

PASCO-HERNANDO COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013



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 2012-13 fiscal year are listed below:

	<u>County</u>
Dr. S.K. Rao Musunuru, Vice Chair to 7-16-12, Chair from 7-17-12 (1)	Hernando
John L. DiRienzo, Jr., Vice Chair from 7-17-12 (1)	Hernando
Jeanne M. Gavish, Chair to 7-16-12 (2)	Hernando
Edward C. Blommel from 5-21-13	Pasco
Kathy A. Burke to 2-5-13 (3)	Hernando
Leonard H. Johnson	Pasco
Judy R. Parker	Pasco
Morris R. Porton (1)	Hernando
Wilton E. Simpson to 10-3-12 (4)	Pasco
Victor Young	Pasco

Dr. Katherine M. Johnson, President

- Notes: (1) Board member served beyond the end of their term, May 31, 2013.
(2) Board member served beyond the end of their term, May 31, 2010.
(3) Board member resigned on February 5, 2013, and position remained vacant through June 30, 2013.
(4) Board member resigned on October 3, 2012, and position remained vacant until replaced on May 21, 2013.

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

The audit team leader was 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) 412-2869.

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) 412-2722; 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, 2013. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2014-061.

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

Report on the 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of 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* in considering Pasco-Hernando Community College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

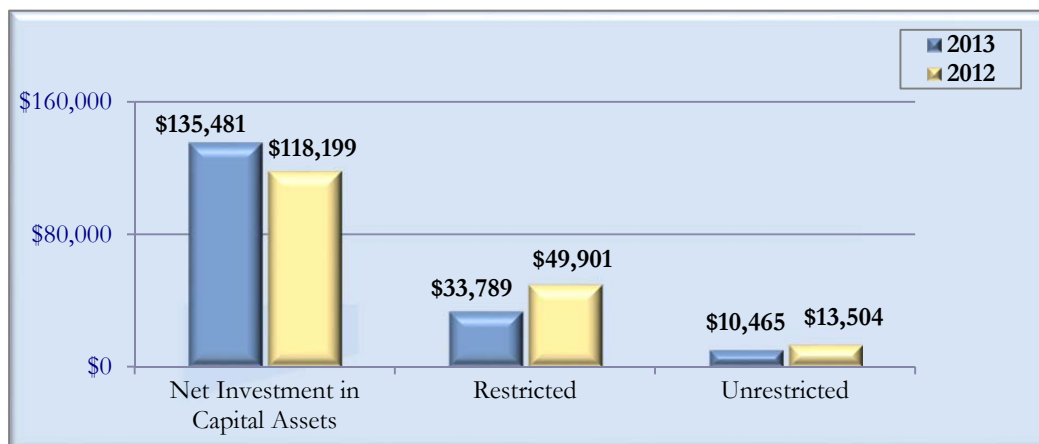
FINANCIAL HIGHLIGHTS

The College's assets totaled \$199.2 million at June 30, 2013. This balance reflects a \$7.7 million, or 4 percent, increase as compared to the 2011-12 fiscal year, resulting primarily from the increase in buildings and other structures and improvements. Liabilities increased by \$9.6 million, or 97.7 percent, totaling \$19.4 million at June 30, 2013, compared to \$9.8 million at June 30, 2012, due to increases in: accounts payable of \$1.3 million; retainage payable for construction projects of \$1.5 million; deposits held for others (computer consortium) of \$0.9 million; and loan payable due to the addition of a seven year \$5.9 million energy conservation loan. As a result, the College's net position decreased by \$1.9 million, or 1 percent, resulting in a year-end balance of \$179.7 million.

The College's operating revenues totaled \$14.2 million for the 2012-13 fiscal year, representing a 0.6 percent decrease as compared to the 2011-12 fiscal year due mainly to the decrease in enrollment and a decrease in grants and contracts. Operating expenses totaled \$59.8 million for the 2012-13 fiscal year, representing a decrease of \$1.4 million, or 2.3 percent, as compared to the 2011-12 fiscal year due mainly to decreases in expenses for scholarships and waivers of \$1.7 million, material and supplies of \$0.5 million, and contractual services of \$0.3 million, offset by an increase of \$1.2 million for depreciation expense.

