

PALM BEACH STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2009



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

Kenneth B. Kirby, Vice Chair to 8-11-08,
Chair from 8-12-08
Wendy S. Link, Vice Chair from 8-12-08
Carolyn L. Williams, Chair to 8-11-08 (1)
William Berger
David H. Talley (1)

Dr. Dennis P. Gallon, President

Note: (1) Continued to serve after term
expiration on June 1, 2009.

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

The audit team leader was Stefanie Johnson, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

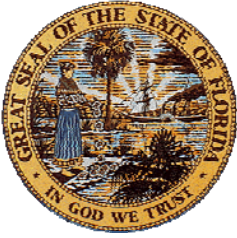
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2009. 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, both in 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 ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Palm Beach State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2009, which collectively comprise the College's basic financial statements as shown on pages 13 through 36. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Palm Beach State College and of its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 12, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
January 18, 2010

MANAGEMENT’S DISCUSSION AND ANALYSIS

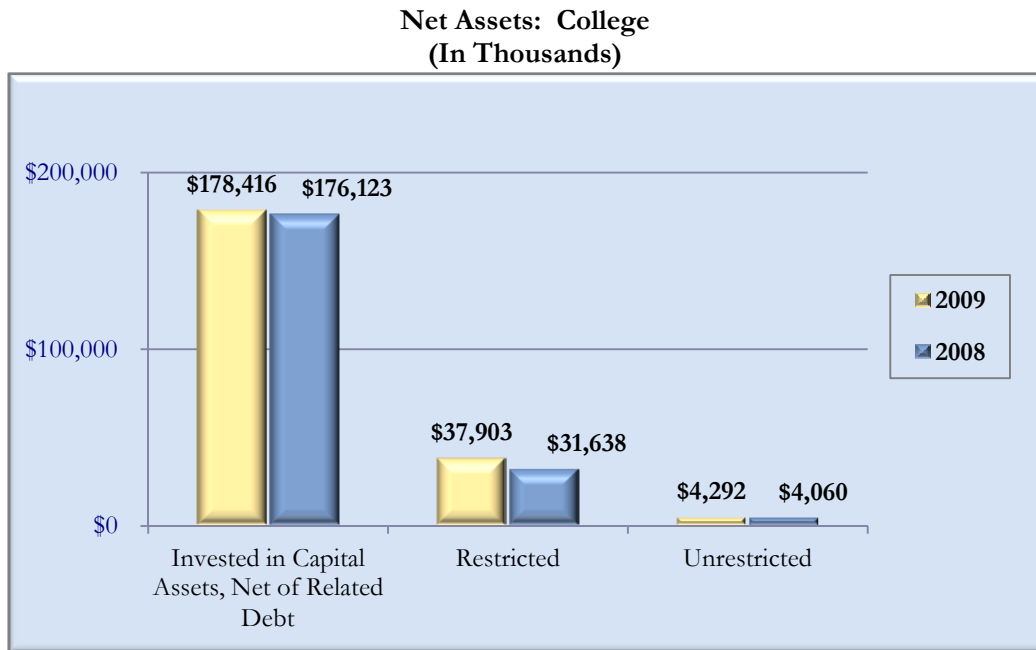
The management’s discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2009, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

COLLEGE NAME CHANGE

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

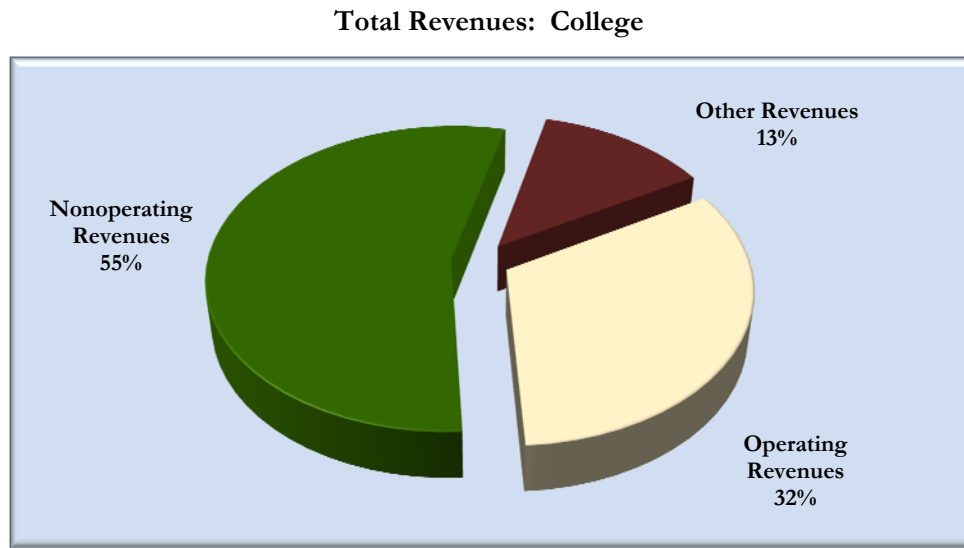
FINANCIAL HIGHLIGHTS

The College’s comparative total net assets by category for the fiscal years ended June 30, 2009, and 2008, are shown in the following graph:



The College’s financial position, as a whole, remained relatively stable for the fiscal year ended June 30, 2009. The combined net assets increased by \$8.8 million over the previous year; primarily due to an increase in tuition and enrollment offset by decreases in State appropriations and lottery allocations as well as Federal and State grants.

