS**

The statement of cash flows provides information about the College’s financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College’s ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The statement of cash flows also helps users assess:

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

The following summarizes the College’s cash flows for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	\$ (95,316)	\$ (95,032)
Noncapital Financing Activities	100,006	102,111
Capital and Related Financing Activities	(13,695)	4,801
Investing Activities	(40)	1,131
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(9,045)	13,011
Cash and Cash Equivalents, Beginning of Year	53,360	40,349
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 44,315</b>	<b>\$ 53,360</b>

Major sources of funds came from State noncapital appropriations (\$51 million), Federal and State student financial aid (\$48.9 million), and net student tuition and fees (\$38.4 million). Major uses of funds were for payments to employees and for employee benefits (\$90.6 million), payments to suppliers, including payments for utilities and communications (\$30.5 million), payments for scholarships (\$27.6 million), and purchase or construct capital assets (\$25.6 million).

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

- Cash provided by student tuition and fees increased by \$1.8 million due to tuition rate increases.
- Cash provided by Federal and State student financial aid decreased by \$2.8 million primarily due to a decrease in Pell Grant funding.
- Cash used for payments to suppliers for goods, services, and utilities increased by \$2.2 million primarily due to increased expenditures to complete construction projects.
- Cash provided by proceeds of capital appropriations decreased by \$12.2 million due to a decrease in Public Education Capital Outlay funds received from the State.
- Cash used by purchases of capital assets increased by \$2.2 million primarily due to the purchase of 75 acres of land in Loxahatchee Groves for a new campus.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2013, the College had \$363 million in capital assets, less accumulated depreciation of \$125 million, for net capital assets of \$238 million. Depreciation charges for the current fiscal year totaled \$10.9 million. The following table summarizes the College’s capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2013</u>	<u>2012</u>
Land	\$ 9,768	\$ 5,021
Construction in Progress	635	17,240
Buildings	213,546	188,942
Other Structures and Improvements	10,984	9,040
Furniture, Machinery, and Equipment	<u>3,104</u>	<u>2,461</u>
<b>Capital Assets, Net</b>	<b><u>\$ 238,037</u></b>	<b><u>\$ 222,704</u></b>

**CAPITAL EXPENSES AND COMMITMENTS**

The following table includes major capital additions completed during the 2012-13 fiscal year and the resources that funded their acquisition, as well as major projects that are underway and have balances committed:

**Major Capital Project Commitments  
(In Thousands)**

Project	Total Committed	Completed To Date	Balance Committed	Planned 2013-14	Funding Sources
<b>Central Campus:</b>					
Public Safety Training Complex					
Balfour Beatty Construction LLC	\$ 18,000	\$ 13,386	\$ 4,614	\$	PECO, CIB, CIF, Local Funds
Center for Bachelor's Program #108	9,994	9,994			CIF, CO&DS
Watson B. Duncan Auditorium #131	103	103			Fund 1 Operating Budget, PECO
Security Initiative	126	126			Local Funds
Student Commons	307	307			Parking Decal Fees, PECO, CIF
Parking Lot Improvements	113	113			Local Funds
Building ETD #158 - Diesel Canopy Addition				125	PECO
Exterior Site Lighting Improvements				190	PECO
Remodel Bldg TC #117 - Film Studies				215	PECO
Remodel Bldg ETD #158 - Cosmetology				215	PECO
Remodel Bldg CJ #507 - Crime Scene Investigation				215	PECO
<b>North Campus:</b>					
Philip D. Lewis Center #107	427	427			PECO
Horticulture Site Structure and Upgrades				350	PECO
Exterior Site Lighting Improvements				190	PECO
<b>Glades Campus:</b>					
Technical Education Training Center #108	270	270			PECO, Federal Grant
Exterior Site Lighting Improvements				175	PECO
<b>Loxahatchee Groves:</b>					
Land	4,746	4,746			Auxiliary Funds, Local Funds
Planning/Design for New Site/Building				1,325	CIF
Site Infrastructure, Roads and Utility Development				5,000	CIF
<b>South Campus:</b>					
Parking Lot Improvement	559	559			PECO
Exterior Site Lighting Improvements				175	PECO
<b>District:</b>					
Network Infrastructure Project	2,648	2,648			Fund 1 Operating Budget
Historic Building Renovation					
Kaufman Lynn Construction Inc.	581	26	555		PECO
District Security Initiatives				2,100	PECO
<b>Total</b>	<b>\$ 37,874</b>	<b>\$ 32,705</b>	<b>\$ 5,169</b>	<b>\$ 10,275</b>	

Note: PECO = Public Education Capital Outlay    CIF = Capital Improvement Fees  
 CIB = Capital Improvement Bond                CO&DS = Capital Outlay and Debt Services

Additional information about the College's construction commitments is presented in the notes to financial statements.

