

PASCO-HERNANDO COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2012



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 2011-12 fiscal year are listed below:

	<u>County</u>
Jeanne M. Gavish, Vice Chair to 7-18-11, Chair from 7-19-11 (1)	Hernando
Dr. S.K. Rao Musunuru, Vice Chair from 7-19-11	Hernando
Judy R. Parker, Chair to 7-18-11 (2)	Pasco
Kathy A. Burke from 11-17-11	Hernando
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Irvin Homer to 11-16-11 (2)	Hernando
Leonard H. Johnson from 11-17-11	Pasco
Morris R. Porton from 11-17-11	Hernando
Wilton E. Simpson (2)	Pasco
Thomas E. Weightman to 11-16-11 (2)	Pasco
Gary L. Worthley to 11-16-11 (1)	Pasco
Victor Young from 11-17-11	Pasco
Vacancy (3)	

Dr. Katherine M. Johnson, President

- Notes: (1) Board member served beyond the end of term,
May 31, 2010.
- (2) Board member served beyond the end of term,
May 31, 2011.
- (3) Position remained vacant from July 1, 2011, through
November 16, 2011.

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

The audit team leader was Chris Stanisci, 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.

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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, 2012. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
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AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pasco-Hernando Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, 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, 2012, 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
February 14, 2013

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, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College for the fiscal years ended June 30, 2012, and June 30, 2011, and its component unit the Pasco-Hernando Community College Foundation, Inc., for the fiscal years ended December 31, 2011, and December 31, 2010.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$191.4 million at June 30, 2012. This balance reflects a \$1.3 million, or 0.7 percent, increase as compared to the 2010-11 fiscal year, resulting primarily from increases to buildings, other structure and improvements, and construction in progress. Total liabilities increased by \$2 million, or 25.7 percent, totaling \$9.8 million at June 30, 2012, compared to \$7.8 million at June 30, 2011 due to increase in accounts payable, salaries and payroll taxes payable, and retainage payable for construction projects. As a result, the College's net assets decreased by \$0.7 million, resulting in a year-end balance of \$181.6 million.

The College's operating revenues totaled \$14.3 million for the 2011-12 fiscal year, representing a 10.8 percent increase as compared to the 2010-11 fiscal year due mainly to tuition increases as fee paying enrollment remained relatively flat. Operating expenses totaled \$61.2 million for the 2011-12 fiscal year, representing a decrease of 3.9 percent as compared to the 2010-11 fiscal year due mainly to a decrease in scholarships and waivers of \$2.2 million.

The 2011-12 fiscal year operating budget increased 0.7 percent as compared to the 2010-11 fiscal year operating budget. To maintain flexibility within a budget, the College has adopted a prudent budgeting strategy to maintain personnel costs at a level not to exceed 80 percent of its operating budget. Budgeted college personnel costs remained unchanged at 74.9 percent of the approved budget during the 2011-12 and 2010-11 fiscal years. State funding of the College for the 2011-12 fiscal year decreased from the 2010-11 appropriation amount by \$1.8 million due primarily to the elimination of the \$1.6 million in Federal America Recovery and Reinvestment Act (ARRA). The reduction in budgeted funding was partially offset by the \$1.1 million reduction in budgeted Florida Retirement System employer contributions. The increase in student tuition and fees rates, sustained enrollment, and cost containment measures implemented have contributed to the colleges 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.

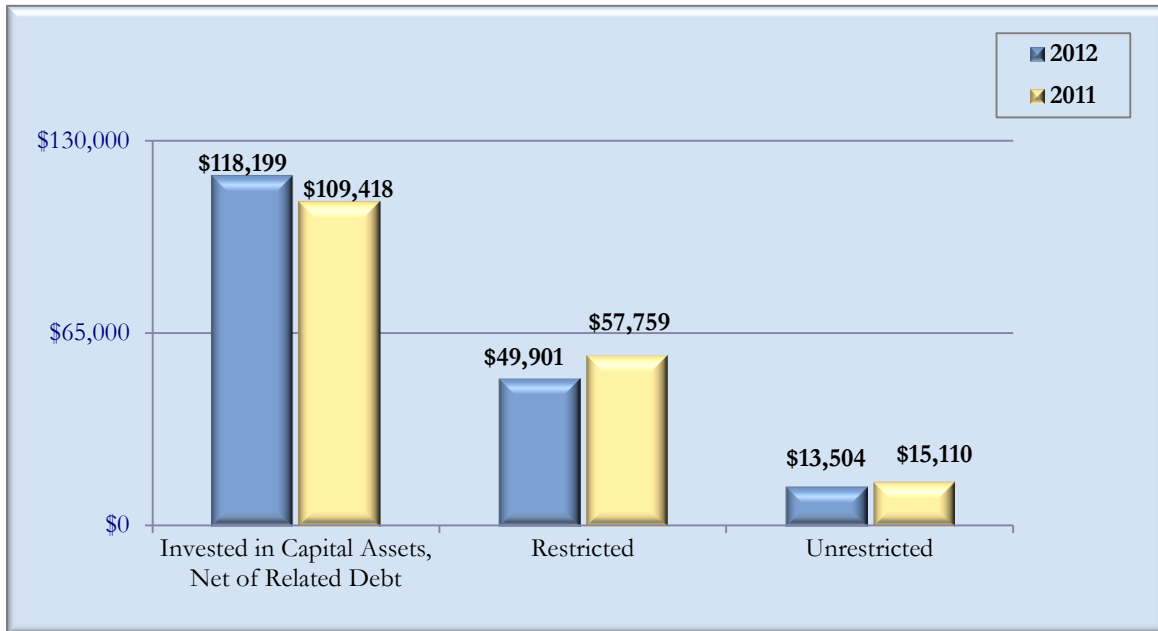
A condensed statement of assets, liabilities, and net assets of the College and its component unit for the respective fiscal years ended is shown in the following table:

