

**PASCO-HERNANDO COMMUNITY
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:

	<u>County</u>
Thomas Weightman, Vice Chair to 7-14-08, Chair from 7-15-08	Pasco
Deborah G. Kilgore, Vice Chair from 7-15-08 to 2-16-09 (1)	Hernando
John S. Church, Vice Chair from 2-17-09 to 5-31-09 (2)	Hernando
Jeanne M. Gavish	Hernando
Irvin Homer, Chair to 7-14-08	Hernando
Dr. S.K. Rao Musunuru (1)	Pasco
Judy R. Parker	Pasco
Wilton Simpson	Pasco
Gary L. Worthley	Pasco

Dr. Katherine M. Johnson, President

Note: (1) Board member served beyond the end of their term, May 31, 2009.

(2) Position remained vacant, and there was no Vice Chair, from June 1, 2009, through June 30, 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 Anna A. McCormick, CPA, and the audit was supervised by Janice Priolo, 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.

PASCO-HERNANDO COMMUNITY COLLEGE
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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 Pasco-Hernando Community College and its officers with administrative and stewardship responsibilities for College operations had:

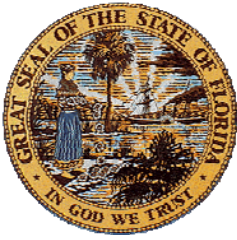
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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 Pasco-Hernando Community 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 15 through 38. 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 Pasco-Hernando Community 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 Pasco-Hernando Community 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 14 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
March 25, 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.

The MD&A contains the financial activities of the College and its component unit, the Pasco-Hernando Community College Foundation, Inc. (Foundation). To better distinguish the activities of the College and the Foundation within the primary government, the financial information of the Foundation is separately identified.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$149.5 million at June 30, 2009. This balance reflects a \$23.5 million, or 18.6 percent, increase from the 2007-08 fiscal year, resulting primarily from building additions and improvements, changes to construction in progress, and increases in amounts due from State for Public Education Capital Outlay (PECO) allocations for new construction and remodeling projects. While assets grew, liabilities increased by \$1.4 million, or 19.4 percent, totaling \$8.7 million at June 30, 2009, compared to \$7.3 million at June 30, 2008. As a result, the College's net assets increased by \$22.1 million, or 18.6 percent, reaching a year-end balance of \$140.8 million.

The College's operating revenues remained relatively flat at \$11.7 million for the 2008-09 fiscal year. While tuition and fees, net of scholarship allowance, increased by \$0.7 million, due to tuition rate increases and fee paying enrollment increases throughout the year, the College experienced an overall decrease in State and local grants and contracts of \$0.4 million. Operating expenses totaled \$48.1 million for the 2008-09 fiscal year, representing an increase of 11.3 percent over the 2007-08 fiscal year due mainly to increases in expenses for personnel services, scholarships and waivers, and depreciation. The increases in operating expenses were offset by increases in nonoperating revenues, primarily Federal Pell, State grants, and other gifts and grants.

The 2008-09 fiscal year operating budget increased 3 percent over the 2007-08 fiscal year operating budget. To maintain flexibility within a budget, it is a prudent budgeting strategy to maintain personnel costs at a level not to exceed 80 percent of the College's operating budget. Budgeted College personnel costs represented 75.8 percent of the total proposed budget for the 2008-09 fiscal year compared to 75.9 percent in fiscal year 2007-08. State funding for operation of the College, for the 2008-09 fiscal year, decreased from the 2007-08 State appropriations amount by \$1.3 million. The increase in student tuition and fees (credit courses, 7.86 percent and Postsecondary Adult Education courses, 6.2 percent), annualized FTE fee paying enrollment growth of 11.6 percent, and cost containment measures implemented have contributed to the College's continued financial stability.

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:

- Pasco-Hernando Community 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.
- Pasco-Hernando 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 Pasco-Hernando Community 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 Pasco-Hernando Community College's operating results.

These two statements report Pasco-Hernando Community 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.

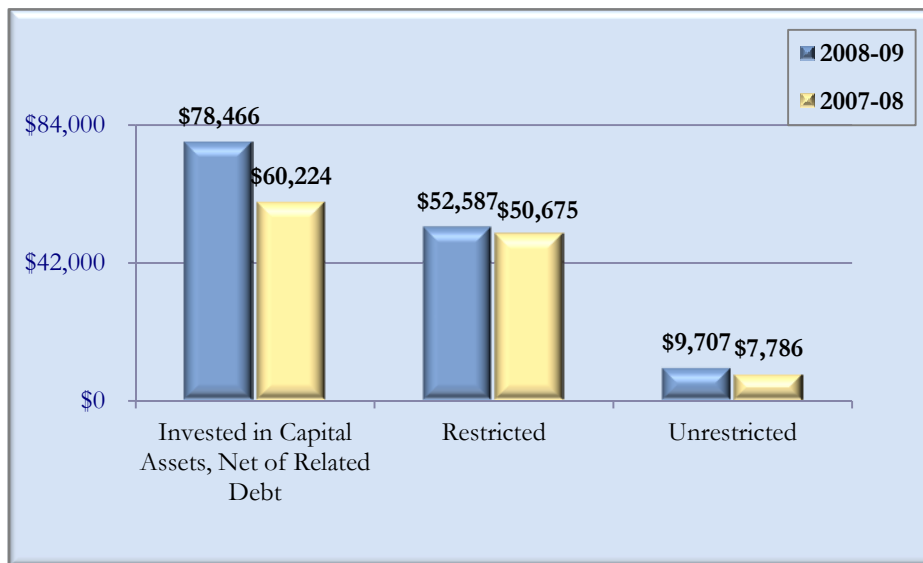
A condensed statement of assets, liabilities, and net assets of the College and its component unit for the respective periods ended is shown in the following table:

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

	College		Component Unit	
	6-30-09	6-30-08	12-31-08	12-31-07
Assets				
Current Assets	\$ 64,097	\$ 55,859	\$ 1,926	\$ 2,544
Capital Assets, Net	78,516	60,336	161	161
Other Noncurrent Assets	6,865	9,790	25,136	33,213
Total Assets	149,478	125,985	27,223	35,918
Liabilities				
Current Liabilities	6,277	4,859	249	263
Noncurrent Liabilities	2,441	2,441		
Total Liabilities	8,718	7,300	249	263
Net Assets				
Invested in Capital Assets, Net of Related Debt	78,466	60,224	217	217
Restricted	52,587	50,675	26,465	34,410
Unrestricted	9,707	7,786	292	1,028
Total Net Assets	\$ 140,760	\$ 118,685	\$ 26,974	\$ 35,655
Increase (Decrease) in Net Assets	\$ 22,075	18.6%	\$ (8,681)	-24.3%