**DEBT ADMINISTRATION**

As of June 30, 2013, the College had \$26.2 million in outstanding capital improvement debt payable and loans payable, representing an increase of \$5.1 million, or 24.2 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2013, and June 30, 2012:

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

	2013	2012
SBE Capital Outlay Bonds	\$ 3,040	\$ 3,315
Capital Improvement Revenue Bonds	17,010	17,755
Loans Payable	6,114	
<b>Total</b>	<b>\$26,164</b>	<b>\$21,070</b>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2012-13 fiscal year, there were no bond sales and debt repayments totaled \$1 million. The College issued a \$3.4 million loan payable to finance the cost of network infrastructure and a \$3 million loan payable to finance the purchase of the Loxahatchee Groves new campus property during the 2012-13 fiscal year. Debt repayments for loans during the 2012-13 fiscal year totaled \$289 thousand. Additional information about the College's long-term debt is presented in the notes to financial statements.

### **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a slight increase in State funding is anticipated in the 2013-14 fiscal year. The College has also monitored budgeted expenditures closely, reduced the number of new positions, and has maintained a committee that continually analyzes potential cuts. Despite relatively flat revenue projections, the College's current financial and capital plans indicate that the resources from cost savings and increased efficiencies will enable it to maintain consistent mission-critical services over the coming year.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A or other required supplementary information and financial statements and notes thereto, or requests for additional financial information should be addressed to Richard A. Becker, Vice President for Administration and Business Services, Palm Beach State College, 4200 Congress Avenue, MS#24, Lake Worth, Florida 33461.

**BASIC FINANCIAL STATEMENTS**

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET POSITION  
June 30, 2013**

	<b>College</b>	<b>Component Unit</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 20,939,719	\$ 3,166,492
Restricted Cash and Cash Equivalents	716,210	
Restricted Investments		6,888,112
Accounts Receivable, Net	2,983,407	83,960
Due from Other Governmental Agencies	9,565,463	
Due from Component Unit	54,652	
Inventories	30,139	
Prepaid Expenses	919,887	
<b>Total Current Assets</b>	<b>35,209,477</b>	<b>10,138,564</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	22,659,082	
Investments	954,614	
Restricted Investments	267,386	17,527,238
Depreciable Capital Assets, Net	227,633,527	
Nondepreciable Capital Assets	10,403,287	11,000
Other Assets		192,065
<b>Total Noncurrent Assets</b>	<b>261,917,896</b>	<b>17,730,303</b>
<b>TOTAL ASSETS</b>	<b>297,127,373</b>	<b>27,868,867</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	574,283	50,791
Salary and Payroll Taxes Payable	1,992,907	
Retainage Payable	612,458	
Deposits Held for Others	1,031,208	
Annuities Payable		64,063
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,065,000	
Loans Payable	1,264,194	
Compensated Absences Payable	731,485	
<b>Total Current Liabilities</b>	<b>7,271,535</b>	<b>114,854</b>
Noncurrent Liabilities:		
Bonds Payable	18,985,000	
Loans Payable	4,849,536	
Compensated Absences Payable	9,432,255	
Other Postemployment Benefits Payable	356,598	
Other Noncurrent Liabilities	954,614	
<b>Total Noncurrent Liabilities</b>	<b>34,578,003</b>	
<b>TOTAL LIABILITIES</b>	<b>41,849,538</b>	<b>114,854</b>

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET POSITION (CONTINUED)**  
 June 30, 2013