Condensed Statement of Net Assets at (In Thousands)

	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Assets				
Current Assets	\$ 58,444	\$ 67,578	\$ 3,274	\$ 3,220
Capital Assets, Net	120,728	112,079	292	62
Other Noncurrent Assets	12,267	10,444	31,273	32,256
Total Assets	191,439	190,101	34,839	35,538
Liabilities				
Current Liabilities	4,736	2,937	410	879
Noncurrent Liabilities	5,099	4,887		
Total Liabilities	9,835	7,824	410	879
Net Assets				
Invested in Capital Assets, Net of Related Debt	118,199	109,418	292	62
Restricted	49,901	57,749	33,220	32,894
Unrestricted	13,504	15,110	917	1,703
Total Net Assets	\$ 181,604	\$ 182,277	\$ 34,429	\$ 34,659
Decrease in Net Assets	\$ (673)	-0.37%	\$ (230)	-0.66%

Net assets represent the residual interest in the College's assets after deducting liabilities. The College's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

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



The College's assets totaled \$191.4 million at June 30, 2012. The balance reflects a \$1.3 million, or 0.7 percent, increase from the 2010-11 fiscal year resulting primarily from increases in buildings, other structure and improvements, and construction in progress.

- The College's current and noncurrent assets totaled \$58.4 million and \$133 million at June 30, 2012, respectively, as compared to \$67.6 million and \$122.5 million at June 30, 2011, respectively, a decrease of \$9.2 million in current assets and an increase of \$10.5 million in noncurrent assets primarily due to the decrease in due from other government agencies related to Public Education Capital Outlay (PECO), and the increase in buildings, other structures and improvements, and construction in progress for the new Porter Campus at Wiregrass in Wesley Chapel.
- Total liabilities increased by \$2 million, or 25.7 percent, totaling \$9.8 million at June 30, 2012, as compared to \$7.8 million at June 30, 2011. Current liabilities increased by \$1.8 million primarily due to the increase in accounts payable, salaries and payroll taxes payable, and retainage payable for the construction of the new Porter Campus at Wiregrass in Wesley Chapel. Noncurrent liabilities increased primarily due to the increase in compensated absences payable and other postemployment benefits payable.

As a result, the College's net assets decreased by \$0.7 million, or 0.4 percent, representing a year-end balance of \$181.6 million.

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

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

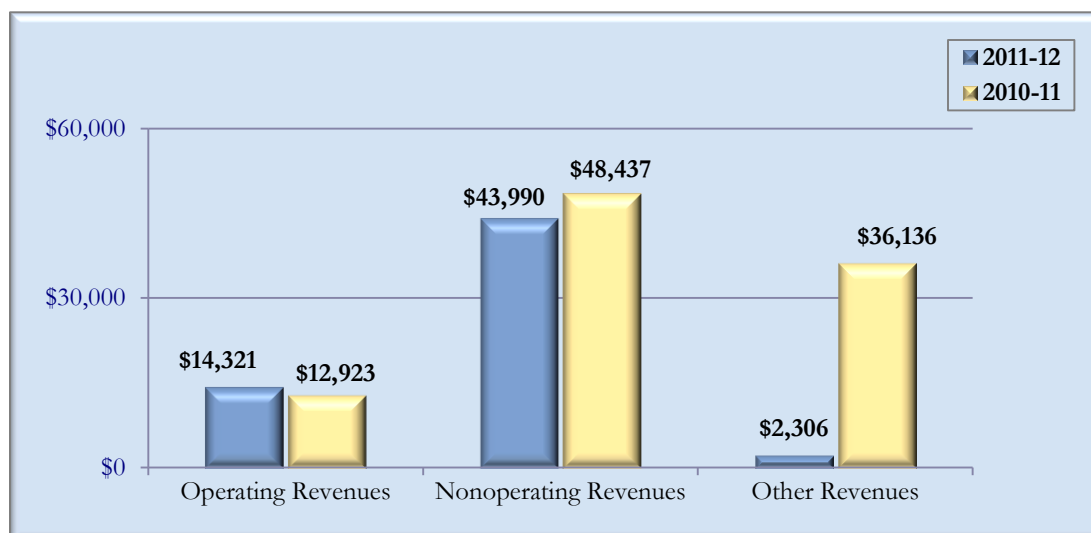
	College		Component Unit	
	6-30-12	6-30-11	12-31-12	12-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 9,231	\$ 8,301	\$	\$
Federal Grants and Contracts	940	794		
State and Local Grants and Contracts	235	271	36	41
Nongovernmental Grants and Contracts	656	626	360	440
Sales and Services of Educational Departments	13	14		
Auxiliary Enterprises, Net of Scholarship Allowances	3,056	2,657		
Other Operating Revenues	190	260	373	361
Total Operating Revenues	14,321	12,923	769	842
Less, Operating Expenses	61,161	63,638	1,777	1,911
Operating Loss	(46,840)	(50,715)	(1,008)	(1,069)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	19,491	19,677		
Federal and State Student Financial Aid	24,053	26,446		
Other Nonoperating Revenues	446	2,314	272	4,173
Interest on Capital Asset-Related Debt	(129)	(55)		
Net Nonoperating Revenues	43,861	48,382	272	4,173
Income (Loss) Before Other Revenues				
Expenses, Gains, or Losses	(2,979)	(2,333)	(736)	3,104
State Capital Appropriations	733	34,501		
Capital Grants, Contracts, Gifts, and Fees	1,573	1,635		
Additions to Permanent Endowments			506	476
Increase (Decrease) in Net Assets	(673)	33,803	(230)	3,580
Net Assets, Beginning of Year	182,277	148,474	34,659	31,079
Net Assets, End of Year	<u>\$ 181,604</u>	<u>\$ 182,277</u>	<u>\$ 34,429</u>	<u>\$ 34,659</u>