The following chart presents College revenues by category for the fiscal year ended June 30, 2009:



Nonoperating revenues comprise 55 percent of total revenue, which represent State appropriations, investment income and miscellaneous nonoperating gifts and grants. Operating revenues comprise 32 percent of total revenues and include student fees, Federal and State grants, as well as auxiliary service operations. Other revenues, representing 13 percent of the total, include capital appropriations, grants, gifts, and fees.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

These two statements report Palm Beach State College’s net assets and changes in them. You can think of the College’s net assets, the difference between assets and liabilities, as one way to measure the College’s financial health,

or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

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

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

	College		Component Unit	
	6-30-09	6-30-08	12-31-08	12-31-07
Assets				
Current Assets	\$ 37,175	\$ 35,636	\$ 5,490	\$ 10,666
Capital Assets, Net	191,231	180,428	11	11
Other Noncurrent Assets	18,501	12,213	15,609	11,118
Total Assets	246,907	228,277	21,110	21,795
Liabilities				
Current Liabilities	4,717	3,215	1	
Noncurrent Liabilities	21,579	13,241		
Total Liabilities	26,296	16,456	1	
Net Assets				
Invested in Capital Assets, Net of Related Debt	178,416	176,123	11	11
Restricted	37,903	31,638	22,823	22,176
Unrestricted	4,292	4,060	(1,725)	(392)
Total Net Assets	\$ 220,611	\$ 211,821	\$ 21,109	\$ 21,795
Increase in Net Assets	\$ 8,790	4.1%	\$ (686)	-3.1%

The College's total net assets increased by \$8.8 million, or 4.1 percent, primarily due to increases in certain revenues and is mainly attributed to an increase in enrollment ranging from 6 percent (Fall term) to 10 percent (Spring term) along with an approximate 6 percent tuition rate increase. The net effect of the increases was offset by a 10 percent decrease in State appropriations. The operating revenues were further reduced by State and local grants of 35 percent; nongovernmental grants and contracts of 3 percent; and Federal grants and contracts of 4 percent.

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

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

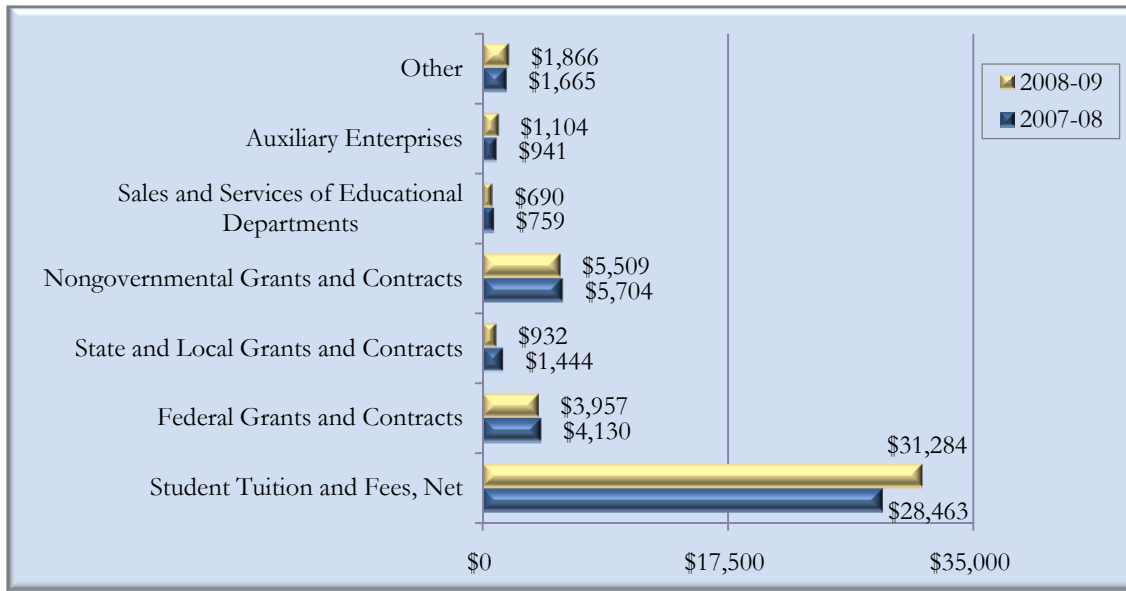
	College		Component Unit	
	6-30-09	6-30-08	12-31-08	12-31-07
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 31,284	\$ 28,463	\$	\$
Federal Grants and Contracts	3,957	4,130		
State and Local Grants and Contracts	932	1,444	1,352	1,580
Nongovernmental Grants and Contracts	5,509	5,704	4,979	5,881
Sales and Services of Educational Departments	690	759		
Auxiliary Enterprises	1,104	941		
Other Operating Revenues	1,866	1,665	149	100
Total Operating Revenues	45,342	43,106	6,480	7,561
Less, Operating Expenses	129,923	124,553	7,814	6,256
Operating Income (Loss)	(84,581)	(81,447)	(1,334)	1,305
Nonoperating Revenues (Expenses)				
State Appropriations	46,131	51,232		
Other Nonoperating Revenues	30,209	23,191		984
Nonoperating Expenses	(987)	(464)	(5,184)	
Net Nonoperating Revenues	75,353	73,959	(5,184)	984
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(9,228)	(7,488)	(6,518)	2,289
Capital Appropriations	14,554	14,152		
Capital Grants, Contracts, Gifts, and Fees	3,464	2,493		
Additions to Permanent Endowments			5,832	944
Increase (Decrease) in Net Assets	8,790	9,157	(686)	3,233
Net Assets, Beginning of Year	211,821	202,664	21,795	18,562
Net Assets, End of Year	\$ 220,611	\$ 211,821	\$ 21,109	\$ 21,795