	<b>College</b>	<b>Component Unit</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 211,873,084	\$ 11,000
Restricted:		
Nonexpendable:		
Endowment		17,516,238
Expendable:		
Grants and Loans	1,993,526	
Scholarships	1,624,447	9,954,569
Capital Projects	30,335,884	
Debt Service	76,017	
Unrestricted	9,374,877	272,206
<b>TOTAL NET POSITION</b>	<b>\$ 255,277,835</b>	<b>\$ 27,754,013</b>

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

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
For the Fiscal Year Ended June 30, 2013**

	College	Component Unit
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$27,354,305	\$ 38,581,227	\$
Federal Grants and Contracts	4,260,889	
State and Local Grants and Contracts	1,272,110	
Nongovernmental Grants and Contracts	4,994,908	3,809,639
Sales and Services of Educational Departments	584,639	
Auxiliary Enterprises	1,203,129	
Other Operating Revenues	2,115,975	670,943
	<b>53,012,877</b>	<b>4,480,582</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	90,758,110	
Scholarships and Waivers	27,639,362	2,473,658
Utilities and Communications	3,304,553	
Contractual Services	11,068,510	
Other Services and Expenses	6,334,834	3,667,430
Materials and Supplies	10,180,985	
Depreciation	10,855,591	
	<b>160,141,945</b>	<b>6,141,088</b>
<b>Operating Loss</b>	<b>(107,129,068)</b>	<b>(1,660,506)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	50,996,885	
Federal and State Student Financial Aid	48,944,065	
Gifts and Grants	77,971	
Investment Income (Loss)	(102,838)	2,595,857
Gain on Disposal of Capital Assets	632,590	
Interest on Capital Asset-Related Debt	(799,511)	
	<b>99,749,162</b>	<b>2,595,857</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(7,379,906)</b>	<b>935,351</b>
State Capital Appropriations	3,132,723	
Capital Grants, Contracts, Gifts, and Fees	5,016,490	
Additions to Permanent Endowments		241,607
	<b>8,149,213</b>	<b>241,607</b>
<b>Increase in Net Position</b>	<b>769,307</b>	<b>1,176,958</b>
Net Position, Beginning of Year	254,508,528	26,577,055
<b>Net Position, End of Year</b>	<b>\$ 255,277,835</b>	<b>\$ 27,754,013</b>

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2013**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 38,433,170
Grants and Contracts	10,624,448
Payments to Suppliers	(27,156,870)
Payments for Utilities and Communications	(3,304,553)
Payments to Employees	(76,531,283)
Payments for Employee Benefits	(14,052,975)
Payments for Scholarships	(27,639,362)
Auxiliary Enterprises	1,203,129
Sales and Service of Educational Departments	584,639
Other Receipts	2,524,253
	<b>(95,315,404)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	50,996,885
Federal and State Student Financial Aid	48,930,940
Federal Direct Loan Program Receipts	19,054,329
Federal Direct Loan Program Disbursements	(19,054,329)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	77,971
	<b>100,005,796</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	6,403,103
State Capital Appropriations	2,549,090
Capital Grants and Gifts	5,017,490
Purchases of Capital Assets	(25,556,162)
Principal Paid on Capital Debt and Leases	(1,309,373)
Interest Paid on Capital Debt and Leases	(799,511)
	<b>(13,695,363)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	267,874
Purchase of Investments	(906,245)
Investment Income	598,488
	<b>(39,883)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(9,044,854)</b>
Cash and Cash Equivalents, Beginning of Year	53,359,865
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 44,315,011</b>

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (CONTINUED)  
For the Fiscal Year Ended June 30, 2013**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (107,129,068)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,855,591
Changes in Assets and Liabilities:	
Receivables, Net	(48,172)
Inventories	(25,028)
Prepaid Expenses	277,899
Accounts Payable	90,456
Deposits Held for Others	404,411
Compensated Absences Payable	155,449
Other Postemployment Benefits Payable	103,058
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (95,315,404)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES</b>	
Gains from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 632,590
Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (701,326)

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** The governing body of Palm Beach State College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of five members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the District correspond with those of Palm Beach County.

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2012.

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

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2013**

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

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

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

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

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

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College determines its scholarship allowance by identifying those student transactions where the student's classes were paid by an applicable financial aid source.