Operating Revenues

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

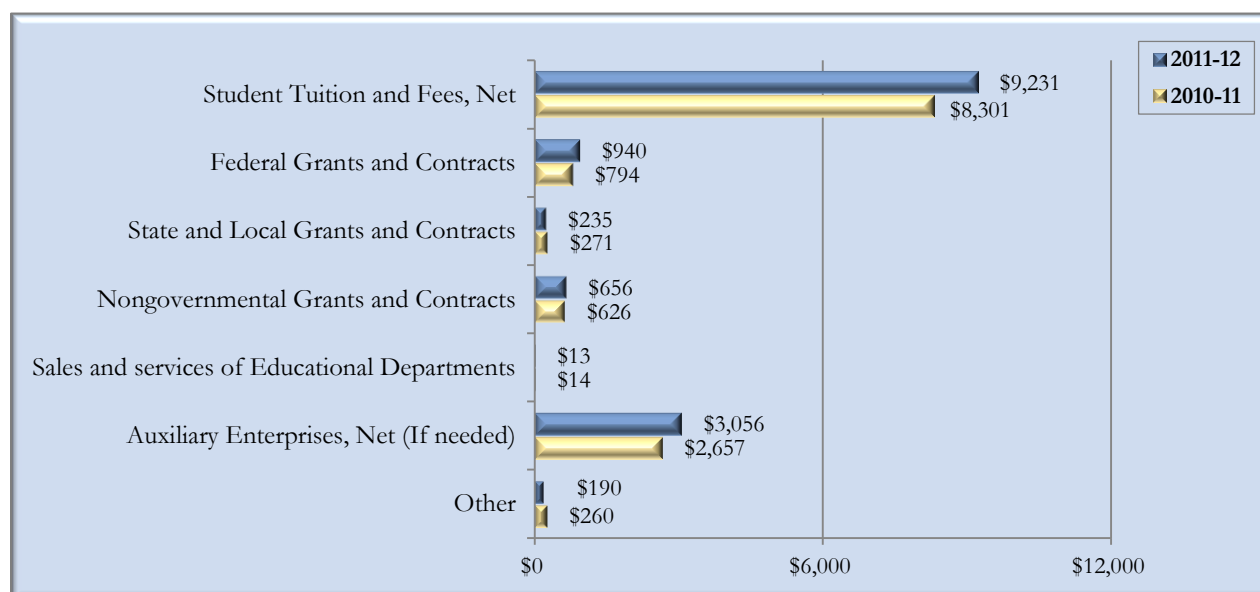
The following chart presents the College's total revenues by source for the 2011-12 and 2010-11 fiscal years:

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



The following chart presents the College's operating revenues for the 2011-12 and 2010-11 fiscal years:

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



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

- The College's operating revenues increased by \$1.4 million, or 10.8 percent, to \$14.3 million for the 2011-12 fiscal year. Tuition and fees, net of scholarship allowances increased by \$0.9 million due to tuition increases as fee paying enrollment remained relatively flat. The standard fee for a Postsecondary Adult Vocational (PSAV) credit hour increased by 7.8 percent and credit course tuition fees increased by 8 percent beginning with the Fall 2011 term for the 2011-12 fiscal year.

- Of the \$14.3 million operating revenues, auxiliary enterprises comprised \$3.1 million, or 21.3 percent; Federal grants and contracts accounted for \$0.9 million, or 6.6 percent; and State and local grants and contracts, and nongovernmental grants and contracts totaled \$0.9 million, or 6.2 percent. The bookstore accounted for the largest percentage of the auxiliary revenues.