The College’s comparative net assets, by category, at June 30, 2009, and June 30, 2008, are shown as follows:

**Net Assets: College as of June 30
(In Thousands)**

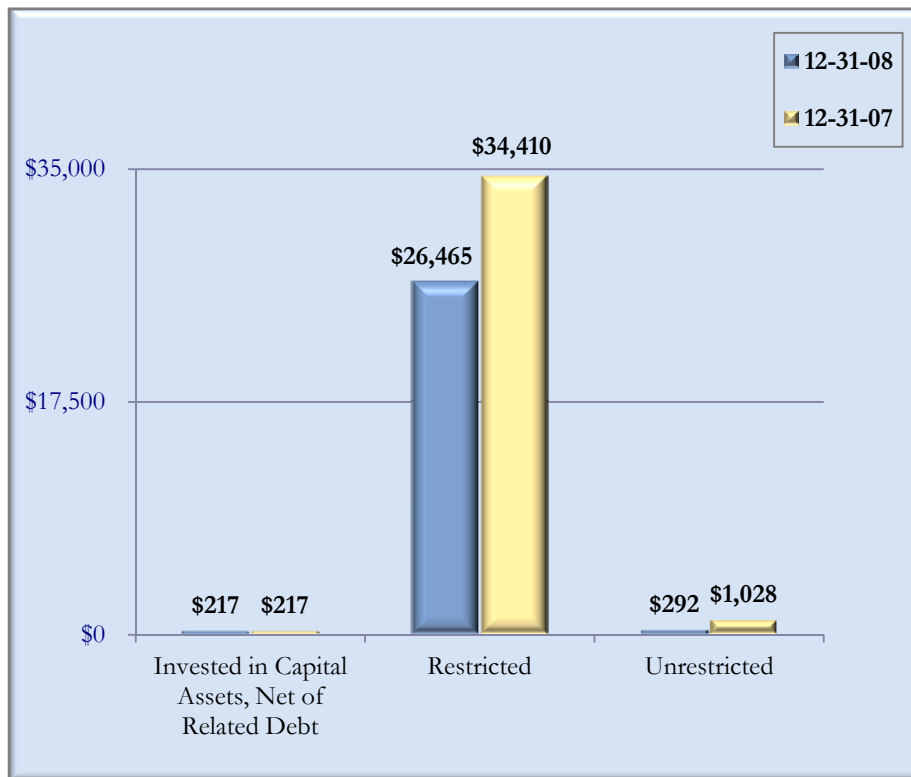


The College’s assets totaled \$149.5 million at June 30, 2009. This balance reflects a \$23.5 million, or 18.6 percent, increase from the 2008-09 fiscal year, due primarily from building additions and improvements, changes in construction in progress, and increases in PECO allocations for new construction and remodeling projects. The College’s current and noncurrent assets totaled \$64.1 and \$85.4 million, respectively, at June 30, 2009, compared to \$55.9 million and \$70.1 million, respectively, at June 30, 2008, an increase of \$8.2 million and \$15.3 million,

respectively. While assets grew, liabilities increased by a lesser amount of \$1.4 million, or 19.4 percent, totaling \$8.7 million at June 30, 2009, compared to \$7.3 million at June 30, 2008. As a result, the College’s net assets increased by \$22.1 million, or 18.6 percent, reaching a year-end balance of \$140.8 million. In comparing the College assets to the Foundation, the College has a greater percentage of capital assets while the Foundation has a greater percentage of restricted net assets, primarily endowments.

The Foundation’s comparative net assets by category at December 31, 2008, and December 31, 2007, are shown in the following graph:

**Net Assets: Component Unit at December 31
(In Thousands)**



Foundation current assets consist primarily of cash, investments, and pledges and decreased by \$0.6 million from the prior fiscal year. A major component of the decrease is attributed to the net effect of a decrease in receivables due to the lack of State appropriations for the matching programs. Noncurrent assets consisting of primarily investment balances pertaining to endowment principal, reinvestment for growth, and other expendable funds decreased by \$8.1 million from the prior fiscal year, primarily due to the result of market influences on investment values. The Foundation’s net assets decreased by \$8.7 million primarily are result of the decline in the investment market.

The statement of revenues, expenses, and changes in net assets presents the College’s operating results as well as nonoperating revenues and expenses. This section presents the revenues earned and the expenses incurred during the 2008-09 fiscal year. Operating revenues are composed primarily of student tuition and fees, Federal, State, and local grants and contracts, and auxiliary enterprises activities. Student tuition and fees, net of scholarship allowance totaled

\$7.2 million, or 61.5 percent, of total operating revenues, for the 2008-09 fiscal year. Additional operating revenues resulted from Federal, State, and local grants, auxiliary enterprises, and other operating revenues such as the rental of College facilities. GASB Statement No. 35 requires that State appropriations, funds colleges are typically reliant on to fulfill their missions, be reported as nonoperating revenue. As a result, operating expenses generally exceed operating revenues with the difference being offset by nonoperating revenues, i.e., State funding. In the 2008-09 fiscal year, State appropriations funded approximately 40 percent of the College's operating expense. As a result, nonoperating revenues and expenses are significant components in determining an increase or decrease to total net assets.

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

**Operating Results for the Periods Ended
(In Thousands)**

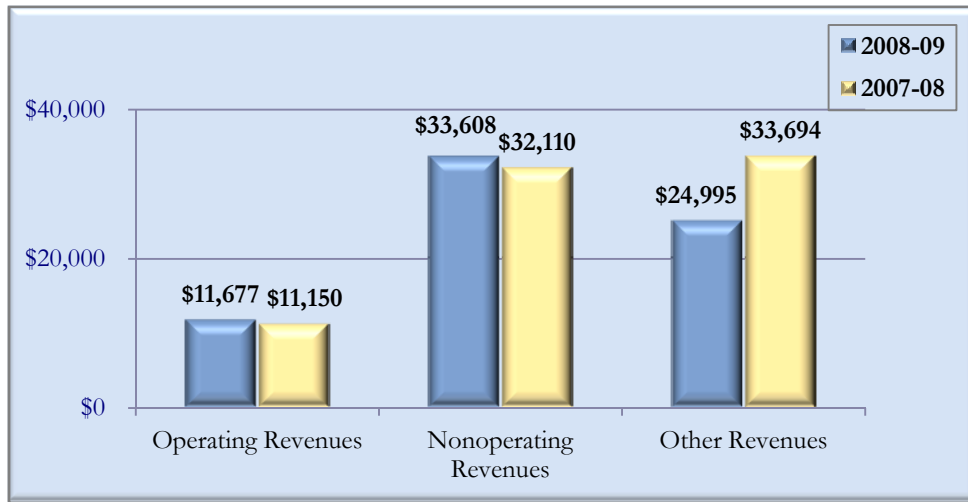
	College		Component Unit	
	6-30-09	6-30-08	12-31-08	12-31-07
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 7,180	\$ 6,463	\$	\$
Federal Grants and Contracts	733	751		
State and Local Grants and Contracts	88	442	27	619
Nongovernmental Grants and Contracts	420	414	397	533
Sales and Services of Educational Departments	10	10		
Auxiliary Enterprises, Net of Scholarship Allowances	2,939	2,838		
Other Operating Revenues	307	232	374	345
Total Operating Revenues	11,677	11,150	798	1,497
Less, Operating Expenses	48,129	43,227	1,665	1,536
Operating Loss	(36,452)	(32,077)	(867)	(39)
Nonoperating Revenues (Expenses)				
State Appropriations	19,229	20,502		
Other Nonoperating Revenues	14,379	11,608	781	1,942
Nonoperating Expenses	(76)	(31)	(9,017)	
Net Nonoperating Revenues (Expenses)	33,532	32,079	(8,236)	1,942
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
Capital Appropriations	(2,920)	2	(9,103)	1,903
Capital Grants, Contracts, Gifts, and Fees	23,701	32,617		
Additions to Permanent Endowments	1,294	1,077	422	844
Increase (Decrease) in Net Assets	22,075	33,696	(8,681)	2,747
Net Assets, Beginning of Year	118,685	84,989	35,655	32,908
Net Assets, End of Year	\$ 140,760	\$ 118,685	\$ 26,974	\$ 35,655

