REPORT NO. 2012-153
MARCH 2012

PASCO-HERNANDO COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2011

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

	County
Judy R. Parker, Vice Chair to 7-19-10, Chair from 7-20-10 (1)	Pasco
Jeanne M. Gavish, Vice Chair from 7-20-10 (2)	Hernando
Deborah G. Kilgore, Chair to 7-19-10 (3)	Hernando
John L. DiRienzo	Hernando
Irvin Homer (1)	Hernando
Dr. S.K. Rao Musunuru	Pasco
Wilton E. Simpson (1)	Pasco
Thomas E. Weightman (1)	Pasco
Gary L. Worthley (2)	Pasco

Dr. Katherine M. Johnson, President

Notes: (1) Board members served beyond the end of their term, May 31, 2011.
(2) Board members served beyond the end of their term, May 31, 2010.
(3) Board member resigned on July 31, 2010, and position remained vacant through June 30, 2011.

The audit team leader was Eric Davis, 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) 487-9175; 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, 2011. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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

AUDITOR GENERAL
STATE OF FLORIDA

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111 West Madison Street
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DAVID W. MARTIN, CPA
AUDITOR GENERAL

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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, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pasco-Hernando Community College and of its discretely presented component unit as of June 30, 2011, 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.

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

Respectfully submitted,

David W. Martin, CPA
March 20, 2012

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, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activities of the College for the fiscal years ended June 30, 2010, and June 30, 2011, and its component unit the Pasco-Hernando Community College Foundation, Inc., for the fiscal years ended December 31, 2009, and December 31, 2010.

FINANCIAL HIGHLIGHTS

The College's assets totaled $190.1 million at June 30, 2011. This balance reflects a $31.1 million, or 19.6 percent, increase from the 2009-10 fiscal year, resulting primarily from increases to building additions and improvements, construction in progress, and increases in Public Education Capital Outlay (PECO) revenues for new construction and remodeling projects. While assets grew, liabilities decreased by $2.7 million, or 25.5 percent, totaling $7.8 million at June 30, 2011, compared to $10.5 million at June 30, 2010. As a result, the College's net assets increased by $33.8 million, or 22.8 percent, reaching a year-end balance of $182.3 million.

The College's operating revenues decreased by $0.3 million, or 2 percent, to $12.9 million for the 2010-11 fiscal year. Tuition and fees, net of scholarship allowances, increased by $0.1 million, due to tuition increases and fee paying enrollment increases throughout the fiscal year. Operating expenses totaled $63.6 million for the 2010-11 fiscal year representing an increase of 12.8 percent from the 2009-10 fiscal year due mainly to increases in personnel expenses, contracted services, and scholarships and waivers. The increases in operating expenses were offset by increases in nonoperating revenues, primarily gifts and grants.

The 2010-11 fiscal year operating budget increased 16.3 percent from the 2009-10 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 remained unchanged at 74.9 percent of the proposed budget during 2009-10 and 2010-11 fiscal years. State noncapital appropriations for the College for the 2010-11 fiscal year increased from the 2009-10 fiscal year State noncapital appropriation amount by $1.9 million. An increase in student tuition and fees rates, continued enrollment growth, 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.

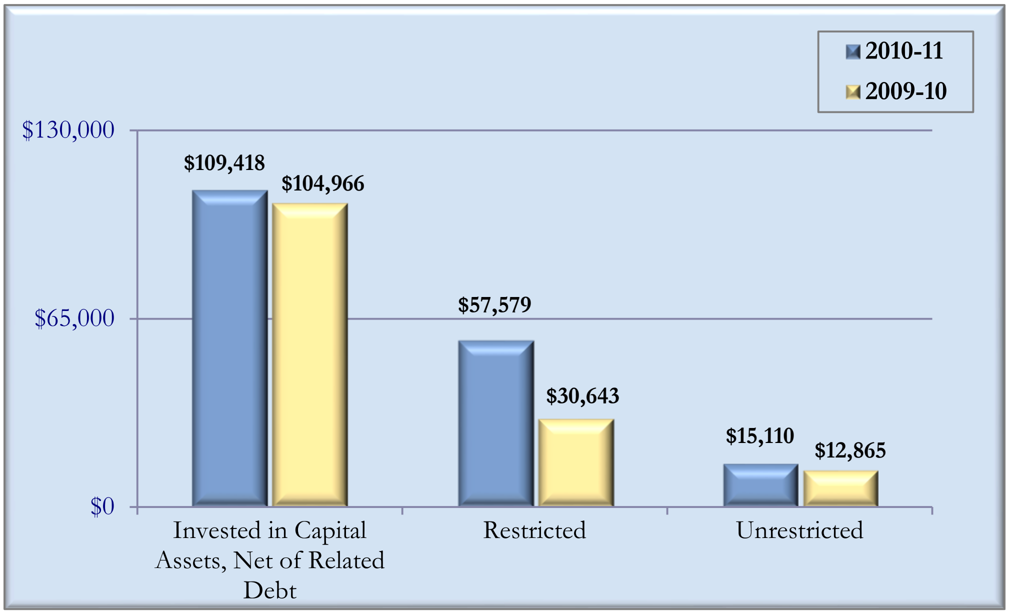
A condensed statement of assets, liabilities, and net assets of the College and its component unit for the respective fiscal years ended is shown in the following table:

Condensed Statement of Net Assets at
(In Thousands)