Operating Expenses

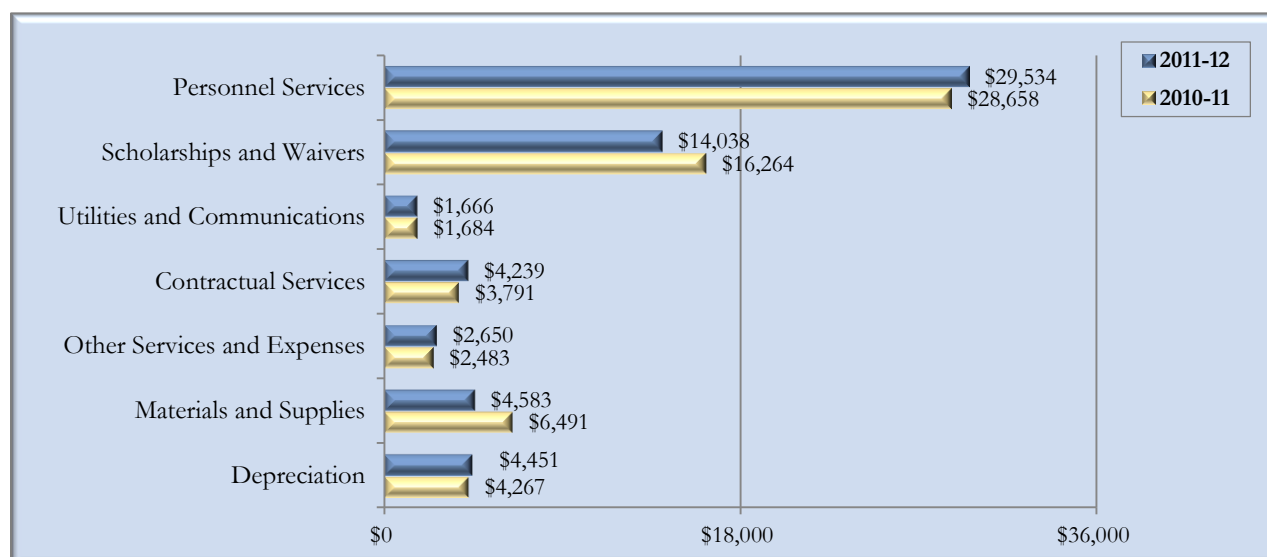
Expenses are categorized as operating or nonoperating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen 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:

	College		Component Unit	
	6-30-12	6-30-11	12-31-11	12-31-10
Operating Expenses				
Personnel Services	\$ 29,534	\$ 28,658	\$ 367	\$ 346
Scholarships and Waivers	14,038	16,264	1,223	1,385
Utilities and Communications	1,666	1,684		
Contractual Services	4,239	3,791	125	120
Other Services and Expenses	2,650	2,483	39	40
Materials and Supplies	4,583	6,491	20	16
Depreciation	4,451	4,267	3	4
Total Operating Expenses	\$ 61,161	\$ 63,638	\$ 1,777	\$ 1,911

The following chart presents the College's operating expenses for the 2011-12 and 2010-11 fiscal years:

Operating Expenses: College
(In Thousands)



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

- Personnel services increased by \$0.9 million, or 3.1 percent, which includes an average 3 percent annual salary increase for full-time employees, adjustments to the full-time salary schedule, longevity increases for instructional and noninstructional employees, increases in retirement and health insurance costs, increases in adjunct faculty and full-time faculty overload rates, and the addition of 22.5 positions.
- Scholarships and waiver expenditures decreased by \$2.2 million, or 13.7 percent, primarily due to the decrease in Federal Pell grants corresponding with changes in the academic progress standards, which affected the number of eligible students.
- Contractual services increased by \$0.5 million, or 11.8 percent, due to increases in security, custodial, landscaping, and technology services costs.
- Materials and supplies decreased by \$1.9 million, or 29.4 percent, due primarily to prior year expenditure totals including nonrecurring expenditures for software, technology, and non-technology equipment purchased for the 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 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)

	<u>2011-12</u>	<u>2010-11</u>
State Noncapital Appropriations	\$ 19,491	\$ 19,677
Federal and State Student Financial Aid	24,053	26,446
Gifts and Grants	111	1,735
Investment Income	306	554
Net Realized and Unrealized		
Gain on Investments	7	21
Gain on Sale of Capital Assets	22	4
Interest on Capital Asset-Related Debt	<u>(129)</u>	<u>(55)</u>
Net Nonoperating Revenues	<u><u>\$ 43,861</u></u>	<u><u>\$ 48,382</u></u>

Total net nonoperating revenues for the College decreased by \$4.5 million, or 9.3 percent, to \$43.9 million for the 2011-12 fiscal year.

- State noncapital appropriations decreased by \$0.2 million from the 2010-11 fiscal year, due primarily to the decreased College Program Funds appropriated by the Legislature.
- Federal and State student financial aid decreased \$2.4 million because Federal Pell grant academic progress standards changed, which affected the number of eligible students and Bright Futures awards decreased.
- Gifts and grants decreased by \$1.6 million, which was due to the elimination of the Federal American Recovery and Reinvestment Act (ARRA) funds.