Operating Revenues

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

The following chart presents the College’s operating revenues for the 2008-09 and 2007-08 fiscal years:

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



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

- An increase in the tuition rate combined with increased enrollment, resulted in a \$2.8 million net increase in student tuition and fee revenue of 10 percent.
- Decreases in State and local grants of \$0.5 million, nongovernmental grants and contracts of \$0.2 million, and Federal grants of \$0.2 million.
- An increase in Other Operating Revenues of \$0.2 million compared to the prior year.

Operating Expenses

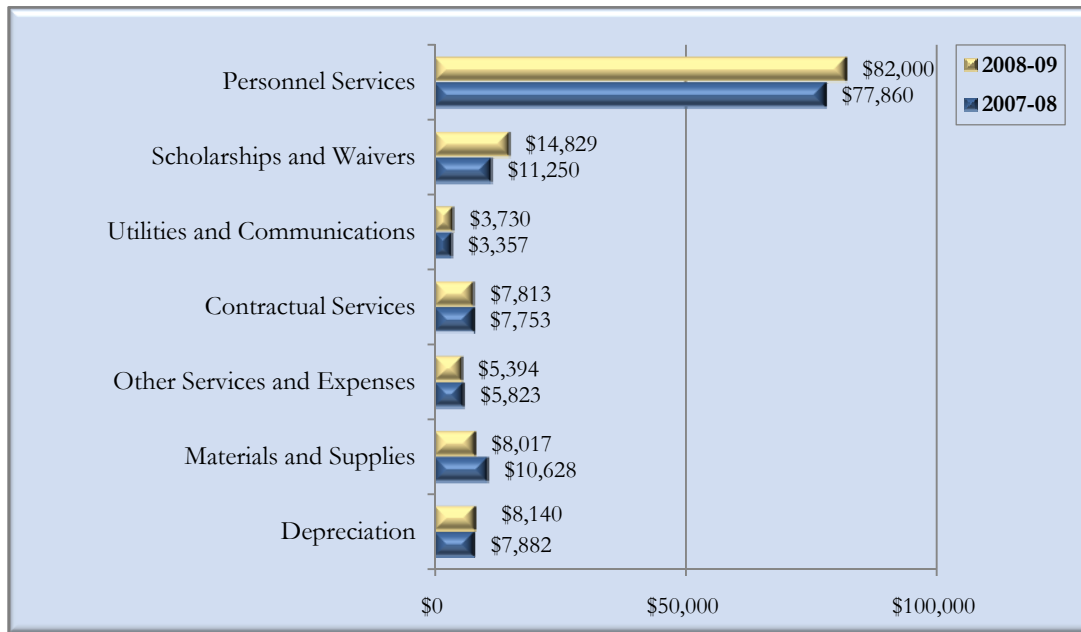
Expenses are categorized as operating or nonoperating. The majority of the College’s expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen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

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

Operating Expenses	Operating Expenses (In Thousands)			
	College		Component Unit	
	6-30-09	6-30-08	12-31-08	12-31-07
Personnel Services	\$ 82,000	\$ 77,860	\$	\$
Scholarships and Waivers	14,829	11,250	1,905	948
Utilities and Communications	3,730	3,357		
Contractual Services	7,813	7,753		
Other Services and Expenses	5,394	5,823	5,909	5,308
Materials and Supplies	8,017	10,628		
Depreciation	8,140	7,882		
Total Operating Expenses	\$ 129,923	\$ 124,553	\$ 7,814	\$ 6,256

The following chart presents the College’s operating expenses for the 2008-09 and 2007-08 fiscal years:

Operating Expenses: College
(In Thousands)



College operating expenses increased by \$5.4 million, or 4.3 percent, as a result of the following factors:

- Personnel services expenses increased \$4.1 million, or 5.3 percent, due to reduced employee turnover, salary increases of 5 percent for faculty and a 2 percent one-time supplement for certain full-time staff along with an increase in corresponding benefits.
- Scholarships and Waivers increased \$3.6 million, or 31.8 percent, due to increases in Federal student financial aid.
- Utilities and communications increased \$0.4 million, or 11.1 percent, due to inflationary pressures.