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 give up or receive something of equal or similar value.

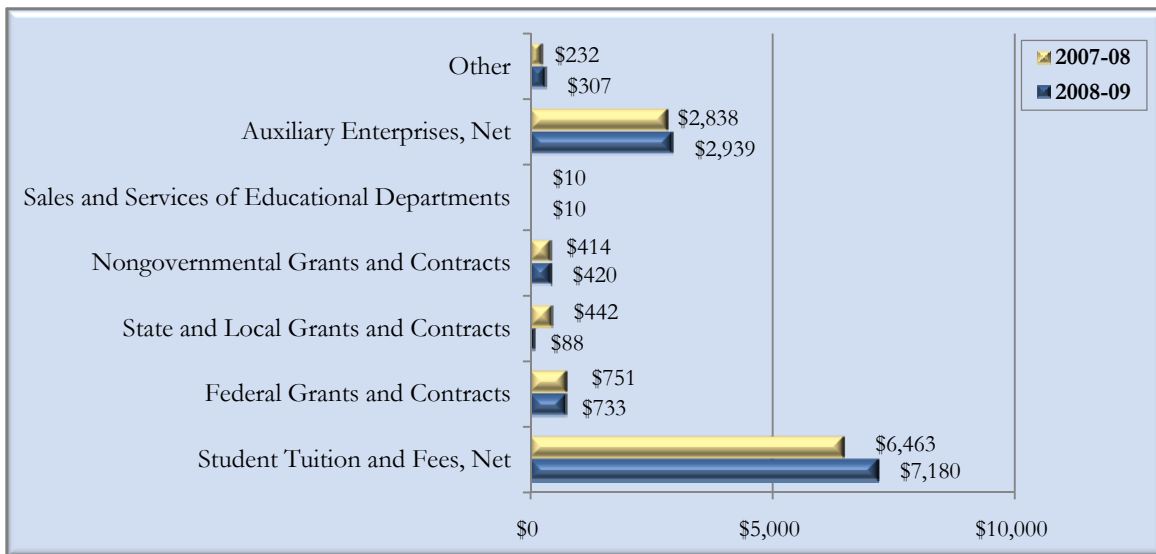
The following chart presents the College’s total revenues by source for the 2008-09 and 2007-08 fiscal years:

**Total Revenue: College
(In Thousands)**



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:

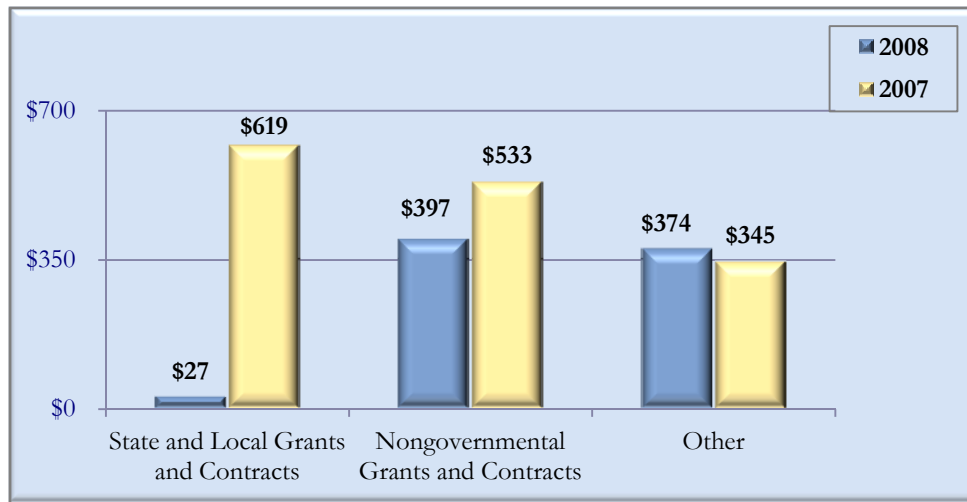
- The College’s operating revenues remained relatively flat at \$11.7 million for the 2008-09 fiscal year. Tuition and fees, net of scholarship allowances increased by \$0.7 million, due to tuition rate and fee paying enrollment increases throughout the year of 11.6 percent. The standard fee for a Postsecondary Adult Education (PSAV) credit was increased by 6.2 percent as approved by the General Appropriations Act effective with the Fall 2008 term. The College increased credit course tuition fees by 7.86 percent beginning with the Fall 2008 term for the 2008-09 fiscal year as approved during the legislative session in May 2008.
- Of the \$11.7 million operating revenues, auxiliary enterprises comprised \$2.9 million, or 25.2 percent; Federal grants and contracts accounted for \$0.7 million, or 6.3 percent; and State, local, and private grants totaled \$0.5 million, or 4.4 percent. The bookstore accounted for the largest percentage of the auxiliary revenues.

The College experienced a reduction in Federal and local grants due to continued decreases in current grant funding and elimination of previous grant funding opportunities.

Component Unit

The following chart presents the Foundation’s revenue by source for the fiscal years ended December 31, 2008, and December 31, 2007:

**Operating Revenues: Component Unit
(In Thousands)**



The Foundation’s operating revenue totaled \$0.8 million, which was primarily derived from State, local, and nongovernmental grants and contracts. State matching grant funds decreased by 96 percent from the prior fiscal year. The net operating loss of \$0.9 million in the current fiscal year was attributed to decreased State matching funds and increased funding needs.