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 2011-12 and 2010-11 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College (In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 733	\$ 34,501
Capital Grants, Contracts, Gifts, and Fees	<u>1,573</u>	<u>1,635</u>
Total	<u>\$ 2,306</u>	<u>\$ 36,136</u>

Other revenues decreased by \$33.8 million, or 93.6 percent, as compared to the prior fiscal year. Significant changes were the result of the following factors:

- Capital appropriations consist of \$0.7 million for general renovations and repairs. The decrease of \$33.8 million was due to revenue included in fiscal year 2010-11 for PECO funds the College received for the planning and construction of a new Porter Campus at Wiregrass in Wesley Chapel.
- Although capital grants, gifts, and fees decreased in total (primarily due to the decrease in private grants noted below), the capital improvement fees increased by \$66 thousand or 4.6 percent during the 2011-12 fiscal year, due to the increase in the credit hour capital improvement fee from \$6.75 to \$7.29 (for in-state students) and \$27.50 to \$29.43 (for out-of-state students), beginning with the Fall 2011 term. The Foundation Facilities Enhancement Grant decreased by \$127 thousand from \$208 thousand in fiscal year 2010-11 to \$81 thousand in 2011-12.

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 2011-12 and 2010-11 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College (In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (40,801)	\$ (49,704)
Noncapital Financing Activities	43,655	47,858
Capital and Related Financing Activities	(2,062)	2,882
Investing Activities	<u>326</u>	<u>585</u>
Net Increase in Cash and Cash Equivalents	1,118	1,621
Cash and Cash Equivalents, Beginning of Year	<u>27,029</u>	<u>25,408</u>
Cash and Cash Equivalents, End of Year	<u>\$ 28,147</u>	<u>\$ 27,029</u>

Major sources of funds came from Federal and State student financial aid (\$24 million), State noncapital appropriations (\$19.5 million), Federal direct student loans (\$10.5 million), State capital appropriations (\$9.3 million), net student tuition and fees (\$9.1 million), and auxiliary enterprises (\$3.2 million).

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

- Net cash used by operating activities decreased by \$8.9 million as compared to the prior fiscal year. The major sources of cash used by operating activities include payment to employees (\$28.8 million), scholarships (\$14.1 million), and payments to suppliers (\$10.8 million).
- Net cash provided by noncapital financing activities decreased by \$4.2 million as compared to the prior fiscal year due primarily to the \$4 million decrease in Federal and State Student Financial Aid. Disbursement of Federal direct student loans totaled \$10.5 million.
- Net cash used by capital and related financing activities amounted to \$2.1 million for the 2011-12 fiscal year and was used primarily for the purchase of capital assets relating to the planning and construction of the Porter Campus at Wiregrass in Wesley Chapel.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$166.5 million in capital assets, less accumulated depreciation of \$45.8 million, for net capital assets of \$120.7 million. Depreciation charges for the current fiscal year totaled \$4.5 million. The following table summarizes the College's capital assets at June 30:

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

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 3,188	\$ 3,188
Construction in Progress	51,735	42,112
Buildings	91,770	89,428
Other Structures and Improvements	14,787	14,019
Furniture, Machinery, and Equipment	4,668	4,426
Assets Under Capital Lease	347	347
Total	<u>166,495</u>	<u>153,520</u>
Less, Accumulated Depreciation:		
Buildings	30,546	27,931
Other Structures and Improvements	11,046	9,728
Furniture, Machinery, and Equipment	3,967	3,644
Assets Under Capital Lease	208	138
Total Accumulated Depreciation	<u>45,767</u>	<u>41,441</u>
Capital Assets, Net	<u><u>\$ 120,728</u></u>	<u><u>\$ 112,079</u></u>

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

- Renovations were completed on campus buildings.
- Other structure and improvements included conversion of the basketball court to a parking lot at the West Campus in New Port Richey and improvement of the West Campus athletic field dugouts.
- Furniture, machinery, and equipment additions consisted of technology equipment, mainly consisting of computers, computer related equipment, furniture, educational equipment, office equipment, vehicles, and grounds equipment.

- Construction in progress additions included continued construction at the Spring Hill Campus and site and preparation and construction of the Porter Campus at Wiregrass in Wesley Chapel.

The College has \$33.5 million in major construction commitments at June 30, 2012. The commitments are for projects that include \$0.2 million for continued construction at the Spring Hill Campus and \$33.3 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 \$2.5 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2012, and June 30, 2011:

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

	2012	2011
SBE Capital Outlay Bonds	\$ 2,305	\$ 2,375
Capital Lease	224	286
Total	\$ 2,529	\$ 2,661

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, there were no bond sales and debt repayments totaled \$70 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 a decrease in State funding of \$1.8 million, or 8.4 percent for 2011-12 fiscal year, which includes the elimination of \$1.6 million in Federal American Recovery and Reinvestment Act (ARRA) funds, State funding for 2012-13 fiscal year was increased by \$40,200.

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 (Board) approved an increase of 5 percent for advanced, professional, post-secondary vocational, and college preparatory credit course tuition and 4.96 percent for post-secondary adult education courses effective with the Fall 2012, which was consistent with the increase specified in the General Appropriations Act.

The 2012-13 fiscal year budget was developed based on the premise of a 10 percent enrollment decline, with an anticipated fee paying enrollment of 6,162 Full-Time Equivalent students, and projected expenditures have been carefully scrutinized and reduced where possible without compromising services to the students. The 2012-13 fiscal year budget assumes utilization of \$1,264,399 of the previously approved Board designated budget stabilization reserve, which was established for this type of situation and will allow the College to adjust future operations in a more strategic and organized fashion.

The College continues to implement cost-saving measures to reduce expenses and increased the unallocated fund balance and the Board designated reserves as a preventative measure to offset further state funding reductions and enrollment declines.