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2013**

To the extent that those resources are used to pay student charges, the College records a scholarship allowance against tuition and fees revenue.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

At June 30, 2013, the College reported as cash equivalents at fair value \$30,045,488 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2013, the College reported as cash equivalents \$2,684,455 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2013, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 40 days as of June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

**Capital Assets.** College capital assets consist of land; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

capitalization threshold of \$5,000 for tangible personal property and \$50,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

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

**2. INVESTMENTS**

The College’s Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education (SBE) Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College’s investments at June 30, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 181,271
State Board of Administration Debt Service Accounts	76,017
Equity Securities	10,098
Money Market Funds	954,614
<b>Total College Investments</b>	<b>\$ 1,222,000</b>

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

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

At June 30, 2013, the College reported investments at fair value of \$181,271 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 years. A portfolio’s WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2013. WAL measures the sensitivity of Fund B to interest rate changes. The College’s investment in Fund B is unrated.

**State Board of Administration Debt Service Accounts**

The College reported investments totaling \$76,017 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

**Component Unit Investments**

Investments held by the College’s component unit at December 31, 2012, are reported at fair market value with the following maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	11 - 15	More than 15
<b>Investment in Debt Obligations:</b>						
U.S. Government Securities	\$ 2,422,471	\$ 778,525	\$ 820,393	\$ 281,420	\$ 66,494	\$ 475,639
Mortgage Backed Pass-Throughs	2,007,058		464,398	125,290	129,949	1,287,421
Corporate Bonds	1,568,181	97,837	740,835	427,979	39,327	262,203
<b>Total Investment in Debt Obligations</b>	<b>5,997,710</b>	<b>\$ 876,362</b>	<b>\$ 2,025,626</b>	<b>\$ 834,689</b>	<b>\$ 235,770</b>	<b>\$ 2,025,263</b>
<b>Other Investments:</b>						
Mutual Funds	2,959,101					
Alternative Investments	1,546,345					
Equity Securities	13,912,194					
<b>Total Other Investments</b>	<b>18,417,640</b>					
<b>Total Component Unit Investments</b>	<b>\$24,415,350</b>					

**PALM BEACH STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2013**

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

*Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Foundation’s policy for managing its exposure for changes in interest rates is through maintaining diversification of its investments and investment maturity dates to minimize the impact of downturns in the market. As of December 31, 2012, the Foundation had investments in U.S. Government securities, mortgage backed pass-throughs, and corporate bonds and is therefore subject to interest rate risk.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation’s policy for managing its exposure to credit risk is through maintaining its investments in securities rated “BBB” (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. As of December 31, 2012, the credit quality of the Foundation’s fixed income accounts was investment grade “B” or higher. The policy also recommends a target asset allocation strategy of 60 percent equities (minimum 50 percent and maximum 70 percent limits) and 40 percent fixed income and cash equivalents (minimum 25 percent and maximum 50 percent limits). Obligations of the United States government agencies and instrumentalities and domestic equities do not require disclosure of credit quality. Mortgage backed pass-throughs were not rated. Corporate bonds held by the Foundation at December 31, 2012, were rated as follows:

Investment Type	Fair Value	Credit Quality Ratings	
		Moody's	Standard & Poor's
Corporate Bonds	\$ 824,835	AA1 To BAA1	AA to A
	743,346	BAA1 to B1	BBB to B
<b>Total Corporate Bonds</b>	<b>\$ 1,568,181</b>		

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

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

**PALM BEACH STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2013**

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$665,814 allowance for doubtful accounts.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$7,607,469 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

**5. DUE FROM COMPONENT UNIT**

The \$54,652 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships. The College's financial statements are reported for the fiscal year ended June 30, 2013. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2012. Accordingly, although the College reported an amount as due from the component unit on the statement of net position, no amount is reported by the component unit as due to the College.