Nonoperating revenue for the Foundation is comprised of investment income and net change in value in investments for unrestricted and restricted donor funds. Nonoperating revenues for the current fiscal year reflects a loss of \$8.2 million versus gains of \$1.9 million for the prior fiscal year, a decrease of \$10.1 million, or 524 percent. The decrease is attributable to lower investment income resulting in greater realized and unrealized losses on investments in the current fiscal year. Foundation expenses exceeded revenues during the current fiscal year resulting in net assets decreasing by \$8.7 million to \$27 million.

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.

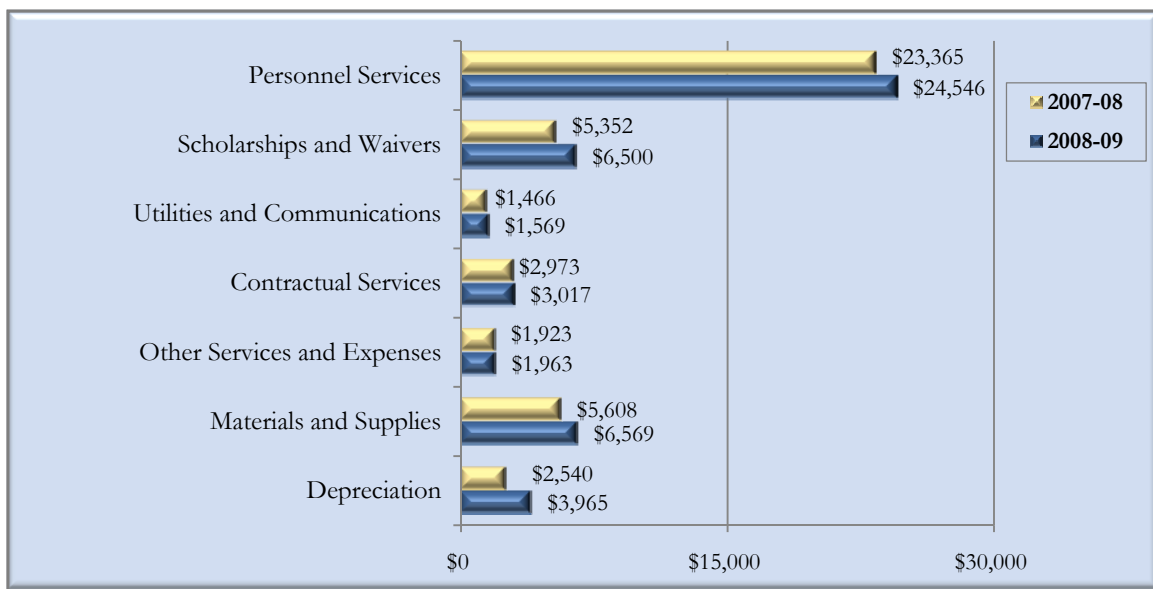
Operating expenses for the College and its component unit for the respective periods ended are presented in the following table:

**Operating Expenses
(In Thousands)**

	College		Component Unit	
	6-30-09	6-30-08	12-31-08	12-31-07
Operating Expenses				
Personnel Services	\$ 24,546	\$ 23,365	\$ 286	\$ 209
Scholarships and Waivers	6,500	5,352	1,211	1,164
Utilities and Communications	1,569	1,466		
Contractual Services	3,017	2,973	107	105
Other Services and Expenses	1,963	1,923	42	44
Materials and Supplies	6,569	5,608	13	8
Depreciation	3,965	2,540	6	6
Total Operating Expenses	\$ 48,129	\$ 43,227	\$ 1,665	\$ 1,536

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 \$4.9 million, or 11.3 percent, from \$43.2 million to \$48.1 million. These changes were the result of the following factors:

- Personnel services (employee salaries and benefits) totaled \$24.5 million for 2008-09 fiscal year, an increase of \$1.2 million, or 5.1 percent. This amount includes an average 2 percent annual salary increase for full-time employees, longevity increases for instructional and noninstructional employees, 9 new full-time positions, and increases in retirement and health insurance costs.
- Scholarships and waivers expenditures increased by \$1.1 million, or 21.4 percent, in part due to the increased demand for financial aid associated with the enrollment growth of 11.6 percent during the fiscal year. The corresponding gift and grants (student aid) recorded as nonoperating revenue also increased.

Component Unit

The Foundation’s operating expenses were \$1.7 million for the fiscal year ended December 31, 2008, an increase of \$0.1 million over the prior fiscal year. The primary component of the Foundation’s operating budget expense (72.7 percent in the current fiscal year) consists of grants made by the Foundation to the College to support various programs including medical and technical instructional equipment, faculty and staff development and support, and student financial aid.

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	\$ 19,229	\$ 20,502
Gifts and Grants	13,916	10,744
Investment Income	419	819
Net Realized and Unrealized Loss on Investments	(65)	(16)
Other Nonoperating Revenues	44	45
Interest on Capital Asset-Related Debt	(10)	(15)
Other Nonoperating Expenses	(1)	
Net Nonoperating Revenues	\$ 33,532	\$ 32,079

Total net nonoperating revenues for the College increased by \$1.5 million, or 4.5 percent, compared to the prior fiscal year. State appropriations for the 2008-09 fiscal year were \$19.2 million, or 57.3 percent, of total nonoperating revenue of \$33.5 million, and represents a decrease of \$1.3 million compared to the prior fiscal year. Gifts and grants for the 2008-09 fiscal year included Federal and State grants and contracts amounting to \$13.9 million, or 41.5 percent, of total nonoperating revenues. Federal Pell grants account for the greatest portion of gifts and grant revenue. Other State grants include Bright Futures and Florida Student Assistance Grants. Investment income totaled \$0.4 million, or 1.2 percent, of nonoperating revenue, reflecting a \$0.4 million decrease from the prior fiscal year due to the continued declining interest rate environment.

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	\$ 23,701	\$ 32,617
Capital Grants, Contracts, Gifts, and Fees	1,294	1,077
Total	\$ 24,995	\$ 33,694

Capital appropriations primarily consist of \$23.5 million of State Public Education Capital Outlay (PECO) funds received during the 2008-09 fiscal year for new buildings and renovations, which represents a decrease of PECO capital appropriations received compared to the prior fiscal year. The College received PECO funding in 2007-08 fiscal year for the construction of the Spring Hill Center. There were no new major construction projects in the 2008-09 fiscal year. Capital grants, contracts, gifts, and fees increased by \$0.2 million compared to the prior fiscal year due primarily to the increase in the per credit hour capital improvement fee from \$5.37 to \$5.79, for in-state students, and \$15.44 to \$17.58, for out-of-state students, beginning with the Fall 2008 term.