- Materials and supplies decreased \$2.6 million, or 24.6 percent, due to reduced new facilities completions as well as strict cost savings measures and initiatives.
- Depreciation, a noncash expense, increased \$0.3 million due to additional capital equipment put in service.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2008-09 and 2007-08 fiscal years:

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

	2008-09	2007-08
State Appropriations	\$ 46,131	\$ 51,232
Gifts and Grants	30,438	22,093
Investment Income (Loss)	(229)	1,098
Loss on Disposal of Capital Assets	(461)	(249)
Interest on Capital Asset-Related Debt	(526)	(215)
Net Nonoperating Revenues	\$ 75,353	\$ 73,959

Net nonoperating revenues increased by \$1.4 million, or 1.9 percent, primarily due to an increase in gifts and grants, which was offset by a decrease in State appropriations.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2008-09 and 2007-08 fiscal years:

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

	2008-09	2007-08
Capital Appropriations	\$ 14,554	\$ 14,152
Capital Grants, Contracts, Gifts, and Fees	3,464	2,493
Total	\$ 18,018	\$ 16,645

Capital grants, contracts, gifts, and fees increased by \$1 million primarily due to increased capital improvement fee rates. Capital appropriations increased slightly by \$0.4 million due to increased State funding appropriated to the College to support ongoing capital projects.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College’s cash flows for the 2008-09 and 2007-08 fiscal years is presented in the following table:

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

	2008-09	2007-08
Cash Provided (Used) by:		
Operating Activities	\$ (75,799)	\$ (72,977)
Noncapital Financing Activities	76,361	73,220
Capital and Related Financing Activities	5,943	(1,608)
Investing Activities	420	(112)
Net Increase (Decrease) in Cash and Cash Equivalents	6,925	(1,477)
Cash and Cash Equivalents, Beginning of Year	26,370	27,847
Cash and Cash Equivalents, End of Year	\$ 33,295	\$ 26,370

Major sources of funds came from State appropriations (\$46 million), net student tuition and fees (\$30.9 million), and nonoperating gifts and grants (\$30.4 million). Changes in cash and cash equivalents were the result of the following factors:

- Cash used by operating activities increased \$2.8 million due primarily to increase in personnel services and utilities costs.
- Cash provided by new capital and related financing activities was primarily the result of new capital bond proceeds of \$9 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2009, the College had \$280.7 million in capital assets, less accumulated depreciation of \$89.5 million, for net capital assets of \$191.2 million. Depreciation charges for the current fiscal year totaled \$8.1 million. The following table summarizes the College’s capital assets for the 2008-09 fiscal year:

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

Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 5,021	\$	\$	\$ 5,021
Buildings	222,804	5,625	801	227,628
Other Structures and Improvements	21,265	3,665		24,930
Furniture, Machinery, and Equipment	13,583	1,779	1,185	14,177
Construction in Progress	612	13,882	5,573	8,921
Total	263,285	24,951	7,559	280,677
Less, Accumulated Depreciation:				
Buildings	53,947	5,406	378	58,975
Other Structures and Improvements	17,277	1,355		18,632
Furniture, Machinery, and Equipment	11,633	1,379	1,173	11,839
Total Accumulated Depreciation	82,857	8,140	1,551	89,446
Capital Assets, Net	\$ 180,428	\$ 16,811	\$ 6,008	\$ 191,231

Major capital additions completed during the 2008-09 fiscal year and the resources that funded their acquisition included:

**Major Capital Additions
(In Thousands)**

	Amount
Central Campus:	
Mechanical Building 124 - Chiller (PECO, Transfer Funds)	\$ 1,187
Site Work (PECO, Transfer Funds)	648
Parking Lots (PECO, CO&DS, Transfer Funds)	615
Duncan Theater 131 (PECO, Transfer Funds, Private)	367
R/R Administration Building 111 (PECO, Transfer Funds)	329
Data Processing 114 (PECO, Transfer Funds)	309
North Campus:	
Loop Road/Bus Stop and Turn Lane (PECO and Transfer Funds)	985
Rubenstein Pavilion (PECO, Campus Beautification, Private, Match)	536
South Campus:	
R/R Buildings 100/101/102 (PECO, Transfer Funds)	929
Parking Lots (PECO, Transfer Funds)	384
Total Major Capital Additions Completed	\$ 6,289

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

Capital expenditures totaling \$30.3 million for significant projects are planned for the 2009-10 fiscal year. Projects planned include: Lake Worth “Central” Campus: (1) new Bachelor of Applied Science Building – \$9 million; (2) new Public Safety Training Center – Phase I Firing Range – \$5.9 million; (3) remodel/renovate District Administration Building #111 - \$1.4 million; (4) remodel/renovate Financial Aid Building #205 – \$1.2 million; (5) remodel/renovate District Finance Building #110 – \$.8 million; Belle Glade “Glades” Campus: (1) new Technical Education and