**6. INVENTORIES**

Inventories consist of centrally stored items, primarily office and teaching supplies, held for College-wide use, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

**PALM BEACH STATE COLLEGE**  
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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 5,021,375	\$ 4,746,437	\$	\$ 9,767,812
Construction in Progress	17,239,813	16,448,012	33,052,350	635,475
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 22,261,188</b>	<b>\$ 21,194,449</b>	<b>\$ 33,052,350</b>	<b>\$ 10,403,287</b>
Depreciable Capital Assets:				
Buildings	\$ 266,052,566	\$ 31,682,979	\$ 13,843	\$ 297,721,702
Other Structures and Improvements	32,270,814	3,967,730		36,238,544
Furniture, Machinery, and Equipment	17,476,185	1,822,843	689,810	18,609,218
<b>Total Depreciable Capital Assets</b>	<b>315,799,565</b>	<b>37,473,552</b>	<b>703,653</b>	<b>352,569,464</b>
Less, Accumulated Depreciation:				
Buildings	77,111,207	7,070,890	5,669	84,176,428
Other Structures and Improvements	23,230,448	2,024,159		25,254,607
Furniture, Machinery, and Equipment	15,015,445	1,760,542	1,271,085	15,504,902
<b>Total Accumulated Depreciation</b>	<b>115,357,100</b>	<b>10,855,591</b>	<b>1,276,754</b>	<b>124,935,937</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 200,442,465</b>	<b>\$ 26,617,961</b>	<b>\$ (573,101)</b>	<b>\$ 227,633,527</b>

## 8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, include bonds payable, loans payable, compensated absences payable, other postemployment benefits payable and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 21,070,000	\$	\$ 1,020,000	\$ 20,050,000	\$ 1,065,000
Loans Payable		6,403,103	289,373	6,113,730	1,264,194
Compensated Absences Payable	10,008,291	763,093	607,644	10,163,740	731,485
Other Postemployment Benefits Payable	253,540	155,444	52,386	356,598	
Other Noncurrent Liabilities	749,695	204,919		954,614	
<b>Total Long-Term Liabilities</b>	<b>\$ 32,081,526</b>	<b>\$ 7,526,559</b>	<b>\$ 1,969,403</b>	<b>\$ 37,638,682</b>	<b>\$ 3,060,679</b>

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

- SBE Capital Outlay Bonds. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements.
- Capital Improvement Revenue Bonds, Series 2008A and 2012A. These bonds are authorized by Article VII, Section 11(d) of the Florida Constitution; Sections 215.57 through 215.83 and Section 1009.23, Florida

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Statutes; and other applicable provisions of law. Principal and interest on these bonds are secured by and payable solely from a first lien pledge of the capital improvement fees collected pursuant to Section 1009.23(11), Florida Statutes, by participating colleges on a parity with other 2008A bonds and any additional bonds issued subsequent to the issuance of the Series 2008A bonds. The Series 2008A bonds constitute the second series of bonds issued pursuant to a Master Authorizing Resolution. The Governing Board authorized the sale of the Series 2012A bonds by the Fourth Supplemental Resolution adopted on October 1, 2011, which also amended the Master Authorizing Resolution. Upon the issuance of additional bonds, all bonds will share a parity first lien on the pledged revenues of all colleges participating in any series of bonds then outstanding. The Series 2008A and 2012A bonds will share the lien of such additional bonds on the Series 2008A and 2012A pledged revenues and on the revenues pledged by the colleges participating in such additional bonds. The Series 2008A and 2012A bonds were issued for new construction and renovation and remodeling of educational facilities.

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<b>SBE Capital Outlay Bonds:</b>			
Series 2005A	\$ 1,585,000	4.0 - 5.0	2025
Series 2005B	1,455,000	5.0	2020
<b>Florida Department of Education Capital Improvement Revenue Bonds:</b>			
Series 2008A	7,405,000	3.4 - 5.0	2028
Series 2012A	9,605,000	2.0 - 3.625	2032
<b>Total</b>	<b>\$ 20,050,000</b>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds and Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2014	\$ 1,065,000	\$ 738,189	\$ 1,803,189
2015	1,095,000	701,651	1,796,651
2016	1,135,000	665,281	1,800,281
2017	1,180,000	621,131	1,801,131
2018	1,225,000	579,131	1,804,131
2019-2023	5,845,000	2,261,769	8,106,769
2024-2028	6,020,000	1,151,469	7,171,469
2029-2032	2,485,000	223,738	2,708,738
<b>Total</b>	<b>\$ 20,050,000</b>	<b>\$ 6,942,359</b>	<b>\$ 26,992,359</b>