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	\$ (31,331)	\$ (27,984)
Noncapital Financing Activities	33,144	31,246
Capital and Related Financing Activities	(4,372)	2,576
Investing Activities	268	794
Net Increase (Decrease) in Cash and Cash Equivalents	(2,291)	6,632
Cash and Cash Equivalents, Beginning of Year	23,075	16,443
Cash and Cash Equivalents, End of Year	\$ 20,784	\$ 23,075

Major sources of funds came from State appropriations (\$19.2 million), PECO funds (\$16.5 million), gifts and grants (\$13.9 million), net student tuition and fees (\$6.9 million), grants and contracts (\$1.3 million), and auxiliary enterprises (\$3 million). Cash and cash equivalents decreased by \$2.3 million in the 2008-09 fiscal year as a result of the following factors:

- Net cash used by operating activities and cash inflows from State appropriations and gifts and grants (primarily financial aid), generated cash inflows of \$1.8 million for the 2008-09 fiscal year. The major sources of cash used by operating activities include payments to employees (\$24.3 million), payments to suppliers (\$11.6 million), and scholarships (\$6.5 million).
- Net cash used by capital and related financing activities amounted to approximately \$4.4 million for the 2008-09 fiscal year and was used primarily for purchases of capital assets. Amounts due from State for capital appropriations increased from the 2007-08 fiscal year to the 2008-09 fiscal year, due to the increase in the number of capital projects in progress during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2009, the College had \$112.4 million in capital assets, less accumulated depreciation of \$33.9 million, for net capital assets of \$78.5 million. Depreciation charges for the current fiscal year totaled \$4 million. The following table summarizes the College’s capital assets for the 2008-09 fiscal year:

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

<u>Capital Assets</u>	<u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>
Land	\$ 1,648	\$	\$	\$ 1,648
Buildings	63,292	19,901		83,193
Other Structures and Improvements	8,422	2,790		11,212
Furniture, Machinery, and Equipment	3,319	352	178	3,493
Assets Under Capital Leases	274			274
Construction in Progress	13,493	11,038	11,937	12,594
Total	90,448	34,081	12,115	112,414
Less, Accumulated Depreciation:				
Buildings	20,700	2,494		23,194
Other Structures and Improvements	6,495	1,020		7,515
Furniture, Machinery, and Equipment	2,700	395	178	2,917
Assets Under Capital Leases	217	55		272
Total Accumulated Depreciation	30,112	3,964	178	33,898
Capital Assets, Net	\$ 60,336	\$ 30,117	\$ 11,937	\$ 78,516

Capital asset additions during the current fiscal year included the following:

- Building additions consisted of remodeling the North Campus gym in Brooksville and a classroom building; the addition of a plant operations building and the Conference and Instructional Centers at the West Campus in New Port Richey; painting of buildings A-E at the West Campus in New Port Richey; renovation of the M Building courtyard at the West Campus in New Port Richey; renovation of the Learning Labs at the East and North Campuses; and painting of the PST Building at the East Campus in Dade City.
- Additions to other structures and improvements consisted of the addition of a chiller plant at the North Campus in Brooksville, renovation of the bridge at the West Campus in New Port Richey, and the addition of a new entrance and parking lot at the West Campus in New Port Richey.
- Furniture, machinery, and equipment additions consisted of technology equipment, mainly consisting of computers, computer related equipment, furniture, educational equipment, office equipment, vehicles, and grounds equipment.

- Construction in progress additions included the East Campus Entrance, Plant Operations Building, and Welding Shop, and construction of the new Spring Hill Center.

The College has \$33.8 million in construction contract commitments at June 30, 2009. The contract commitments are for projects that include \$0.3 million for the West Campus Gym Remodel for architectural services; \$3.3 million for the East Campus Entrance and Welding Shop for both architectural and construction management services; and \$30.2 million for architectural and construction management services for the construction of the new Spring Hill Center. State appropriations together with local funds are expected to finance the construction, renovation, and purchase of land and facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, neither the College nor the Foundation had any outstanding bonded debt.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Pasco-Hernando Community 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, State funding was reduced by 7.8 percent or \$1.5 million for the 2009-10 fiscal year, which was temporarily offset by the appropriation of Federal Stabilization funds. In response to reductions in State appropriations, the Board of Trustees increased the tuition rate by 8 percent to take effect beginning with the Fall 2009 term. The College's current financial and capital plans indicate that the infusion of additional financial resources resulting from an increase in tuition rates will be necessary to maintain its present level of services.

The increase in the budget for the 2009-10 fiscal year provides for full-time faculty and staff longevity increases for eligible employees, anticipated employee health insurance premium increases, and increases in utilities, insurance, and other contractual obligations. In addition, the budget includes a provision for a maximum 4 percent mid-year nonrecurring salary adjustment, subject to continued enrollment growth and funding availability. For the 2009-10 fiscal year, the College is projecting student fee revenues of \$11.2 million based on an anticipated enrollment of 5,724 fee-paying full-time equivalent students. Although the College anticipates continued enrollment growth, the proposed 2009-10 fiscal year budget is conservatively based on the premise of sustaining current enrollment. The College continues to implement cost-saving measures to reduce expenses and increase net assets and board designated reserves as a preventative measure to offset potential State funding reductions and temporary Federal Stabilization funds while insuring the continuation of current operation.

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 of Administration and Finance, Pasco-Hernando Community College, 10230 Ridge Road, New Port Richey, Florida 34654.

BASIC FINANCIAL STATEMENTS

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2009**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 12,800,117.98	\$ 1,536,229.00
Restricted Cash and Cash Equivalents	1,203,994.92	
Investments		232,797.00
Accounts Receivable, Net	398,730.97	119,077.00
Notes Receivable, Net		13,057.00
Due from Other Governmental Agencies	48,483,131.19	22,028.00
Due from Component Unit	121,259.09	
Inventories	534,222.83	
Prepaid Expenses	554,554.48	2,849.00
Deposits - Other	500.00	
Other Assets	262.00	
Total Current Assets	64,096,773.46	1,926,037.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,779,248.78	
Restricted Investments		12,760,850.00
Investments	85,995.67	12,249,514.00
Deposits Held for Others		69,256.00
Other Assets		56,256.00
Depreciable Capital Assets, Net	64,273,903.37	76,435.00
Nondepreciable Capital Assets	14,241,952.41	84,294.00
Total Noncurrent Assets	85,381,100.23	25,296,605.00
TOTAL ASSETS	\$ 149,477,873.69	\$ 27,222,642.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,768,032.89	\$ 22,028.00
Salary and Payroll Taxes Payable	1,944,193.78	
Retainage Payable	621,727.04	
Due to College		132,650.00
Deferred Revenue	21,515.56	25,003.00
Deposits Held for Others	654,307.61	69,256.00
Long-Term Liabilities - Current Portion:		
Capital Lease Payable	50,222.94	
Compensation Absences Payable	217,522.77	
Total Current Liabilities	6,277,522.59	248,937.00
Noncurrent Liabilities:		
Compensation Absences Payable	2,410,058.60	
Other Postemployment Benefits Payable	30,562.56	
Total Noncurrent Liabilities	2,440,621.16	
TOTAL LIABILITIES	8,718,143.75	248,937.00