Training Center – \$12 million. More information about the College’s capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$12.8 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2009, and June 30, 2008:

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

	<u>2009</u>	<u>2008</u>
SBE Capital Outlay Bonds	\$ 4,075	\$ 4,305
Capital Improvement Revenue Bonds	<u>8,740</u>	
Total	<u><u>\$ 12,815</u></u>	<u><u>\$ 4,305</u></u>

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2008-09 fiscal year, the Capital Improvement Revenue Bonds were issued on July 15, 2008, for \$9 million. Debt repayments of \$490,000 were made during the fiscal year. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Palm Beach State College’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the coming year. In response to a decrease in State appropriations, the Board of Trustees increased the tuition rate 8 percent to take effect beginning with the Fall 2009 term. Projections for the fiscal year ending June 30, 2010, show a relatively stable allocation in recurring College Program Funds (State appropriations). In response to the lack of increasing appropriations and State requirements, the College has monitored budgeted expenditures closely and has maintained a committee to continue to analyze potential further cuts. Despite the lack of increases in State funding, the College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in enrollment and potential growth in grant activities will enable it to maintain consistent mission-critical services over the coming year.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**PALM BEACH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2009**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 14,843,791	\$ 2,687,668
Restricted Cash and Cash Equivalents	344,011	
Restricted Investments		1,311,153
Other Short-term Investments	526,108	
Accounts Receivable, Net	1,871,537	1,488,099
Due from Other Governmental Agencies	18,533,018	
Due from Component Unit	7,292	
Inventories	8,062	
Prepaid Expenses	1,040,813	
Deposits - Other	890	
Other Assets		2,780
Total Current Assets	<u>37,175,522</u>	<u>5,489,700</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	18,107,115	
Investments	278,920	
Restricted Investments	115,089	12,021,909
Depreciable Capital Assets, Net	177,287,948	
Nondepreciable Capital Assets	13,942,836	11,000
Other Assets		3,587,345
Total Noncurrent Assets	<u>209,731,908</u>	<u>15,620,254</u>
TOTAL ASSETS	<u>\$ 246,907,430</u>	<u>\$ 21,109,954</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 395,061	\$ 935
Salary and Payroll Taxes Payable	1,492,717	
Retainage Payable	323,257	
Deposits Held for Others	1,721,822	
Long-Term Liabilities - Current Portion:		
Bonds Payable	555,000	
Compensated Absences Payable	229,119	
Total Current Liabilities	<u>4,716,976</u>	<u>935</u>
Noncurrent Liabilities:		
Bonds Payable	12,260,000	
Compensated Absences Payable	8,904,063	
Other Postemployment Benefits Payable	136,607	
Other Noncurrent Liabilities	278,920	
Total Noncurrent Liabilities	<u>21,579,590</u>	
TOTAL LIABILITIES	<u>26,296,566</u>	<u>935</u>

PALM BEACH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2009

	<u>College</u>	<u>Component Unit</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 178,415,784	\$ 11,000
Restricted:		
Nonexpendable:		
Endowment		10,961,667
Expendable:		
Grants and Loans	1,743,665	
Scholarships	693,035	11,861,014
Capital Projects	35,361,323	
Debt Service	105,129	
Unrestricted	<u>4,291,928</u>	<u>(1,724,662)</u>
Total Net Assets	<u>220,610,864</u>	<u>21,109,019</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 246,907,430</u>	<u>\$ 21,109,954</u>

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

PALM BEACH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$13,619,008	\$ 31,284,425	\$
Federal Grants and Contracts	3,956,874	
State and Local Grants and Contracts	932,192	1,352,100
Nongovernmental Grants and Contracts	5,509,146	4,978,682
Sales and Services of Educational Departments	690,019	
Auxiliary Enterprises	1,103,683	
Other Operating Revenues	1,865,378	148,986
Total Operating Revenues	45,341,717	6,479,768
EXPENSES		
Operating Expenses:		
Personnel Services	82,000,083	
Scholarships and Waivers	14,828,596	1,905,327
Utilities and Communications	3,729,352	
Contractual Services	7,813,313	
Other Services and Expenses	5,394,002	5,908,903
Materials and Supplies	8,017,204	
Depreciation	8,140,248	
Total Operating Expenses	129,922,798	7,814,230
Operating Loss	(84,581,081)	(1,334,462)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	46,130,791	
Gifts and Grants	30,438,201	
Investment Loss	(228,902)	
Loss on Disposal of Capital Assets	(461,337)	
Interest on Capital Asset-Related Debt	(526,009)	
Other Nonoperating Expenses		(5,184,147)
Net Nonoperating Revenues (Expenses)	75,352,744	(5,184,147)
Loss Before Other Revenues, Expenses, Gains, or Losses	(9,228,337)	(6,518,609)
Capital Appropriations	14,553,841	
Capital Grants, Contracts, Gifts, and Fees	3,463,928	
Additions to Endowments		5,832,764
Total Other Revenues	18,017,769	5,832,764
Increase (Decrease) in Net Assets	8,789,432	(685,845)
Net Assets, Beginning of Year	211,821,432	21,794,864
Net Assets, End of Year	\$ 220,610,864	\$ 21,109,019