**Loans Payable.** On August 14, 2012, the College borrowed \$3,403,103, to finance the cost of network infrastructure. The loan matures on August 21, 2017, and payments are made annually. On December 11, 2012, the College borrowed \$3 million, to finance the acquisition of the Loxahatchee Groves new campus property. The loan matures on December 1, 2017, and payments are made quarterly. Annual requirements to amortize the outstanding loans as of June 30, 2013, are as follows:

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Fiscal Year Ending June 30	Principal	Interest	Total
2014	\$ 1,264,194	\$ 44,867	\$ 1,309,061
2015	1,274,769	34,292	1,309,061
2016	1,285,537	23,524	1,309,061
2017	1,296,498	12,562	1,309,060
2018	992,732	2,108	994,840
<b>Total</b>	<b>\$ 6,113,730</b>	<b>\$ 117,353</b>	<b>\$ 6,231,083</b>

**Compensated Absences Payable.** College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2013, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$10,163,740. The current portion of the compensated absences liability, \$731,485, is the amount expected to be paid in the coming fiscal year, and represents the average fiscal year payouts for all leave for the two fiscal years immediately preceding, including applicable tax payments.

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

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

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 45 retirees received postemployment benefits. The College provided required contributions of \$52,386 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative

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expenses, and reinsurance premiums. Retiree contributions totaled \$276,570, which represents 0.5 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 117,396
Amortization of Unfunded Actuarial Accrued Liability	<u>36,357</u>
<b>Annual Required Contribution</b>	153,753
Interest on Net OPEB Obligation	10,142
Adjustment to Annual Required Contribution	<u>(8,451)</u>
<b>Annual OPEB Cost (Expense)</b>	155,444
Contribution Toward the OPEB Cost	<u>(52,386)</u>
<b>Increase in Net OPEB Obligation</b>	103,058
Net OPEB Obligation, Beginning of Year	<u>253,540</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 356,598</u></u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, and for the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010-11	\$ 39,625	139.2%	\$ 126,902
2011-12	154,599	18.1%	253,540
2012-13	155,444	33.7%	356,598

*Funded Status and Funding Progress.* As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$1,090,710 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,090,710 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$59,530,501 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.83 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual

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results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, a payroll growth rate of 4 percent per year, an inflation rate of 3 percent, and an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years for pre-Medicare and 5 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2013, was 24 years.

## 9. RETIREMENT PROGRAMS

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

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

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

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

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

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$4,286,542, \$3,020,085, and \$3,145,056, respectively, which were equal to the required contributions for each fiscal year.

There were 295 College participants in the Investment Plan during the 2012-13 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$1,110,631, which was equal to the required contribution for the 2012-13 fiscal year.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 5.64 percent of the participant’s salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee’s salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant’s annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 93 College participants during the 2012-13 fiscal year. The College’s contributions to the Program totaled \$350,372 and employee contributions totaled \$199,801 for the 2012-13 fiscal year.

**10. CONSTRUCTION COMMITMENTS**

The College’s major construction commitments at June 30, 2013, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Central Campus:			
Public Safety Training Complex	\$ 18,000,000	\$ 13,386,045	\$ 4,613,955
District:			
Historic Building Renovation	580,763	26,356	554,407
<b>Total</b>	<b>\$ 18,580,763</b>	<b>\$ 13,412,401</b>	<b>\$ 5,168,362</b>

**11. RISK MANAGEMENT PROGRAMS**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums)

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JUNE 30, 2013**

and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$90 million to February 28, 2013, and up to \$125 million from March 1, 2013. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers’ compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**12. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 55,918,070
Public Services	525,556
Academic Support	18,360,688
Student Services	18,744,543
Institutional Support	10,846,428
Operation and Maintenance of Plant	16,353,704
Scholarships and Waivers	28,042,879
Depreciation	10,855,591
Auxiliary Enterprises	494,486
<b>Total Operating Expenses</b>	<b><u><u>\$ 160,141,945</u></u></b>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 640,852	\$ 640,852	0%	\$ 50,661,686	1.26%
7/1/2009		297,267	297,267	0%	54,890,980	0.54%
7/1/2011		1,090,710	1,090,710	0%	50,945,268	2.14%

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

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

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

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

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



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

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

### Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Palm Beach State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 26, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
March 26, 2014