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2009**

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 78,465,632.84	\$ 216,985.00
Restricted:		
Nonexpendable:		
Endowment		20,914,487.00
Expendable:		
Grants and Loans	415,029.99	3,656,192.00
Scholarships	258,311.68	1,893,761.00
Capital Projects	51,913,997.74	
Unrestricted	9,706,757.69	292,280.00
Total Net Assets	140,759,729.94	26,973,705.00
TOTAL LIABILITIES AND NET ASSETS	\$ 149,477,873.69	\$ 27,222,642.00

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

**PASCO-HERNANDO 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 \$6,037,610.54	\$ 7,180,109.37	\$
Federal Grants and Contracts	733,096.02	
State and Local Grants and Contracts	87,906.11	27,018.00
Nongovernmental Grants and Contracts	420,417.18	396,561.00
Sales and Services of Educational Departments	9,825.00	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,903,743.68	2,939,327.70	
Other Operating Revenues	306,579.68	374,116.00
Total Operating Revenues	11,677,261.06	797,695.00
EXPENSES		
Operating Expenses:		
Personnel Services	24,546,411.82	285,680.00
Scholarships and Waivers	6,500,610.68	1,210,727.00
Utilities and Communications	1,569,187.60	
Contractual Services	3,016,967.72	107,467.00
Other Services and Expenses	1,962,675.59	42,103.00
Materials and Supplies	6,568,608.16	12,838.00
Depreciation	3,964,724.24	6,364.00
Total Operating Expenses	48,129,185.81	1,665,179.00
Operating Loss	(36,451,924.75)	(867,484.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	19,229,090.00	
Gifts and Grants - Student Aid	13,826,628.86	
Gifts and Grants - Other	89,334.00	
Investment Income	418,743.95	780,768.00
Net Realized and Unrealized Loss on Investments	(65,304.83)	(9,016,957.00)
Other Nonoperating Revenues	43,954.42	
Interest on Capital Asset-Related Debt	(9,807.00)	
Other Nonoperating Expenses	(541.56)	
Net Nonoperating Revenues (Expenses)	33,532,097.84	(8,236,189.00)
Loss Before Other Revenues, Expenses, Gains, or Losses	(2,919,826.91)	(9,103,673.00)
Capital Appropriations	23,700,535.05	
Capital Grants, Contracts, Gifts, and Fees	1,294,168.13	
Additions to Permanent Endowments		422,662.00
Total Other Revenues	24,994,703.18	422,662.00
Increase (Decrease) in Net Assets	22,074,876.27	(8,681,011.00)
Net Assets, Beginning of Year	118,684,853.67	35,654,716.00
Net Assets, End of Year	\$ 140,759,729.94	\$ 26,973,705.00

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

PASCO-HERNANDO 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	\$ 6,892,684.86
Grants and Contracts	1,298,947.54
Payments to Suppliers	(11,582,037.46)
Payments for Utilities and Communications	(1,569,187.60)
Payments to Employees	(19,274,682.31)
Payments for Employee Benefits	(4,992,754.59)
Payments for Scholarships	(6,500,610.68)
Auxiliary Enterprises, Net	3,022,372.17
Sales and Services of Educational Departments	9,825.00
Other Receipts	1,363,977.44
	(31,331,465.63)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	19,229,090.00
Gifts and Grants Received for Other Than Capital or Endowment Purposes	13,915,962.86
Other Nonoperating Disbursements	(541.56)
	33,144,511.30
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	16,518,983.05
Capital Grants and Gifts Received	1,294,168.13
Proceeds from Sale of Capital Assets	43,954.42
Purchases of Capital Assets	(22,157,751.23)
Principal Paid on Capital Lease	(61,299.84)
Interest Paid on Capital Lease	(9,807.00)
	(4,371,752.47)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	418,863.76
Purchase of Investments	(151,300.50)
	267,563.26
Net Decrease in Cash and Cash Equivalents	(2,291,143.54)
Cash and Cash Equivalents, Beginning of Year	23,074,505.22
Cash and Cash Equivalents, End of Year	\$ 20,783,361.68

**PASCO-HERNANDO 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	\$ (36,451,924.75)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,964,724.24
Changes in Assets and Liabilities:	
Receivables, Net	2,569.96
Due from Other Governmental Agencies	(151,042.75)
Inventories	(33,785.99)
Prepaid Expenses	(153,331.73)
Other Assets	(762.00)
Accounts Payable	1,111,715.28
Salaries and Payroll Taxes Payable	223,589.75
Deferred Revenue	5,894.86
Deposits Held for Others	95,502.33
Compensated Absences Payable	42,874.61
Other Postemployment Benefits Payable	12,510.56
NET CASH USED BY OPERATING ACTIVITIES	\$ (31,331,465.63)

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY

During the 2008-09 fiscal year, the College recognized unrealized losses of \$65,304.83 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.

**PASCO-HERNANDO COMMUNITY 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 Pasco-Hernando Community College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine 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 Pasco and Hernando Counties.

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 Pasco-Hernando Community 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 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.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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 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.

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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

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, realized and 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. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against tuition and fee revenue and auxiliary enterprises 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, and cash held with the State Treasury and State Board of Administration Local Government Surplus Trust Fund Investment Pool (LGIP), which, effective July 1, 2009, is known as Florida PRIME. 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 the State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration 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 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.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009

At June 30, 2009, the College reported as cash equivalents at fair value \$16,523,397.36 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 & 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 \$1,239,020.52 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 & 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; furniture, machinery, and equipment; and assets under capital leases. 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, Portables – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, Educational Equipment – 5 years
 - Furniture – 7 years
- Assets Under Capital Lease – 5 years

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

Noncurrent Liabilities. Noncurrent liabilities include a capital lease payable, compensated absences payable, and other postemployment benefits payable 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.

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 restricted investments at fair value of \$85,995.67 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 0.5137 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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009**

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.