	College			Component Unit	
	6-30-11		6-30-10	12-31-10	12-31-09
Assets					
Current Assets	$ 67,578		$ 44,345	$ 3,220	$ 1,126
Capital Assets, Net	112,079		105,309	62	154
Other Noncurrent Assets	10,444		9,326	32,256	30,242
Total Assets	190,101		158,980	35,538	31,522
Liabilities					
Current Liabilities	2,937		7,768	879	443
Noncurrent Liabilities	4,887		2,738		
Total Liabilities	7,824		10,506	879	443
Net Assets					
Invested in Capital Assets, Net of Related Debt	109,418		104,966	62	211
Restricted	57,749		30,643	32,894	30,201
Unrestricted	15,110		12,865	1,703	667
Total Net Assets	$182,277		$148,474	$34,659	$31,079
Increase in Net Assets	$ 33,803	22.8%		$ 3,580	11.5%

The College's comparative net assets, by category, at June 30, 2011, and June 30, 2010, are shown as follows:

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



The College's assets totaled $190.1 million at June 20, 2011. This balance reflects a $31.1 million, or 19.6 percent, increase from the 2009-10 fiscal year, resulting 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 $67.6 and $122. million at June 30, 2011, respectively, compared to $44.3 million and $114.6 million at June 30, 2010, respectively, an increase of $23.2 million in current assets and a $7.9 million increase in noncurrent assets primarily due to the increase in due from other governmental agencies related to PECO appropriations for planning and construction of the new Porter Campus at Wiregrass in Wesley Chapel.
- While assets grew, liabilities decreased by $2.7 million, or 25.5 percent, totaling $7.8 million at June 30, 2011, compared to $10.5 million at June 30, 2010. Current liabilities decreased by $4.8 million primarily due to a reduction in accounts payable and retainage payable because of the completion of the Spring Hill Campus. Noncurrent liabilities increased by $2.1 million primarily due to the issuance of State Board of Education (SBE) bonds, totaling $2.4 million, related to the planning and construction of the new Porter Campus in Wesley Chapel.

As a result, the College's net assets increased by $33.8 million, or 22.8 percent, reaching a year-end balance of $182.3 million.

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

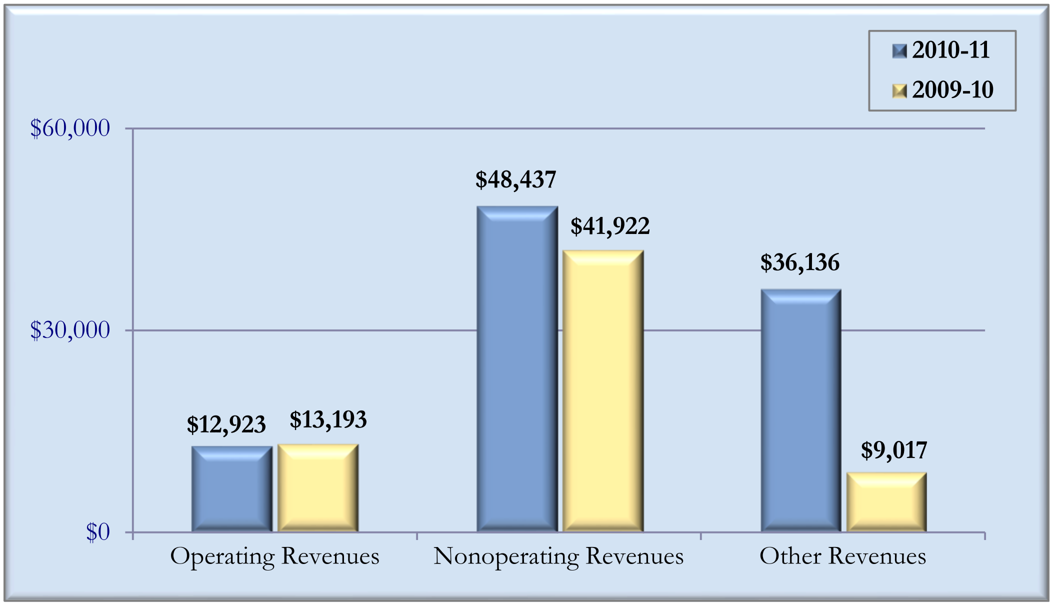
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-11	6-30-10	12-31-10	12-31-09
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	$ 8,301	$ 8,188	$	$
Federal Grants and Contracts	794	842		
State and Local Grants and Contracts	271	171	41	40
Nongovernmental Grants and Contracts	626	664	440	268
Sales and Services of Educational Departments	14	10		
Auxiliary Enterprises, Net of Scholarship Allowances	2,657	3,091		
Other Operating Revenues	260	227	361	335
Total Operating Revenues	12,923	13,193	842	643
Less, Operating Expenses	63,638	56,412	1,911	1,735
Operating Loss	(50,715)	(43,219)	(1,069)	(1,092)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	19,677	17,732		
Other Nonoperating Revenues	28,760	24,190	4,173	4,833
Nonoperating Expenses	(55)	(6)		
Net Nonoperating Revenues	48,382	41,916	4,173	4,833
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,333)	(1,303)	3,104	3,741
State Capital Appropriations	34,501	6,191		
Capital Grants, Contracts, Gifts, and Fees	1,635	2,826		
Additions to Permanent Endowments			476	364
Increase in Net Assets	33,803	7,714	3,580	4,105
Net Assets, Beginning of Year	148,474	140,760	31,079	26,974
Net Assets, End of Year	$ 182,277	$ 148,474	$ 34,659	$ 31,079