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, 2012

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 15,523,732.23	\$ 2,607,694.00
Restricted Cash and Cash Equivalents	477,260.65	
Investments		577,144.00
Accounts Receivable, Net	1,194,434.94	
Notes Receivable, Net		56,886.00
Due from Other Governmental Agencies	39,728,172.23	16,882.00
Due from Component Unit	184,136.80	
Inventories	800,329.13	
Prepaid Expenses	527,817.06	15,304.00
Other Assets	8,251.00	
Total Current Assets	<u>58,444,134.04</u>	<u>3,273,910.00</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	12,146,254.08	
Investments		12,265,404.00
Restricted Investments	121,254.71	18,791,827.00
Due from Other Governmental Agencies		89,190.00
Notes Receivable, Net		127,005.00
Depreciable Capital Assets, Net	65,805,431.85	3,155.00
Nondepreciable Capital Assets	54,922,374.38	288,863.00
Total Noncurrent Assets	<u>132,995,315.02</u>	<u>31,565,444.00</u>
TOTAL ASSETS	<u><u>\$ 191,439,449.06</u></u>	<u><u>\$ 34,839,354.00</u></u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 1,516,435.77	\$ 42,487.00
Salary and Payroll Taxes Payable	1,578,077.52	
Retainage Payable	428,309.55	
Due to Other Governmental Agencies	1,179.20	
Due to College		246,461.00
Deferred Revenue	34,524.65	32,125.00
Deposits Held for Others	580,147.73	89,190.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	75,000.00	
Capital Lease Payable	69,291.33	
Compensated Absences Payable	453,519.76	
Total Current Liabilities	<u>4,736,485.51</u>	<u>410,263.00</u>
Noncurrent Liabilities:		
Bonds Payable	2,230,000.00	
Capital Lease Payable	154,209.07	
Compensated Absences Payable	2,679,740.40	
Other Postemployment Benefits Payable	34,797.66	
Total Noncurrent Liabilities	<u>5,098,747.13</u>	
TOTAL LIABILITIES	<u>9,835,232.64</u>	<u>410,263.00</u>

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 118,199,305.82	\$ 292,018.00
Restricted:		
Nonexpendable:		
Endowment		22,585,771.00
Expendable:		
Grants and Loans	234,586.36	4,881,918.00
Scholarships	393,203.02	5,751,990.00
Capital Projects	49,222,620.27	
Debt Service	50,006.73	
Unrestricted	13,504,494.22	917,394.00
Total Net Assets	<u>181,604,216.42</u>	<u>34,429,091.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 191,439,449.06</u>	<u>\$ 34,839,354.00</u>

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, 2012

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$10,775,081.46	\$ 9,231,440.14	\$
Federal Grants and Contracts	939,760.52	
State and Local Grants and Contracts	234,936.78	36,010.00
Nongovernmental Grants and Contracts	655,951.99	360,125.00
Sales and Services of Educational Departments	12,890.00	
Auxiliary Enterprises, Net of Scholarship Allowances of \$2,744,041.15	3,055,665.81	
Other Operating Revenues	190,577.14	372,927.00
Total Operating Revenues	14,321,222.38	769,062.00
EXPENSES		
Operating Expenses:		
Personnel Services	29,534,175.16	367,254.00
Scholarships and Waivers	14,038,319.42	1,222,824.00
Utilities and Communications	1,666,496.57	
Contractual Services	4,238,452.16	125,117.00
Other Services and Expenses	2,650,456.02	39,336.00
Materials and Supplies	4,582,754.98	20,324.00
Depreciation	4,450,817.84	2,527.00
Total Operating Expenses	61,161,472.15	1,777,382.00
Operating Loss	(46,840,249.77)	(1,008,320.00)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,490,612.00	
Federal and State Student Financial Aid	24,053,092.61	
Gifts and Grants	111,504.27	
Investment Income	305,553.90	625,520.00
Unrealized Gain (Loss) on Investments	7,492.96	(353,245.00)
Gain on Sale of Capital Assets	22,286.45	
Interest on Capital Asset-Related Debt	(129,335.95)	
Net Nonoperating Revenues	43,861,206.24	272,275.00
Loss Before Other Revenues, Expenses, Gains, or Losses	(2,979,043.53)	(736,045.00)
State Capital Appropriations	732,899.00	
Capital Grants, Contracts, Gifts, and Fees	1,573,583.72	
Additions to Permanent Endowments		505,652.00
Total Other Revenues	2,306,482.72	505,652.00
Decrease in Net Assets	(672,560.81)	(230,393.00)
Net Assets, Beginning of Year	182,276,777.23	34,659,484.00
Net Assets, End of Year	\$ 181,604,216.42	\$ 34,429,091.00