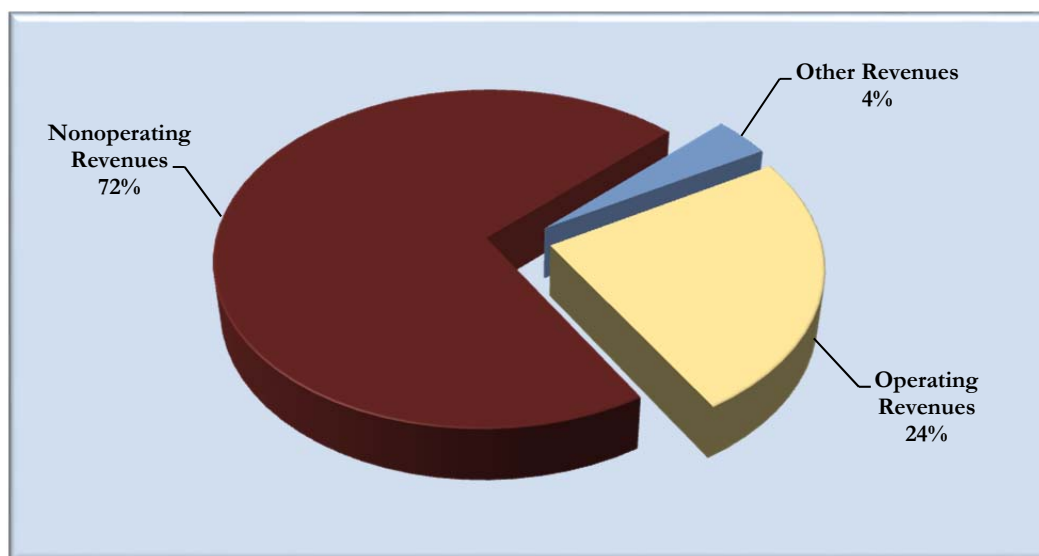
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

Net Position: College
(In Thousands)



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

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

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

- 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 POSITION

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

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

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Assets				
Current Assets	\$ 37,264	\$ 58,444	\$ 7,761	\$ 3,274
Capital Assets, Net	143,818	120,728	290	292
Other Noncurrent Assets	18,093	12,267	29,704	31,273
Total Assets	199,175	191,439	37,755	34,839
Liabilities				
Current Liabilities	8,944	4,736	303	410
Noncurrent Liabilities	10,496	5,099		
Total Liabilities	19,440	9,835	303	410
Net Position				
Net Investment in Capital Assets	135,481	118,199	290	292
Restricted	33,789	49,901	35,362	33,220
Unrestricted	10,465	13,504	1,800	917
Total Net Position	\$ 179,735	\$ 181,604	\$ 37,452	\$ 34,429
Change in Net Position	\$ (1,869)	-1.03%	\$ 3,023	8.78%

The College's assets totaled \$199.2 million at June 30, 2013. This balance reflects a \$7.7 million, or 4 percent, increase from the 2011-12 fiscal year resulting primarily from the increase in buildings and other structures and improvements.

- The College's current and noncurrent assets totaled \$37.3 and \$161.9 million at June 30, 2013, compared to \$58.4 million and \$133 million, respectively, at June 30, 2012, a decrease of \$21.1 million in current assets and an increase of \$28.9 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 building and other structures and improvements.
- Total liabilities increased by \$9.6 million, or 97.7 percent, totaling \$19.4 million at June 30, 2013, compared to \$9.8 million at June 30, 2012. Current liabilities increased by \$4.2 million primarily due to the increases in accounts payable of \$1.3 million, retainage payable for construction projects of \$1.5 million for the Porter Campus at Wiregrass Ranch in Wesley Chapel, deposits held for others (computer consortium) of \$0.9 million, and loan payable (energy conservation loan) current portion of \$0.5 million. Noncurrent liabilities increased by \$5.4 million primarily due to the new seven year energy conservation loan to install LED lighting at three of the college campuses and replace chillers.

As a result, the College's net position decreased by \$1.9 million, or 1 percent, reaching a year-end balance of \$179.7 million.