Operating Revenues

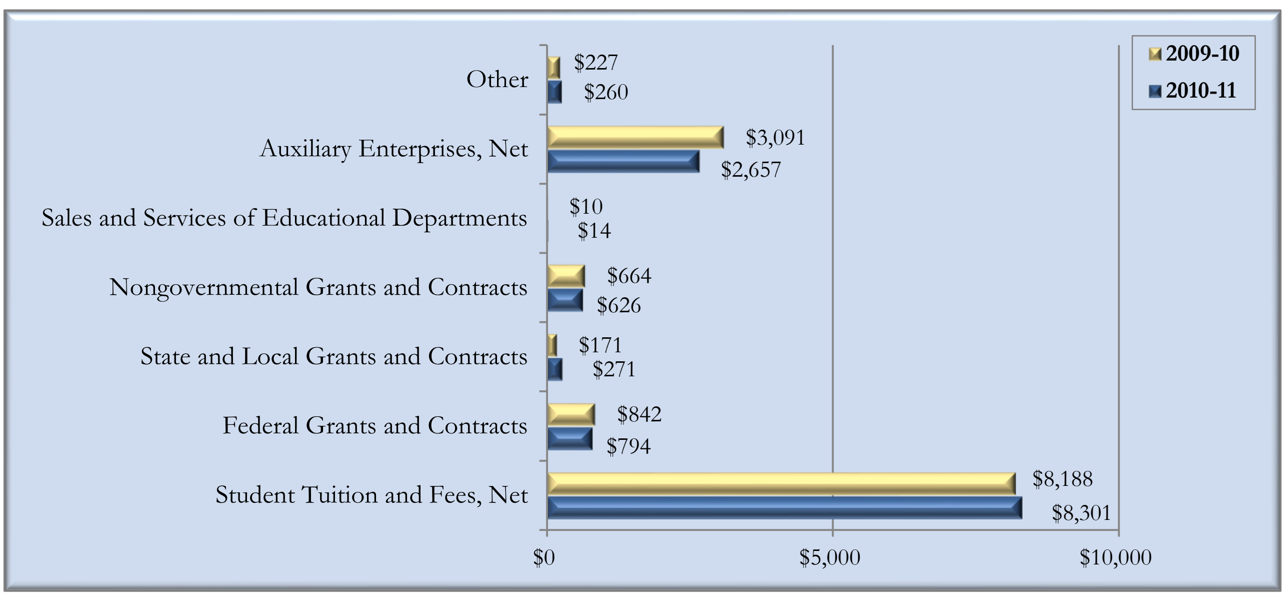
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value. The following chart presents the College's total revenues by source for the 2010-11 and 2009-10 fiscal years:

Total Revenues: College
(In Thousands)



The following chart presents the College's operating revenues for the 2010-11 and 2009-10 fiscal years:

Operating Revenues: College
(In Thousands)



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

- The College's operating revenues decreased by $0.3 million, or 2 percent, to $12.9 million for the 2010-11 fiscal year. Tuition and fees, net of scholarship allowances, increased by $0.1 million due to tuition increases and fee paying enrollment increases throughout the year. The standard fee for a Postsecondary Adult Vocational credit hour increased by 7.8 percent and credit course tuition fees increased by 8 percent beginning with the Fall 2010 term for the 2010-11 fiscal year as approved during the legislative session in May 2010.

- Of the $12.9 million operating revenues, auxiliary enterprises comprised $2.7 million, or 20.6 percent; Federal grants and contracts accounted for $0.8 million, or 6.1 percent; and State, local and nongovernmental contracts and nongovernmental grants and contracts totaled $0.9 million, or 6.9 percent. The bookstore accounted for the largest percentage of the auxiliary revenues.

Operating Expenses

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

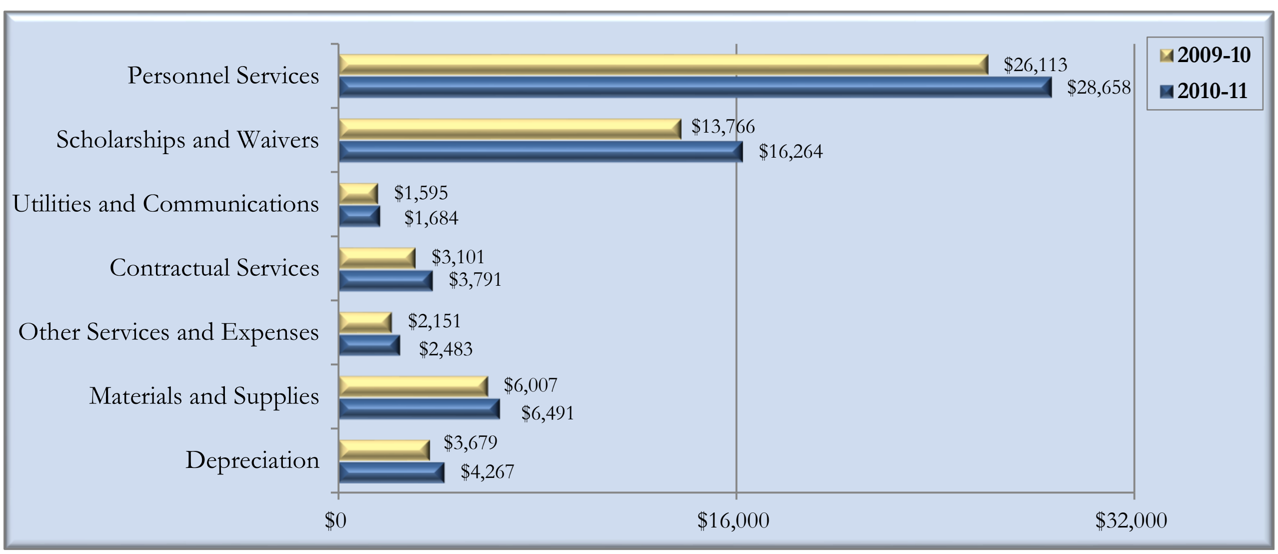
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