Component Unit Investments

Investments held by the Pasco-Hernando Community College Foundation, Inc. (Foundation), at December 31, 2008, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
U.S. Government Obligations	\$ 2,226,207
Federal Agency Obligations	6,526,108
Corporate Bonds and Notes	2,231,192
Asset-Backed Securities	379,442
Mortgage-Backed Securities	886,793
Equity Mutual Funds	5,712,077
Stocks and Other Equity Securities	7,048,773
Land Held for Investment	232,569
Total Component Unit Investments	\$ 25,243,161

The following risks apply to the Foundation’s investments other than stocks and other equity securities and land held for investment:

Interest Rate Risk: Interest rate risk is the risk that changing interest rates will adversely affect the fair value of an investment. The Foundation’s investment policy, as a means of mitigating this risk, calls for maintaining significant balances in cash equivalents and other short-term investments as changing interest rates have limited impact on these securities prices and limiting the duration of bond investments to 80 to 120 percent of the fixed-income benchmark. Maturities of the Foundation’s investments in debt securities and mutual funds are shown in the following schedule:

<u>Investment</u>	<u>Investment Matures (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Government Obligations	\$ 2,226,207	\$ 5,243	\$ 796,431	\$ 1,424,533	\$
Federal Agency Obligations	6,526,108	76,992	1,101,319	1,269,981	4,077,816
Corporate Bonds and Notes	2,231,192	150,562	1,532,372	548,258	
Asset-Backed Securities	379,442		347,771		31,671
Mortgage-Backed Securities	886,793				886,793
Equity Mutual Funds	5,712,077	5,712,077			
Total	\$ 17,961,819	\$ 5,944,874	\$ 3,777,893	\$ 3,242,772	\$ 4,996,280

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality is evaluated by independent investment rating organizations such as Standard &

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
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Poor’s and Moody’s Investor Services. The lower the investment rating the greater the risk that a bond issuer may default or fail to meet its obligation. Obligations of the United States government, or obligations explicitly guaranteed by the United States government, are not considered to have credit risk. The Foundation’s investment policy limits fixed income securities to those that are rated at least Baa2 by Moody’s and BBB by Standard & Poor’s. In addition, if investments are downgraded below the minimum rating, the security shall be sold within 10 trading days. At December 31, 2008, the Foundation’s fixed income securities (excluding United States government obligations) were rated as follows:

Investment	Ratings		Percentage of Total Debt Securities Investments
	Standard & Poor's	Moody's	
U.S. Government Obligations	Not rated	Not rated	18%
Federal Agency Obligations	AAA	Aaa	53%
Corporate Bonds and Notes	BBB - AAA	Baa2 - Aaa	19%
Asset-Backed Securities	AAA	Aaa	3%
Mortgage-Backed Securities	AAA	Aaa	7%

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Foundation may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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 states that custodial credit risk for deposits will be mitigated by limiting deposits to the amount insured by the Federal Depositors Insurance Corporation for each banking institution. Custodial credit risk for investments will be mitigated by prohibiting investments in securities that are not eligible for depository trust company holding. The Foundation’s fixed income securities are registered in the name of the Foundation and, according to industry standard, held in “book entry” format per the investment management agreements with the individual financial institutions managing those assets.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The Foundation’s investment policy limits the amount of investments with any one issuer to 5 percent of an investment manager’s equity portfolio, except for investments in United States government guaranteed investments, mutual funds, external investment pools, and other pooled investments. In addition, investments in nongovernmental bonds are limited to 2 percent of an investment manager’s fixed income portfolio.

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Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates between the United State dollar and foreign currencies could adversely affect an investment's fair value. As of December 31, 2008, the Foundation's portfolio did not hold any investments subject to this risk. The Foundation's investment policy limits foreign investments to 15 percent of the Foundation assets.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for Title IV repayments, student fee deferments, various student services provided by the College, government receivables, unused credit memos, and third party nongovernmental receivables. These receivables are reported net of a \$144,264.56 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$48,069,088 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The amount due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid, and agreements to support a portion of the College's programs. The College's financial statements are reported for the fiscal year ended June 30, 2009. The College's component unit has a fiscal year ending other than June 30. Accordingly, the amount reported by the College as due from the component unit on the statement of net assets does not agree with the amount reported by the component unit as due to the College.

6. INVENTORIES

Inventories consist of items for resale by the campus bookstore 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, 2009, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 1,647,698.67	\$	\$	\$ 1,647,698.67
Construction in Progress	13,492,538.54	11,039,014.73	11,937,299.53	12,594,253.74
Total Nondepreciable Capital Assets	\$ 15,140,237.21	\$ 11,039,014.73	\$ 11,937,299.53	\$ 14,241,952.41
Depreciable Capital Assets:				
Buildings	\$ 63,292,254.88	\$ 19,900,498.61	\$	\$ 83,192,753.49
Other Structures and Improvements	8,422,094.17	2,790,543.03		11,212,637.20
Furniture, Machinery, and Equipment	3,319,097.97	352,196.19	178,064.13	3,493,230.03
Assets Under Capital Lease	273,858.53			273,858.53
Total Depreciable Capital Assets	75,307,305.55	23,043,237.83	178,064.13	98,172,479.25
Less, Accumulated Depreciation:				
Buildings	20,699,398.26	2,494,243.03		23,193,641.29
Other Structures and Improvements	6,494,815.54	1,020,216.08		7,515,031.62
Furniture, Machinery, and Equipment	2,700,242.59	395,222.16	178,064.13	2,917,400.62
Assets Under Capital Lease	217,459.38	55,042.97		272,502.35
Total Accumulated Depreciation	30,111,915.77	3,964,724.24	178,064.13	33,898,575.88
Total Depreciable Capital Assets, Net	\$ 45,195,389.78	\$ 19,078,513.59	\$	\$ 64,273,903.37

8. DEFERRED REVENUE

Deferred revenue of \$21,515.56 includes amounts collected for Pay-for-Print and PHCC gift cards that have not been used as of June 30, 2009.

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2009, include a capital lease payable, compensated absences payable, and other postemployment 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
Capital Lease Payable	\$ 111,522.78	\$	\$ 61,299.84	\$ 50,222.94	\$ 50,222.94
Compensated Absences Payable	2,584,706.76	356,964.58	314,089.97	2,627,581.37	217,522.77
Other Postemployment Benefits Payable	18,052.00	40,218.56	27,708.00	30,562.56	
Total Long-Term Liabilities	\$ 2,714,281.54	\$ 397,183.14	\$ 403,097.81	\$ 2,708,366.87	\$ 267,745.71

Capital Lease Payable. Copier equipment in the amount of \$273,858.53 is being acquired under capital lease agreements. The imputed interest rate is 10.62 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2009, are as follows:

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Fiscal Year Ending June 30	Amount
2010	\$ 53,750.04
Total Minimum Payments	53,750.04
Less, Amount Representing Interest	3,527.10
Present Value of Minimum Payments	\$ 50,222.94

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 \$2,627,581.37. Of this amount, \$217,522.77 is considered a current liability as this is the amount expected to be paid in the coming fiscal year, and represents payments for employees in the final year of the Deferred Retirement Option Program.

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 (Plan) administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College’s healthcare 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 College and the Consortium do 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.