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

PALM BEACH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 30,924,833
Grants and Contracts	10,326,974
Payments to Suppliers	(21,542,719)
Payments for Utilities and Communications	(3,729,352)
Payments to Employees	(67,784,750)
Payments for Employee Benefits	(14,128,621)
Payments for Scholarships	(14,828,596)
Auxiliary Enterprises	1,103,683
Sales and Service of Educational Departments	690,019
Other Receipts	3,168,954
	<u>3,168,954</u>
Net Cash Used by Operating Activities	<u>(75,799,575)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	46,008,279
Gifts and Grants Received for Other Than Capital or Endowment Purposes	30,352,900
	<u>30,352,900</u>
Net Cash Provided by Noncapital Financing Activities	<u>76,361,179</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	9,000,000
Capital Appropriations	13,775,828
Capital Grants and Gifts	3,587,262
Purchases of Capital Assets	(19,404,413)
Principal Paid on Capital Debt and Leases	(490,000)
Interest Paid on Capital Debt and Leases	(526,009)
	<u>(526,009)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>5,942,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	420,179
	<u>420,179</u>
Net Cash Provided by Investing Activities	<u>420,179</u>
Net Increase in Cash and Cash Equivalents	6,924,451
Cash and Cash Equivalents, Beginning of Year	26,370,466
	<u>26,370,466</u>
Cash and Cash Equivalents, End of Year	<u>\$ 33,294,917</u>

**PALM BEACH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2009**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (84,581,081)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,140,248
Changes in Assets and Liabilities:	
Receivables, Net	(428,466)
Inventories	(2,143)
Other Assets	(229,294)
Accounts Payable	85,876
Deposits Held for Others	1,277,504
Compensated Absences Payable	(130,009)
Postemployment Healthcare Benefits Payable	67,790
	\$ (75,799,575)
NET CASH USED BY OPERATING ACTIVITIES	

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITY

During the 2008-09 fiscal year, the College recognized unrealized losses of \$901,943 on investing activities. The unrealized losses were recognized as reductions to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.

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, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Palm Beach State College¹, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of five members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the District correspond with those of Palm Beach County.

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2008.

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

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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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

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

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

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

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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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 appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is considered a nonoperating expense.

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, cash with the State Board of Administration Local Government Surplus Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME, and Special Purpose Investment Account (SPIA) investments with the State Treasury. For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in SPIA and LGIP 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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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, 2009, the College reported as cash equivalents at fair value \$20,826,828 of moneys held in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard and Poor's and had an effective duration of 1.84 years at June 30, 2009. 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 investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2009, the College reported as cash equivalents at fair value \$7,848,475 of moneys held in the LGIP administered by the State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The College's investments in the LGIP which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2009, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The LGIP carried a credit rating of AAAm by Standard and Poor's and had a weighted-average days to maturity (WAM) of 46 days as of June 30, 2009. 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 LGIP to interest rate changes. The investments in the LGIP are reported at fair value, which is amortized cost.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

- Vehicles, Office Machines, Educational Equipment – 5 years
- Furniture – 7 years
- Portables – 10 years

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

2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, 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, 2009, are reported at fair value, as follows:

**PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 526,108
State Board of Administration Debt Service Accounts	105,129
Equity Securities	9,960
Money Market Funds	278,920
Total College Investments	\$ 920,117

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

At June 30, 2009, the College reported investments at fair value of \$526,108 for amounts held in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.51370946 at June 30, 2009. The weighted-average life (WAL) of Fund B at June 30, 2009, was 6.87 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, 2009. WAL measures the sensitivity of Fund B to interest rate changes. The College’s investment in Fund B is unrated.

**PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

State Board of Administration Debt Service Accounts. The College reported investments at fair value totaling \$105,129 at June 30, 2009, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the College’s component unit (Foundation) at December 31, 2008, were reported at fair market value with the following maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less Than 1	1-5	6-10	11-15	More Than 15
Investment in Debt Obligations:						
U.S. Government Securities	\$ 1,931,705	\$ 85,972	\$ 1,383,828	\$ 303,612	\$	\$ 158,293
Mortgage Backed Pass-Throughs	2,280,089			68,517	684,312	1,527,260
Corporate Bonds	872,457	27,396	182,792	237,349		424,920
Total Investment in Debt Obligations	5,084,251	\$ 113,368	\$ 1,566,620	\$ 609,478	\$ 684,312	\$ 2,110,473
Other Investments:						
Mutual Funds	508,347					
Equity Securities	7,740,464					
Total Other Investments	8,248,811					
Total Component Unit Investments	\$ 13,333,062					