Operating Expenses
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-11	6-30-10	12-31-10	12-31-09
Operating Expenses				
Personnel Services	$ 28,658	$ 26,113	$ 346	$ 353
Scholarships and Waivers	16,264	13,766	1,385	1,234
Utilities and Communications	1,684	1,595		
Contractual Services	3,791	3,101	120	92
Other Services and Expenses	2,483	2,151	40	41
Materials and Supplies	6,491	6,007	16	8
Depreciation	4,267	3,679	4	7
Total Operating Expenses	$ 63,638	$ 56,412	$ 1,911	$ 1,735

The following chart presents the College's operating expenses for the 2010-11 and 2009-10 fiscal years:

Operating Expenses: College
(In Thousands)



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

- Personnel services increased by $2.5 million, or 9.7 percent, due in part to an average 4 percent annual salary increase for full-time employees, longevity increases for instructional and noninstructional employees, a 2 percent nonrecurring mid-year distribution, increases in retirement and health insurance costs, and increases in adjunct faculty and full-time faculty overload contracts due to continued enrollment growth. Due to continued enrollment growth 13 new positions were added Collegewide in addition to 17.75 new positions for the new Spring Hill Campus that opened Fall 2010.
- Scholarships and waivers expenditures increased by $2.5 million, or 18.1 percent, primarily due to increases in Federal Pell grants corresponding with increases in enrollment of students with financial need.
- Contracted services increased by $0.7 million, or 22.3 percent, due to the added security, cleaning, and landscaping contracted services at the new Spring Hill Campus; additional advertising for new position; increases in existing service contracts; and use of temporary services during peak enrollment periods.
- Materials and supplies increased by $0.5 million, or 8.1 percent, due primarily to the increase in software and technology and nontechnology equipment purchased for the new Spring Hill Campus.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2010-11 and 2009-10 fiscal years:

Nonoperating Revenues (Expenses): College
(In Thousands)

	2010-11	2009-10
State Noncapital Appropriations	$ 19,677	$ 17,732
Gifts and Grants	28,181	23,795
Investment Income	554	334
Net Realized and Unrealized Gain on Investments	21	39
Other Nonoperating Revenues	4	22
Interest on Capital Asset-Related Debt	(55)	(6)
Net Nonoperating Revenues	$ 48,382	$ 41,916

Total nonoperating revenues for the College increased by $6.5 million, or 15.4 percent, to $48.4 million for the 2010-11 fiscal year.

- State noncapital appropriations increased by $1.9 million from the 2009-10 fiscal year, due primarily to the increased College Program Funds appropriated by the Legislature.
- Gifts and grants increased by $4.4 million, which primarily was the result of an increase in student financial aid funds and includes a second years' receipt of $1.6 million in Federal American Recovery and Reinvestment Act (ARRA) funds. Federal Pell grants account for the greatest portion of gifts and grant revenue. Other State grants include Bright Futures and Florida Student Assistance Grants.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
State Capital Appropriations	$ 34,501	$ 6,191
Capital Grants, Contracts, Gifts, and Fees	1,635	2,826
Total	$ 36,136	$ 9,017

The above table summarizes the College's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years.

- Capital appropriations primarily consist of $34.2 million of PECO funds received during the 2010-11 fiscal year for new buildings and renovations. The College received the fourth appropriation of PECO funding of $33.4 million for the planning and construction of a new Porter Campus at Wiregrass in Wesley Chapel, and $0.8 million for general renovations and repairs.
- While capital grants, contracts, gifts, and fees in total decreased by $1.2 million (primarily due to the previous year's receipt of a $1.5 million donation of 61.5 acres of land for the future development of the Porter Campus at Wiregrass in Wesley Chapel) capital improvement fees increased by $0.2 million, or 12.9 percent, during the fiscal year 2010-11. This change was primarily due to an increase (beginning with the Fall 2010 term) in the per credit hour capital improvement fee from $6.25 to $6.75 (for in-state students), and from $25.24 to $27.25 (for out-of-state students), and the College's continued enrollment growth throughout the year.

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 2010-11 and 2009-10 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College
(In Thousands)

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	$ (49,704)	$ (40,803)
Noncapital Financing Activities	47,858	41,526
Capital and Related Financing Activities	2,882	3,524
Investing Activities	585	378
Net Increase in Cash and Cash Equivalents	1,621	4,625
Cash and Cash Equivalents, Beginning of Year	25,408	20,783
Cash and Cash Equivalents, End of Year	$ 27,029	$ 25,408

Major sources of funds came from State noncapital appropriations ($19.7 million), State capital appropriations ($12.3 million), net student tuition and fees ($7.8 million), gifts and grants ($28.2 million), capital grants and gifts ($1.6 million), grants and contracts ($1.8 million), proceeds from capital debt ($2.4 million), direct loan receipt

($7.6 million), and auxiliary enterprises ($2.5 million). Cash and cash equivalents increased by $1.6 million at 2010-11 fiscal year-end, as a result of the following factors:

- Net cash used by operating activities increased by $8.9 million compared to the prior fiscal year. The major sources of cash used by operating activities include payments to employees and for employee benefits ($29.9 million), payments to suppliers ($12.8 million), and payments for scholarships ($16.3 million).
- Net cash provided by noncapital financing activities increased by $6.3 million compared to the prior fiscal year due to the $1.9 million increase in State noncapital appropriations and the $4.3 million increase in Federal Pell Grant awards.
- Net cash provided by capital and related financing activities amounted to approximately $2.9 million for the 2010-11 fiscal year and was used primarily for purchases of capital assets. State capital appropriations increased from the 2009-10 fiscal year to the 2010-11 fiscal year, due to the construction of the Porter Campus at Wiregrass in Wesley Chapel.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the College had $153.5 million in capital assets, less accumulated depreciation of $41.4 million, for net capital assets of $112.1 million. Depreciation charges for the current fiscal year totaled $4.3 million. The following table summarizes the College's capital assets for the 2010-11 fiscal year:

Capital Assets, Net: College
(In Thousands)

Capital Assets	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 3,188	$	$	$ 3,188
Buildings	83,992	5,436		89,428
Other Structures and Improvements	11,212	2,807		14,019
Furniture, Machinery, and Equipment	3,856	665	95	4,426
Assets Under Capital Lease	347			347
Construction in Progress	39,982	8,463	6,333	42,112
Total	142,577	17,371	6,428	153,520
Less, Accumulated Depreciation:				
Buildings	25,464	2,467		27,931
Other Structures and Improvements	8,481	1,247		9,728
Furniture, Machinery, and Equipment	3,255	484	95	3,644
Assets Under Capital Lease	69	69		138
Total Accumulated Depreciation	37,269	4,267	95	41,441
Capital Assets, Net	$ 105,308	$ 13,104	$ 6,333	$ 112,079

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

- Building additions, renovations and additions to buildings at the East Campus in Dade City, exterior improvements of the library at North Campus in Brooksville, and re-roofing, repairs, renovations at the West Campus in New Port Richey.
- Other structure and improvements included the addition of a new entrance at the East Campus in Dade City; parking lot resealing and restriping at the East Campus in Dade City, North Campus in Brooksville, and the West Campus in New Port Richey; the remediation of Gower's Corner which included lead decontamination,

berm restoration, demolition and site work, hydroseeding work, panel relocation and electrical work; and replacement of the Collegewide telecommunications system.

- Furniture, machinery, and equipment additions consisted of technology equipment, mainly consisting of computers, computer-related equipment, furniture, educational equipment, office equipment, and vehicles.
- Construction in progress additions included the renovation of buildings A, B, and C at the East Campus in Dade City to include retrofitting of the soffit and fascia systems at building A, replacement of light fixtures in walkway areas of building A, repair of the handicap ramp at building A, painting of new stucco surface at building A, and repainting of designated areas at buildings A, B, and C; drainage improvement of A building at the North Campus in Brooksville; conversion of the basketball court to a parking lot at the West Campus in New Port Richey; continued construction at the Spring Hill Center; and activities related to construction of the Porter Campus at Wiregrass in Wesley Chapel.

The College had $4.2 million in construction contract commitments at June 30, 2011. The contract commitments are for projects that include $0.1 million for drainage improvements of A building at the North Campus in Brooksville; $2 million for continued construction at the Spring Hill Center; and $2 million for construction of the Porter Campus at Wiregrass in Wesley Chapel. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had $2.7 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2011, and June 30, 2010:

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

	2011	2010
SBE Capital Outlay Bonds	$ 2,375	$
Capital Lease	286	343
Total	$ 2,661	$ 343

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2010-11 fiscal year, the SBE issued $32.8 million of SBE Capital Outlay Bonds, Series 2010A. Proceeds from the College's portion of the bonds, $2.6 million, were used to finance planning and construction of the College's new Porter Campus at Wiregrass in Wesley Chapel. Debt repayments during the 2010-11 fiscal year totaled $60 thousand. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Pasco-Hernando Community College's economic condition is closely tied to that of the State of Florida. After receiving an increase in State funding of $1.9 million, or 10.9 percent, for the 2010-11 fiscal year, which included $1.6 million in ARRA funds, State funding for the 2011-12 fiscal year was reduced by $0.2 million and the ARRA funding of $1.6 million was eliminated for the 2011-12 fiscal year. The legislative changes made to the Florida Retirement System (FRS), which now require an employee contribution of 3 percent, also included a reduction in the employer contribution, thereby reducing the College's 2011-12 fiscal year operating expenditure budget by $1.1 million.

Based on the College's current financial and capital plans which indicate that an infusion of additional financial resources from an increase in tuition rates was necessary to maintain its present level of services, the Board of Trustees approved an increase in credit course tuition (A&P, PSV, & College Prep) of 8 percent and 7.78 percent for post-secondary adult education courses effective with the Fall 2011 which was consistent with the 8 percent increase specified in the General Appropriations Act.

The increase in the 2011-12 fiscal year College budget provided for a 3 percent annual cost of living salary increase for full-time faculty and staff, longevity increases for eligible employees, funding to adjust full-time salary schedules to maintain competitive compensation levels compared to local public agencies and area colleges, various position upgrades, anticipated employee health insurance premium increases, and increases in utilities, insurance, and other contractual obligations.

For the 2011-12 fiscal year the College is projecting student fee revenues of $15.9 million based on an anticipated enrollment of 7,107 fee-paying full-time equivalents. Although the College anticipates continued enrollment growth, the proposed 2011-12 fiscal year budget is conservatively based on the premises of sustaining current enrollment and funding all recurring expenditures with recurring revenue sources.

The College continues to implement cost-saving measures to reduce expenses and increase fund balance and Board designated budget reserves as a preventative measure to offset potential state funding reductions and enrollment patterns.