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, 2012

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 9,087,552.46
Grants and Contracts	1,770,284.10
Payments to Suppliers	(10,779,038.47)
Payments for Utilities and Communications	(1,666,496.57)
Payments to Employees	(23,443,133.31)
Payments for Employee Benefits	(5,292,242.76)
Payments for Scholarships	(14,038,319.42)
Auxiliary Enterprises, Net	3,191,876.91
Sales and Service of Educational Departments	12,890.00
Other Receipts	355,463.19
	<u>(40,801,163.87)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,490,612.00
Federal and State Student Financial Aid	24,053,092.61
Gifts and Grants Received for Other Than Capital or Endowment Purposes	111,504.27
Federal Direct Loan Program Receipts	10,497,209.00
Federal Direct Loan Program Disbursements	(10,497,209.00)
	<u>43,655,208.88</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	9,298,029.00
Capital Grants and Gifts	1,573,583.72
Proceeds from Sale of Capital Assets	22,286.45
Purchases of Capital Assets	(12,693,740.00)
Principal Paid on Capital Debt and Leases	(132,593.51)
Interest Paid on Capital Debt and Leases	(129,335.95)
	<u>(2,061,770.29)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	17,299.60
Investment Income	308,413.73
	<u>325,713.33</u>
Net Increase in Cash and Cash Equivalents	1,117,988.05
Cash and Cash Equivalents, Beginning of Year	27,029,258.92
Cash and Cash Equivalents, End of Year	<u><u>\$ 28,147,246.97</u></u>

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (46,840,249.77)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	4,450,817.84
Changes in Assets and Liabilities:	
Receivables, Net	(12,859.58)
Due from Other Governmental Agencies	(71,851.72)
Inventories	(116,090.90)
Prepaid Expenses	51,408.51
Other Assets	319.81
Accounts Payable	760,204.62
Salaries and Payroll Taxes Payable	502,920.20
Deferred Revenues	5,538.75
Deposits Held for Others	172,799.48
Compensated Absences Payable	269,136.58
Other Postemployment Benefits Payable	<u>26,742.31</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (40,801,163.87)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 7,492.96

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, 2012

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, 2011.

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:

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- 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 pronouncements and FASB pronouncements issued on or before November 30, 1989, unless 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.

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.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 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, 2012, the College reported as cash equivalents \$15,299,221.96 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. 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, 2012, the College reported as cash equivalents \$5,525,030.35 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, 2012, 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 38 days as of June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital lease. These assets are capitalized

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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
- Asset Under Capital Lease – 5 years

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

2. INVESTMENTS

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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The College's investments at June 30, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 71,247.98
State Board of Administration Debt Service Accounts	50,006.73
Total College Investments	<u>\$ 121,254.71</u>

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2012, the College reported investments at fair value of \$71,247.98 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 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 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, 2012. 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 \$50,006.73 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the Pasco-Hernando Community College Foundation, Inc. (Foundation), at December 31, 2011, 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, 2012

<u>Investment Type</u>	<u>Amount</u>
United States Government Obligations	\$ 4,486,395
Federal Agency Obligations	1,034,236
Corporate Bonds and Notes	2,916,925
Mortgage-Backed Securities	4,404,992
Equity Mutual Funds	3,262,265
Domestic Stocks and Other Equity Securities	15,529,562
Total Component Unit Investments	<u>\$ 31,634,375</u>

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:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
United States Government Obligations	\$ 4,486,395	\$ 225,646	\$1,256,989	\$2,107,396	\$ 896,364
Federal Agency Obligations	1,034,236	176,451	775,605	82,180	
Corporate Bonds and Notes	2,916,925	63,545	1,187,462	1,526,245	139,673
Mortgage-Backed Securities	4,404,992	203,947	3,813,022	388,023	
Equity Mutual Funds	3,262,265	3,262,265			
Totals	<u>\$ 16,104,813</u>	<u>\$ 3,931,854</u>	<u>\$ 7,033,078</u>	<u>\$ 4,103,844</u>	<u>\$ 1,036,037</u>

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, 2011, 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, 2012**

Investment	Standard & Poor's	Moody's	Percentage Total Debit 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 (FDIC) for each banking institution. Custodial credit risk for investments will be mitigated by prohibiting investments in securities that are not eligible for depository trust company holding. The Foundation's fixed income securities are registered in the name of the Foundation and, according to industry standard, held in "book entry" format per the investment management agreements with the individual financial institutions managing those assets.

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

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, 2011, 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's assets.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for Federal Title IV student aid repayments, student fee deferrals, various student services provided by the College, government receivables, unused credit memos, and third-party nongovernmental receivables. These receivables are reported net of a \$348,872.54 allowance for doubtful accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$38,655,044 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2011. Accordingly, amounts reported by the College as due from component unit on the statement of net assets do not agree with amounts reported by the component unit as due to the College.

6. INVENTORIES

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

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, 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	42,112,640.00	10,809,957.98	1,187,922.27	51,734,675.71
Total Nondepreciable Capital Assets	\$ 45,300,338.67	\$ 10,809,957.98	\$ 1,187,922.27	\$ 54,922,374.38
Depreciable Capital Assets:				
Buildings	\$ 89,427,764.38	\$ 2,342,283.63	\$	\$ 91,770,048.01
Other Structures and Improvements	14,018,824.08	767,834.37		14,786,658.45
Furniture, Machinery, and Equipment	4,425,909.08	367,846.92	125,410.20	4,668,345.80
Assets Under Capital Lease	347,094.59			347,094.59
Total Depreciable Capital Assets	108,219,592.13	3,477,964.92	125,410.20	111,572,146.85
Less, Accumulated Depreciation:				
Buildings	\$ 27,930,718.60	\$ 2,615,145.37	\$	\$ 30,545,863.97
Other Structures and Improvements	9,727,927.65	1,318,098.98		11,046,026.63
Furniture, Machinery, and Equipment	3,643,823.26	448,154.57	125,410.20	3,966,567.63
Assets Under Capital Lease	138,837.85	69,418.92		208,256.77
Total Accumulated Depreciation	41,441,307.36	4,450,817.84	125,410.20	45,766,715.00
Total Depreciable Capital Assets, Net	\$ 66,778,284.77	\$ (972,852.92)	\$	\$ 65,805,431.85

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

8. DEFERRED REVENUE

Deferred revenue of \$34,524.65 includes amounts collected for Pay-for-Print that have not been used as of June 30, 2012.