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

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

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

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Operating Revenues	\$ 14,233	\$ 14,321	\$ 704	\$ 769
Less, Operating Expenses	59,763	61,161	1,595	1,777
Operating Loss	(45,530)	(46,840)	(891)	(1,008)
Net Nonoperating Revenues	41,447	43,861	3,279	272
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(4,083)	(2,979)	2,388	(736)
Other Revenues	2,214	2,306	635	506
Net Increase (Decrease) In Net Position	(1,869)	(673)	3,023	(230)
Net Position, Beginning of Year	181,604	182,277	34,429	34,659
Net Position, End of Year	<u>\$ 179,735</u>	<u>\$ 181,604</u>	<u>\$ 37,452</u>	<u>\$ 34,429</u>

Operating Revenues

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

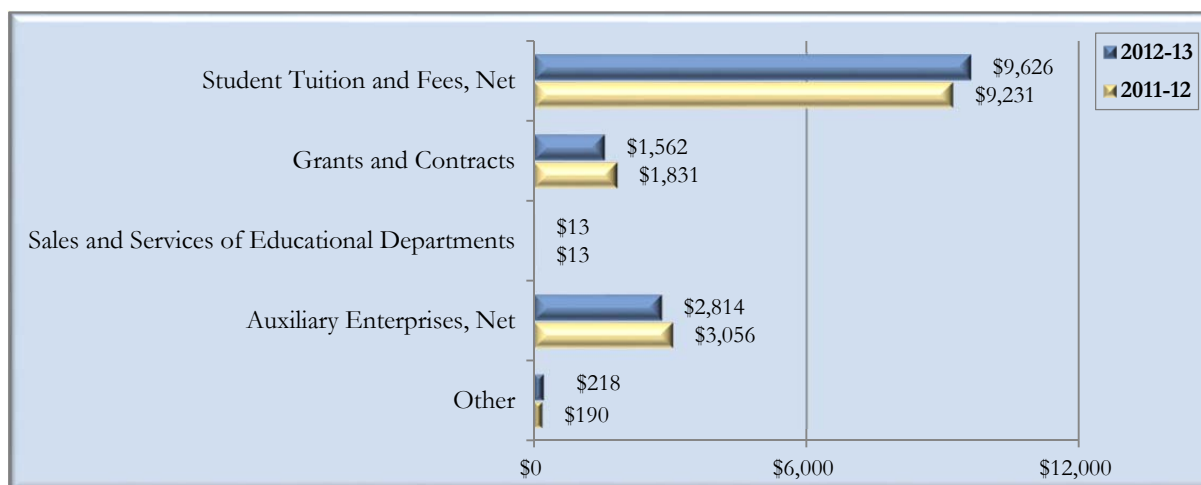
The following summarizes the operating revenues for the College and its component unit for the respective fiscal years ended:

Operating Revenues
For the Fiscal Years Ended
(In Thousands)

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Student Tuition and Fees, Net	\$ 9,626	\$ 9,231	\$	\$
Grants and Contracts	1,562	1,831	306	396
Sales and Services of Educational Departments	13	13		
Sales and Services of Auxiliary Enterprises, Net	2,814	3,056		
Other Operating Revenues	218	190	398	373
Total Operating Revenues	<u>\$ 14,233</u>	<u>\$ 14,321</u>	<u>\$ 704</u>	<u>\$ 769</u>

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

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



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

- The College's operating revenues decreased by 0.6 percent to \$14.2 million for the 2012-13 fiscal year. Tuition and fees, net, increased by \$0.4 million due to the increase in student tuition and fee rates outpacing the decrease in fee paying enrollment. The standard fee for a Postsecondary Adult Education (PSAV) increased by 4.9 percent and credit course tuition fees increased by 5 percent beginning with the Fall 2012 term for the 2012-13 fiscal year. Auxiliary Enterprises, net of scholarship allowances, decreased by \$0.2 million or 7.9 percent due to enrollment declines. Grants and contracts decreased \$0.3 million primarily due to a decrease in State, local, and nongovernmental sources over the 2011-12 fiscal year.
- Of the \$14.2 million operating revenues, auxiliary enterprises comprised \$2.8 million, or 19.8 percent; grants and contracts accounted for \$1.6 million, or 11 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 position and has displayed the functional classification in the notes to financial statements.