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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, 41 retirees received postemployment healthcare benefits and 35 retirees received postemployment life insurance benefits. The College provided required contributions of \$27,708 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$184,145.

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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 27,486
Amortization of Unfunded Actuarial Accrued Liability	12,191
Interest on Normal Cost and Amortization	_____
Annual Required Contribution	39,677
Interest on Net OPEB Obligation	542
Adjustment to Annual Required Contribution	_____
Annual OPEB Cost (Expense)	40,219
Contribution Toward the OPEB Cost	<u>(27,708)</u>
Increase in Net OPEB Obligation	12,511
Net OPEB Obligation, Beginning of Year	<u>18,052</u>
Net OPEB Obligation, End of Year	<u>\$ 30,563</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, 2009 and for the current and transition years were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	39,677	54.5%	18,052
2008-09	40,219	24.0%	30,563

Funded Status and Funding Progress. As of June 30, 2008, the actuarial accrued liability for benefits was \$365,736, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$365,736 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$15,198,446.78 for the 2007-08 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.4 percent.

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

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, 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 2008-09 fiscal years’ 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 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 for the 2008-09 fiscal year, reduced by 1 percent per year for two years, then one-half percent per year thereafter, to an ultimate rate of five percent after five years. The unfunded actuarial accrued liability is being amortized as a level

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percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2009, was 28 years.

10. 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.

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:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	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 in which reemployed.

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2007, June 30, 2008, and June 30, 2009, totaled \$1,203,018, \$1,290,507, and \$1,316,903, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 58 College participants during the 2008-09 fiscal year. Required contributions made to the PEORP totaled \$240,388.

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

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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 26 College participants during the 2008-09 fiscal year. Required employer contributions made to the Program totaled \$156,493.

11. CONSTRUCTION COMMITMENTS

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

Project Description	Total Commitment	Completed to Date	Balance Committed
East Campus Welding Shop, New Entrance, and Plant Operations:			
Architect	\$ 339,117.00	\$ 280,876.38	\$ 58,240.62
Construction Manager	4,405,962.00	1,119,653.85	3,286,308.15
West Campus Gym Remodel:			
Architect	323,701.00		323,701.00
Spring Hill Center:			
Architect	2,627,613.00	2,244,639.12	382,973.88
Construction Manager	37,272,031.00	7,501,367.28	29,770,663.72
Total	\$ 44,968,424.00	\$ 11,146,536.63	\$ 33,821,887.37

12. RISK MANAGEMENT PROGRAMS

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

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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 of up to \$175 million effective March 1, 2009. Insurance coverage obtained through the Consortium included health and hospitalization, life, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

13. CAPITAL CREDITS

The College participated in a nonprofit electrical cooperative, the Withlacoochee River Electric Cooperative, Inc., established under Chapter 425, Florida Statutes. In accordance with this Statute, revenues in excess of operating expenses, unless otherwise determined by a vote of membership, are distributed by the Cooperative on a pro rated basis to its members' accounts. Capital credits are distributed only after the Cooperative meets a certain margin of profit required by the Rural Electrification Administration. At June 30, 2009, the accumulated credits to the College's account were \$580,515.29.

14. 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.

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.

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

<u>Source</u>	<u>Amount</u>
Gross Receipts Tax (Public Education Capital Outlay)	\$ 23,459,780.00
College Program Fund	16,984,646.00
Education Enhancement Trust Fund (Lottery)	2,244,444.00
Bright Futures Scholarship Program	1,540,604.24
Florida Student Assistance Grants	1,330,101.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	240,755.05
Restricted Contracts and Grants	177,240.11
Other State Scholarship Program	17,925.40
Total	<u><u>\$ 45,995,495.80</u></u>

15. 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	\$ 12,665,991.14
Academic Support	3,973,733.56
Student Services	5,287,512.56
Institutional Support	5,700,101.79
Operation and Maintenance of Plant	5,560,940.24
Scholarships and Fellowships	8,415,121.11
Depreciation	3,964,724.24
Auxiliary Enterprises	2,561,061.17
Total Operating Expenses	<u><u>\$ 48,129,185.81</u></u>

16. CURRENT UNRESTRICTED FUNDS

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

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

Statement of Current Unrestricted Funds Net Assets

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 12,800,117.98
Accounts Receivable, Net	381,478.58
Due from Other Governmental Agencies	177,971.44
Due from Component Unit	58,399.26
Inventories	534,222.83
Prepaid Expenses	476,927.08
Noncurrent Assets:	
Investments	85,995.67
TOTAL ASSETS	<u><u>\$ 14,515,112.84</u></u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 220,255.04
Salary and Payroll Taxes Payable	1,904,671.07
Deferred Revenue	21,515.56
Deposits Held for Others	3,769.55
Compensated Absences Payable	217,522.77
Total Current Liabilities	<u>2,367,733.99</u>
Noncurrent Liabilities:	
Compensated Absences Payable	2,410,058.60
Other Postemployment Benefits Payable	30,562.56
TOTAL LIABILITIES	<u>4,808,355.15</u>
TOTAL NET ASSETS	<u>9,706,757.69</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 14,515,112.84</u></u>

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**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Assets**

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship	
Allowances of \$6,037,610.54	\$ 5,700,783.12
Nongovernmental Grants and Contracts	218,614.23
Sales and Services of Educational Departments	9,825.00
Auxiliary Enterprises, Net of Scholarship	
Allowances of \$1,903,743.68	2,939,327.70
Other Operating Revenues	<u>302,279.39</u>
Total Operating Revenues	<u>9,170,829.44</u>

EXPENSES

Operating Expenses:

Personnel Services	23,694,053.93
Scholarships and Waivers	3,040.56
Utilities and Communications	1,556,097.40
Contractual Services	2,677,163.61
Other Services and Expenses	1,681,719.21
Materials and Supplies	<u>4,756,260.57</u>
Total Operating Expenses	<u>34,368,335.28</u>

Operating Loss (25,197,505.84)

NONOPERATING REVENUES

State Appropriations	19,229,090.00
Gifts and Grants	36,127.71
Investment Income	204,492.40
Other Nonoperating Revenues	<u>43,954.42</u>

Net Nonoperating Revenues 19,513,664.53

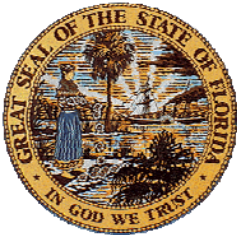
**Loss Before Other Revenues,
Expenses, Gains, or Losses** (5,683,841.31)

Capital Appropriations	3,612.00
Transfers to/from Other Funds	<u>7,601,459.07</u>

Increase in Net Assets 1,921,229.76

Net Assets, Beginning of Year 7,785,527.93

Net Assets, End of Year \$ 9,706,757.69



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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 Pasco-Hernando Community 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
March 25, 2010