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, include bonds payable, capital lease payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 2,375,000.00	\$	\$ 70,000.00	\$ 2,305,000.00	\$ 75,000.00
Capital Lease Payable	286,093.91		62,593.51	223,500.40	69,291.33
Compensated Absences Payable	2,864,123.58	832,931.19	563,794.61	3,133,260.16	453,519.76
Other Postemployment Benefits Payable	8,055.35	43,000.65	16,258.34	34,797.66	
Total Long-Term Liabilities	\$ 5,533,272.84	\$ 875,931.84	\$ 712,646.46	\$ 5,696,558.22	\$ 597,811.09

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 (SBA) administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2010A	\$ 2,305,000	3.50 - 5.00	2030

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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	95,000	83,650	178,650
2018-2022	560,000	344,900	904,900
2023-2027	750,000	203,750	953,750
2028-2030	570,000	46,400	616,400
Total	\$ 2,305,000	\$ 1,055,800	\$ 3,360,800

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 88,925.76
2014	88,925.76
2015	<u>81,515.28</u>
Total Minimum Payments	259,366.80
Less, Amount Representing Interest	<u>35,866.40</u>
Present Value of Minimum Payments	<u><u>\$ 223,500.40</u></u>

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, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,133,260.16. The current portion of the compensated absences liability, \$453,519.76, 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 for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies. 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 annual report for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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 2011-12 fiscal year, 33 retirees received other postemployment benefits and 43 retirees received postemployment life insurance benefits. The College provided required contributions of \$16,258 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 \$256,396.11.

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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 34,694
Amortization of Unfunded Actuarial Accrued Liability	<u>8,254</u>
Annual Required Contribution	42,948
Interest on Net OPEB Obligation	322
Adjustment to Annual Required Contribution	<u>(269)</u>
Annual OPEB Cost (Expense)	43,001
Contribution Toward the OPEB Cost	<u>(16,258)</u>
Increase in Net OPEB Obligation	26,743
Net OPEB Obligation, Beginning of Year	<u>8,055</u>
Net OPEB Obligation, End of Year	<u><u>\$ 34,798</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 17,343	141.0%	\$ 23,458
2010-11	17,973	185.7%	8,055
2011-12	43,001	37.8%	34,798

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$247,625, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$247,625 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

employees) was \$20,411,244 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and 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, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 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 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent pre-Medicare and 8.5 percent Medicare for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years for pre-Medicare and 6 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2012, was 25 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 the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$1,170,228, \$1,528,946, and \$925,715, respectively, which were equal to the required contributions for each fiscal year.

There were 78 College participants in the Investment Plan during the 2011-12 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$190,458, which was equal to the required contribution for the 2011-12 fiscal year.

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

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, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 26 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$117,091 and employee contributions totaled \$47,278 for the 2011-12 fiscal year.

11. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2012, are as follows:

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Project Description	Total Commitment	Completed to Date	Balance Committed
Spring Hill Campus:			
Architect	\$ 2,796,413.00	\$ 2,743,961.05	\$ 52,451.95
Construction Manager	30,326,344.66	30,223,653.73	102,690.93
Porter Campus at Wiregrass:			
Architect	3,603,040.00	2,783,984.04	819,055.96
Construction Manager	37,701,181.00	5,206,379.69	32,494,801.31
Total	\$ 74,426,978.66	\$ 40,957,978.51	\$ 33,469,000.15

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 to February 29, 2012, and up to \$90 million from March 1, 2012. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

13. CAPITAL CREDITS

The College participates 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, 2012, the accumulated credits to the College's account were \$683,350.25.

14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

**PASCO-HERNANDO COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 15,212,929.00
Academic Support	5,178,945.82
Student Services	6,527,315.52
Institutional Support	7,205,098.84
Operation and Maintenance of Plant	5,593,798.29
Scholarships and Waivers	14,287,037.69
Depreciation	4,450,817.84
Auxiliary Enterprises	<u>2,705,529.15</u>
Total Operating Expenses	<u>\$ 61,161,472.15</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 365,736	\$ 356,736	0%	\$ 15,198,447	2.4%
7/1/2009		179,359	179,359	0%	17,277,238	1.0%
7/1/2011		247,625	247,625	0%	20,411,244	1.2%

Note: (1) The actuarial cost method used to estimate the actuarial accrued liability was the projected unit credit 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, 2011, unfunded actuarial accrued liability of \$247,625 was significantly higher than the July 1, 2009, liability of \$179,359 as a result of:

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



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

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

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, 2012, 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*.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is 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
February 14, 2013