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, 2011

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 16,488,139.12	$ 2,470,862.00
Restricted Cash and Cash Equivalents	228,888.41	
Investments		676,968.00
Accounts Receivable, Net	1,184,435.18	
Notes Receivable, Net		31,015.00
Due from Other Governmental Agencies	48,305,187.02	22,213.00
Due from Component Unit	99,000.29	
Inventories	684,238.23	
Prepaid Expenses	579,571.38	18,585.00
Other Assets	8,225.00	
Total Current Assets	67,577,684.63	3,219,643.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	10,312,231.39	
Investments		11,892,071.00
Restricted Investments	132,461.35	20,161,841.00
Notes Receivable, Net		123,277.00
Due from Other Governmental Agencies		79,276.00
Depreciable Capital Assets, Net	66,778,284.77	5,683.00
Nondepreciable Capital Assets	45,300,338.67	56,294.00
Total Noncurrent Assets	122,523,316.18	32,318,442.00
TOTAL ASSETS	$ 190,101,000.81	$ 35,538,085.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 698,083.48	$ 49,825.00
Salary and Payroll Taxes Payable	1,075,157.32	
Retainage Payable	22,048.92	
Due to Other Governmental Agencies	1,326.87	
Due to College		701,961.00
Deferred Revenue	86,985.90	27,539.00
Deposits Held for Others	407,348.25	99,276.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	70,000.00	
Capital Lease Payable	62,593.51	
Compensated Absences Payable	513,712.23	
Total Current Liabilities	2,937,256.48	878,601.00
Noncurrent Liabilities:		
Bonds Payable	2,305,000.00	
Capital Lease Payable	223,500.40	
Compensated Absences Payable	2,350,411.35	
Other Postemployment Benefits Payable	8,055.35	
Total Noncurrent Liabilities	4,886,967.10	
TOTAL LIABILITIES	7,824,223.58	878,601.00

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 109,417,529.53	$ 61,977.00
Restricted:		
Nonexpendable:		
Endowment		22,079,120.00
Expendable:		
Grants and Loans	246,237.01	5,057,652.00
Scholarships	360,108.89	5,757,813.00
Capital Projects	57,091,279.88	
Debt Service	51,406.73	
Unrestricted	15,110,215.19	1,702,922.00
Total Net Assets	182,276,777.23	34,659,484.00
TOTAL LIABILITIES AND NET ASSETS	$ 190,101,000.81	$ 35,538,085.00

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, 2011

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $10,957,747.15	$ 8,301,245.66	$
Federal Grants and Contracts	794,319.43	
State and Local Grants and Contracts	270,857.04	40,878.00
Nongovernmental Grants and Contracts	625,733.76	440,000.00
Sales and Services of Educational Departments	14,439.00	
Auxiliary Enterprises, Net of Scholarship Allowances of $3,356,374.78	2,656,875.08	
Other Operating Revenues	259,670.72	360,816.00
Total Operating Revenues	12,923,140.69	841,694.00
EXPENSES		
Operating Expenses:		
Personnel Services	28,657,811.47	345,985.00
Scholarships and Waivers	16,263,807.57	1,384,541.00
Utilities and Communications	1,684,706.85	
Contractual Services	3,791,168.84	119,515.00
Other Services and Expenses	2,482,946.29	40,027.00
Materials and Supplies	6,490,837.76	16,215.00
Depreciation	4,267,029.38	4,062.00
Total Operating Expenses	63,638,308.16	1,910,345.00
Operating Loss	(50,715,167.47)	(1,068,651.00)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,677,177.50	
Gifts and Grants - Student Aid	26,445,560.36	
Gifts and Grants - Other	1,735,095.60	
Investment Income	554,482.98	608,417.00
Unrealized Gain on Investments	20,794.85	3,133,739.00
Other Nonoperating Revenues	3,920.00	
Gain on Disposal of Capital Assets		430,880.00
Interest on Capital Asset-Related Debt	(54,687.57)	
Net Nonoperating Revenues	48,382,343.72	4,173,036.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,332,823.75)	3,104,385.00
State Capital Appropriations	34,501,187.57	
Capital Grants, Contracts, Gifts, and Fees	1,634,526.48	
Additions to Permanent Endowments		475,693.00
Total Other Revenues	36,135,714.05	475,693.00
Increase in Net Assets	33,802,890.30	3,580,078.00
Net Assets, Beginning of Year	148,473,886.93	31,079,406.00
Net Assets, End of Year	$ 182,276,777.23	$ 34,659,484.00

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, 2011

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 7,757,956.31
Grants and Contracts	1,759,528.16
Payments to Suppliers	(12,802,439.73)
Payments for Utilities and Communications	(1,684,706.85)
Payments to Employees	(23,966,355.21)
Payments for Employee Benefits	(5,939,344.90)
Payments for Scholarships	(16,263,807.57)
Auxiliary Enterprises, Net	2,517,879.21
Sales and Service of Educational Departments	14,439.00
Other Payments	(1,096,920.83)
Net Cash Used by Operating Activities	(49,703,772.41)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,677,177.50
Gifts and Grants Received for Other Than Capital or Endowment Purposes	28,180,655.96
Direct Loan Program Receipts	7,593,968.00
Direct Loan Program Disbursements	(7,593,968.00)
Net Cash Provided by Noncapital Financing Activities	47,857,833.46
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	2,435,000.00
State Capital Appropriations	12,269,052.61
Capital Grants and Gifts	1,634,526.48
Proceeds from Sale of Capital Assets	3,920.00
Purchases of Capital Assets	(13,288,948.61)
Principal Paid on Capital Debt and Lease	(116,543.11)
Interest Paid on Capital Debt and Lease	(54,687.57)
Net Cash Provided by Capital and Related Financing Activities	2,882,319.80
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	27,186.16
Investment Income	557,274.66
Net Cash Provided by Investing Activities	584,460.82
Net Increase in Cash and Cash Equivalents	1,620,841.67
Cash and Cash Equivalents, Beginning of Year	25,408,417.25
Cash and Cash Equivalents, End of Year	$ 27,029,258.92

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (50,715,167.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,267,029.38
Changes in Assets and Liabilities:	
Receivables, Net	(469,801.03)
Due from Other Agencies	(144,156.87)
Inventories	(37,486.84)
Prepaid Expenses	158,013.25
Other Assets	42.00
Accounts Payable	(1,695,600.69)
Salaries and Payroll Taxes Payable	(1,377,637.62)
Deferred Revenue	63,271.71
Deposits Held for Others	117,972.79
Compensated Absences Payable	145,151.63
Other Postemployment Benefits Payable	(15,402.65)
NET CASH USED BY OPERATING ACTIVITIES	$ (49,703,772.41)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments were recognized as an increase 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.	$ 20,794.85

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, 2011

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

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the 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, 2010.