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

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

**PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Credit Risk: The Foundation’s investment policy limits investments to equity securities, convertible securities, real estate securities, fixed income securities, and certain international securities. Convertible securities should be rated “BBB” (or its equivalent) or higher at the time of purchase by a nationally recognized statistical rating agency. The policy also recommends a target asset allocation strategy of 60 percent equities (minimum 50 percent and maximum 70 percent limits) and 40 percent fixed income and cash equivalents (minimum 30 percent and maximum 50 percent limits). Obligations of United States government agencies and instrumentalities and domestic equities do not require disclosure of credit quality. Mortgage-backed pass-throughs were not rated. Corporate bonds held by the Foundation at December 31, 2008, were rated as follows:

Investment Type	Fair Value	Credit Quality Ratings	
		Moody's	Standard & Poor's
Corporate Bonds	\$ 86,392	AAA	AAA
	349,839	AA1 to BAA1	AA to A
	406,282	BAA1 to B1	BBB to B
	11,746	CAA1	CCC+
	18,198	C	D
Total Corporate Bonds	\$ 872,457		

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

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

PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferrals, various student services provided by the College, uncollected commissions for vending machine sales, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$200,257 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$17,044,207 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM COMPONENT UNIT

The amount due from component unit consists of amounts owed to the College by the Foundation for scholarships and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2009. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2008, which is the most recent fiscal year for which an audit report is available. Accordingly, although the College reported an amount as due from the component unit on the statement of net assets, no amount is reported by the component unit as due to the College.

6. INVENTORIES

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

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2009, is shown below:

**PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 5,021,375	\$	\$	\$ 5,021,375
Construction in Progress	612,405	13,881,753	5,572,697	8,921,461
Total Nondepreciable Capital Assets	\$ 5,633,780	\$ 13,881,753	\$ 5,572,697	\$ 13,942,836
Depreciable Capital Assets:				
Buildings	\$ 222,804,573	\$ 5,624,591	\$ 801,482	\$ 227,627,682
Other Structures and Improvements	21,265,123	3,664,917		24,930,040
Furniture, Machinery, and Equipment	13,582,733	1,779,284	1,184,582	14,177,435
Total Depreciable Capital Assets	257,652,429	11,068,792	1,986,064	266,735,157
Less, Accumulated Depreciation:				
Buildings	53,947,240	5,406,158	378,461	58,974,937
Other Structures and Improvements	17,277,884	1,355,087		18,632,971
Furniture, Machinery, and Equipment	11,633,129	1,379,003	1,172,831	11,839,301
Total Accumulated Depreciation	82,858,253	8,140,248	1,551,292	89,447,209
Total Depreciable Capital Assets, Net	\$ 174,794,176	\$ 2,928,544	\$ 434,772	\$ 177,287,948

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2009, include bonds, compensated absences, and postemployment healthcare benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2009, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 4,305,000	\$ 9,000,000	\$ 490,000	\$ 12,815,000	\$ 555,000
Compensated Absences Payable	9,263,191	423,338	553,347	9,133,182	229,119
Other Postemployment Benefits Payable	68,817	67,790		136,607	
Other Noncurrent Liabilities	249,172	29,748		278,920	
Total Long-Term Liabilities	\$ 13,886,180	\$ 9,520,876	\$ 1,043,347	\$ 22,363,709	\$ 784,119

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

- Capital Outlay Bonds. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College’s portion of the State-assessed motor vehicle license tax and by the State’s full faith and credit. The State Board of

**PALM BEACH STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

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

The College had the following bonds payable at June 30, 2009:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education:			
Capital Outlay Bonds:			
Series 2000A	\$ 145,000	5.125	2010
Series 2005A	1,945,000	4.0 - 5.0	2025
Series 2005B	1,985,000	5.0	2020
Capital Improvement Revenue Bonds:			
Series 2008A	8,740,000	3.4 - 5.0	2028
Total	\$12,815,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2009, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2010	\$ 240,000	\$ 193,231	\$ 433,231
2011	255,000	181,050	436,050
2012	265,000	168,300	433,300
2013	275,000	155,050	430,050
2014	295,000	141,300	436,300
2015-2019	1,650,000	472,500	2,122,500
2020-2024	930,000	136,606	1,066,606
2025	165,000	7,013	172,013
Total	\$ 4,075,000	\$ 1,455,050	\$ 5,530,050

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Fiscal Year Ending June 30	Capital Improvement Revenue Bonds		
	Principal	Interest	Total
2010	\$ 315,000	\$ 371,589	\$ 686,589
2011	330,000	360,564	690,564
2012	340,000	349,014	689,014
2013	350,000	337,114	687,114
2014	365,000	323,989	688,989
2015-2019	2,055,000	1,391,326	3,446,326
2020-2024	2,520,000	922,131	3,442,131
2025-2028	2,465,000	294,906	2,759,906
Total	\$ 8,740,000	\$ 4,350,633	\$ 13,090,633

In prior years, portions of the State Board of Education, Capital Outlay Bonds, Series 2000A were refunded and considered defeased in-substance by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the College’s statement of net assets. As of June 30, 2009, \$1,995,000 of State Board of Education, Capital Outlay Bonds, Series 2000A, are considered defeased in-substance.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2009, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$9,133,182. Of this amount, \$229,119 is considered a current liability as this is expected to be paid in the coming fiscal year. The College calculates the actual fiscal year payouts for all leave for the two fiscal years immediately preceding, including applicable College tax payments, and then averages the two years.