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

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

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

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

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

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

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

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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

At June 30, 2011, the College reported cash equivalents of $14,001,801.19 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 Af by Standard & Poor's and had an effective duration of 2.13 years at June 30, 2011. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2011, the College reported as cash equivalents $5,492,048.19 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 31 days as of June 30, 2011. A portfolio's WAM reflects the average maturity in days based on final

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

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

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, 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 Florida PRIME 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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College's investments at June 30, 2011, are reported at fair value, as follows:

Investment Type	Amount
State Board of Administration Fund B Surplus Funds Trust Fund	$ 81,054.62
State Board of Administration Debt Service Accounts	51,406.73
Total College Investments	$ 132,461.35

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 to 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 Florida PRIME investment pool, 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 Florida PRIME investment pool.

At June 30, 2011, the College reported investments of $81,054.62 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 0.78965331 at June 30, 2011. The weighted-average life (WAL) of Fund B at June 30, 2011, was 7.16 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2011. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The College reported investments totaling $51,406.73 at June 30, 2011, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the Pasco-Hernando Community College Foundation, Inc. (Foundation), at December 31, 2010, are reported at fair value as follows:

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Investment Type	Amount
United States Government Obligations	$ 4,389,493
Federal Agency Obligations	1,281,281
Corporate Bonds and Notes	2,765,067
Mortgage-Backed Securities	3,900,629
Stocks and Other Equity Securities	16,149,792
Equity Mutual Funds	4,012,049
Land Held for Investment	232,569
Total Component Unit Investments	$ 32,730,880

The following risks apply to the Foundation's investments other than stocks and other equity securities:

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:

Investment	Investment Matures (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
United States Government Obligations	$ 4,389,493	$ 100,986	$ 1,381,365	$ 2,302,553	$ 604,589
Federal Agency Obligations	1,281,281	162,363	1,011,011	107,907	
Coporate Bonds and Notes	2,765,067	327,360	1,061,909	1,333,540	42,258
Mortgage-Backed Securities	3,900,629	10,002	3,097,273	793,354	
Equity Mutual Funds	4,012,049	4,012,049			
Total	$ 16,348,519	$ 4,612,760	$ 6,551,558	$ 4,537,354	$ 646,847

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 & Poor's and Moody's Investor Services. The lower the rating, the greater the risk that the bond issuer may default or fail to meet its payment obligations. 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, 2010, the Foundation's fixed income securities (excluding United States government obligations) were rated as follows:

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Investment	Ratings: Standard & Poor's	Ratings: Moody's	Percentage of Total Debt Securities Investments
United States Government Obligations	Not rated	Not rated	36%
Federal Agency Obligations	AAA	Aaa	10%
Corporate Bonds and Notes	BBB - AAA	Baa2 - Aaa	22%
Mortgage-Backed Securities	AAA - AA	Aaa	32%

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Foundation will 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 investments pools, and other pooled investments. In addition, investments in nongovernmental bonds are limited to 2 percent of an investment manager's fixed income portfolio.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates between the United States' dollar and foreign currencies could adversely affect an investment's fair value. As of December 31, 2010, the Foundation's portfolio did not hold any investments subject to that risk. The Foundation's investment policy limits foreign investments to 15 percent of the Foundation assets.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for Federal Title IV student aid 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 $126,050.48 allowance for doubtful accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of $47,218,774 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

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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, 2011. The College's component unit has a fiscal year ending December 31. Accordingly, amounts reported by the College as due from and to the component unit on the statement of net assets do not agree with amounts reported by the component unit as due from and 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, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 3,187,698.67	$	$	$ 3,187,698.67
Construction in Progress	39,982,111.49	8,463,099.45	6,332,570.94	42,112,640.00
Total Nondepreciable Capital Assets	$43,169,810.16	$8,463,099.45	$6,332,570.94	$45,300,338.67
Depreciable Capital Assets:				
Buildings	$83,992,160.72	$5,435,603.66	$	$89,427,764.38
Other Structures and Improvements	11,212,637.20	2,806,186.88		14,018,824.08
Furniture, Machinery, and Equipment	3,855,582.66	664,698.97	94,372.55	4,425,909.08
Assets Under Capital Lease	347,094.59			347,094.59
Total Depreciable Capital Assets	99,407,475.17	8,906,489.51	94,372.55	108,219,592.13
Less, Accumulated Depreciation:				
Buildings	25,463,311.16	2,467,407.45	0.01	27,930,718.60
Other Structures and Improvements	8,481,290.79	1,246,636.86		9,727,927.65
Furniture, Machinery, and Equipment	3,254,629.66	483,566.15	94,372.55	3,643,823.26
Assets Under Capital Lease	69,418.93	69,418.92		138,837.85
Total Accumulated Depreciation	37,268,650.54	4,267,029.38	94,372.56	41,441,307.36
Total Depreciable Capital Assets, Net	$62,138,824.63	$4,639,460.13	$ (0.01)	$66,778,284.77

8. DEFERRED REVENUE

Deferred revenue of $86,985.90 includes amounts collected for Pay-for-Print that have not been used as of June 30, 2011, and prepayments for software and support to be provided.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2011, include bonds payable, a capital lease payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$	$ 2,435,000.00	$ 60,000.00	$ 2,375,000.00	$ 70,000.00
Capital Lease Payable	342,637.02		56,543.11	286,093.91	62,593.51
Compensated Absences Payable	2,718,971.95	505,643.22	360,491.59	2,864,123.58	513,712.23
Other Postemployment Benefits Payable	23,458.00	17,973.35	33,376.00	8,055.35	
Total Long-Term Liabilities	$ 3,085,066.97	$ 2,958,616.57	$ 510,410.70	$ 5,533,272.84	$ 646,305.74

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements.

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2010A	$ 2,375,000	3.00 - 5.00	2030

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds Principal	Interest	Total
2012	$ 70,000	$ 102,950	$ 172,950
2013	75,000	100,150	175,150
2014	80,000	96,400	176,400
2015	85,000	92,400	177,400
2016	90,000	88,150	178,150
2017-2021	530,000	370,350	900,350
2022-2026	705,000	233,200	938,200
2026-2030	740,000	75,150	815,150
Total	$ 2,375,000	$ 1,158,750	$ 3,533,750

On October 14, 2010, the SBE issued $32,776,635.61 of SBE Capital Outlay Bonds, Series 2010A. The College's portion of the bonds, $2,611,824.10, which includes a premium of $198,284.85 less issuance costs

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of $4,849.60, will be used to finance construction of the College's new Porter Campus at Wiregrass in Wesley Chapel.

Capital Lease Payable. Copier equipment in the amount of $347,094.59 is being acquired under a capital lease agreement. The imputed interest rate is 10.21 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	Amount
2012	$ 88,925.76
2013	88,925.76
2014	88,925.76
2015	81,515.28
Total Minimum Payments	348,292.56
Less, Amount Representing Interest	62,198.65
Present Value of Minimum Payments	$ 286,093.91

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2011, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $2,864,123.58. Of this amount, $513,712.23 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 follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits administered by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit plan administered by the Consortium. 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 coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

annual report for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. The Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 40 retirees received postemployment healthcare benefits and 38 retirees received post employment life insurance benefits. The College provided required contributions of $33,376 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 $232,927.36.

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

Description	Amount
Normal Cost (Service Cost for One Year)	$ 11,917
Amortization of Unfunded Actuarial Accrued Liability	6,158
Annual Required Contribution	18,075
Interest on Net OPEB Obligation	703
Adjustment to Annual Required Contribution	(805)
Annual OPEB Cost (Expense)	17,973
Contribution Toward the OPEB Cost	(33,376)
Decrease in Net OPEB Obligation	(15,403)
Net OPEB Obligation, Beginning of Year	23,458
Net OPEB Obligation, End of Year	$ 8,055

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, 2011, and for the two preceding years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	$ 40,219	68.9%	$ 30,563
2009-10	17,343	141.0%	23,458
2010-11	17,973	185.7%	8,055

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was $179,359, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $179,359 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $18,786,519.43 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the 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, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the College's 2010-11 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 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 7.8 percent for the 2010-11 fiscal year, reduced by decrements to an ultimate rate of 4.5 percent after 16 years. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years. The remaining amortization period at June 30, 2011, was 26 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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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, death benefits, and annual cost-of-living adjustments.

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the 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, 2009, June 30, 2010, and June 30, 2011, totaled $1,316,903, $1,170,228, and $1,528,946, 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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 69 College participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled $295,204.

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

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

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

There were 24 College participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled $177,975.

11. CONSTRUCTION COMMITMENTS

The College's construction commitments at June 30, 2011, are as follows:

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A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Project Description	Total Commitment	Completed to Date	Balance Committed
Spring Hill Campus:			
Architect	$ 2,627,613.00	$ 2,595,670.36	$ 31,942.64
Construction Manager	30,815,189.37	28,815,189.37	2,000,000.00
East Campus Building Renovations:			
Architect	26,840.00	24,156.00	2,684.00
Construction Manager	920,168.87	920,168.87	
North Campus Drainage Improvements:			
Construction Manager	246,756.00	117,612.33	129,143.67
Porter Campus at Wiregrass:			
Architect	2,951,200.00	1,024,867.51	1,926,332.49
Construction Manager	338,478.00	248,275.92	90,202.08
Total	$ 37,926,245.24	$ 33,745,940.36	$ 4,180,304.88

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 coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to $150 million. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

13. CAPTIAL 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 rata 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, 2011, the accumulated credits to the College's account were $653,968.90.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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.

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

Source	Amount
Gross Receipts Tax (Public Education Capital Outlay)	$ 34,213,988.00
College Program Fund	17,170,213.00
Education Enhancement Trust Fund (Lottery)	2,486,959.00
Bright Futures Scholarship Program	1,753,083.00
Florida Student Assistance Grants	1,346,628.00
Restricted Contracts and Grants	372,646.14
Motor Vehicle License Tax (Capital Outlay and Debt Service)	287,199.57
Other State Sources	26,420.12
Total	$ 57,657,136.83

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:

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JUNE 30, 2011

Functional Classification	Amount
Instruction	$ 14,981,850.43
Academic Support	4,764,379.27
Student Services	6,708,293.74
Institutional Support	6,446,398.92
Operation and Maintenance of Plant	8,107,680.47
Scholarships and Waivers	16,263,807.57
Depreciation	4,267,029.38
Auxiliary Enterprises	2,098,868.38
Total Operating Expenses	$ 63,638,308.16

PASCO-HERNANDO COMMUNITY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	$	$ 365,736	$ 365,736	0%	$ 15,198,447	2.4%
7/1/2009	$	$ 179,359	$ 179,359	0%	$ 17,277,238	1.0%

Note: (1) The acturial accrued liability (AAL) was calculated using the projected unit credit actuarial method.

PASCO-HERNANDO COMMUNITY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of $179,359 was significantly lower than the July 1, 2007, liability of $365,736 as a result of updated assumptions related to participation rates in the health plan by Medicare eligible retirees.

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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, 2011, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 20, 2012