Other Postemployment Benefits Payable. The College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare and life insurance benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to a cost-sharing, multiple-employer defined-benefit plan administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former

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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. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. The Consortium does not issue stand-alone annual reports for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Benefit provisions are pursuant to provisions of Section 112.0801, Florida Statutes, and benefits and contribution rates can be amended by the Board of Trustees. 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 2008-09 fiscal year, 53 retirees received postemployment healthcare benefits, and 9 retirees received postemployment life insurance benefits. The College provided required contributions of \$34,052 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$296,595.

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

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 80,709
Amortization of Unfunded Actuarial Accrued Liability	21,362
Annual Required Contribution	102,071
Interest on Net OPEB Obligation	2,065
Adjustment to Annual Required Contribution	(2,294)
Annual OPEB Cost (Expense)	101,842
Contribution Toward the OPEB Cost	(34,052)
Increase in Net OPEB Obligation	67,790
Net OPEB Obligation, Beginning of Year	68,817
Net OPEB Obligation, End of Year	\$ 136,607

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, 2009, and for the transition and preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	102,071	32.6%	68,817
2008-09	101,842	33.4%	136,607

Funded Status and Funding Progress. As of June 30, 2009, the actuarial accrued liability for benefits was \$640,852 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$640,852 and a funded status of 0 percent. The covered payroll (annual payroll of active participating employees) was \$53,160,427 for the 2008-09 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.2 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 the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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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 initial OPEB actuarial valuation as of July 1, 2007, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2008, and to estimate the 2007-08 and the 2008-09 fiscal years' ARC. This method was selected because it is the same method used in private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent initially, reduced by 1 percent per year for two years, then 1/2 percent per year thereafter, to an ultimate rate of 5 percent after five years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2009, was 28 years.

9. RETIREMENT PROGRAMS

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

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

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JUNE 30, 2009**

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2008-09 fiscal year were as follows:

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

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

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions (including employee contributions) for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$3,357,903, \$3,449,399, and \$3,606,087, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 317 College participants during the 2008-09 fiscal year. Required contributions made to the PEORP totaled \$1,094,585.

**PALM BEACH STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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

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

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

There were 106 College participants during the 2008-09 fiscal year. Required employer contributions made to the Program totaled \$632,126.

10. CONSTRUCTION COMMITMENTS

The College’s major construction commitments at June 30, 2009, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Central Campus:			
PST C Firing Range	\$ 5,885,516	\$ 369,587	\$ 5,515,929
R/R Building 111	1,423,604	80,693	1,342,911
North Campus:			
LLRC #104	4,691,970	2,698,682	1,993,288
Glades Campus:			
Driveway Re-Alignment	344,049	35,218	308,831
New Tech Training Center	9,514,952	1,707,613	7,807,339
Total	\$ 21,860,091	\$ 4,891,793	\$ 16,968,298

**PALM BEACH STATE COLLEGE
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JUNE 30, 2009**

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) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$200 million through February 28, 2009, and \$175 million beginning March 1, 2009. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

12. LITIGATION

The College is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the College's legal counsel and management, should not materially affect the College's financial position.

13. SCHEDULE OF STATE REVENUE SOURCES

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

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

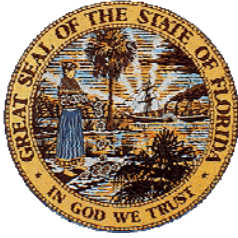
The following is a summary of State revenue sources and amounts:

<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 46,116,391
Gross Receipts Tax (Public Education Capital Outlay)	13,868,377
Education Enhancement Trust Fund (Lottery)	6,200,666
Bright Futures Scholarship Program	2,871,674
Florida Student Assistance Grants	2,659,242
Restricted Contracts and Grants	701,931
Motor Vehicle License Tax (Capital Outlay and Debt Service)	685,464
Baccalaureate Program	14,400
State Scholarship Grants	5,000
Total	\$ 73,123,145

14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 49,727,688
Public Services	211,294
Academic Support	15,097,792
Student Services	17,311,504
Institutional Support	10,276,799
Operation and Maintenance of Plant	14,521,101
Scholarships and Fellowships	13,892,747
Depreciation	8,140,248
Auxiliary Enterprises	742,547
Loan Operating Expenses	1,078
Total Operating Expenses	\$ 129,922,798



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

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

We have audited the financial statements of Palm Beach State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2009, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Respectfully submitted,



David W. Martin, CPA
January 18, 2010