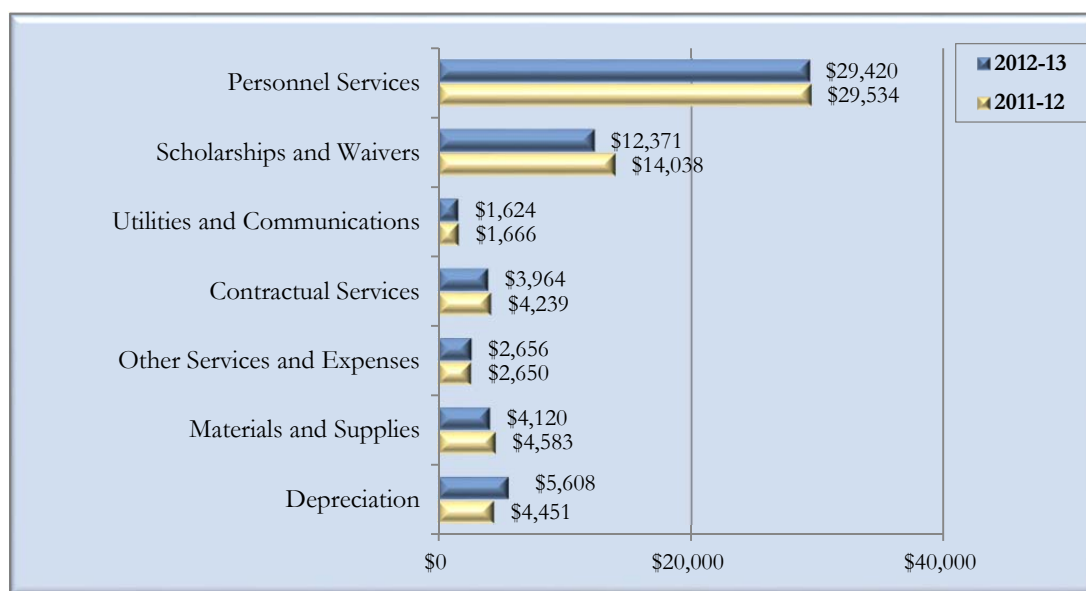
The following summarizes operating expenses by natural classification of the College and its component unit for the respective fiscal years ended is shown in the following table:

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

	College		Component Unit	
	6-30-13	6-30-12	12-31-12	12-31-11
Personnel Services	\$ 29,420	\$ 29,534	\$ 355	\$ 367
Scholarships and Waivers	12,371	14,038	1,059	1,223
Utilities and Communications	1,624	1,666		
Contractual Services	3,964	4,239	117	125
Other Services and Expenses	2,656	2,650	39	39
Materials and Supplies	4,120	4,583	23	20
Depreciation	5,608	4,451	2	3
Total Operating Expenses	\$ 59,763	\$ 61,161	\$ 1,595	\$ 1,777

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

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



College operating expense decreased by \$1.4 million, or 2.3 percent, as a result of the following factors:

- Personnel services decreased by \$0.1 million, or 0.4 percent, as a result of adjunct faculty and full-time faculty overload expense decreasing due to the declining enrollment. Additional cost savings were recognized due to vacant positions throughout the year, and retirements partially offsetting increases in insurance and retirement costs.
- Scholarships and waivers decreased by \$1.7 million, or 11.9 percent, primarily due to the decrease in Federal Pell grants corresponding with changes in the academic progress standards, which affect the number of eligible students and the decline in enrollment.
- Contracted services decreased by \$0.3 million, or 6.5 percent, primarily due to the decrease in restricted funds activity, which included the elimination of the Career Pathways Adult Education and Family Literacy grants, and Department of Corrections grant for web design.

- Materials and supplies decreased by \$0.5 million, or 10.1 percent, primarily due to the decrease in books and supplies for resale by the college stores to students due to declining enrollment.
- Depreciation increased \$1.2 million, or 26 percent, due to an increase in buildings and other structures.

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses): College (In Thousands)

	<u>2012-13</u>	<u>2011-12</u>
State Noncapital Appropriations	\$19,531	\$19,491
Federal and State Student Financial Aid	21,738	24,053
Gifts and Grants	87	111
Investment Income	220	306
Net Realized and Unrealized Gain on Investments	19	7
Gain on Sale of Investments	16	22
Interest on Capital Asset-Related Debt	<u>(164)</u>	<u>(129)</u>
Net Nonoperating Revenues	<u>\$41,447</u>	<u>\$43,861</u>

Total nonoperating revenues for the College decreased by \$2.4 million, or 5.5 percent, to \$41.4 million for the 2012-13 fiscal year, as Federal and State student financial aid decreased by \$2.3 million because Federal Pell grant academic progress standards changed, which affect the number of eligible students and declining enrollment.

Other Revenues, Expenses, Gains, or Losses

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

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

	<u>2012-13</u>	<u>2011-12</u>
State Capital Appropriations	\$ 375	\$ 733
Capital Grants, Contracts, Gifts, and Fees	<u>1,839</u>	<u>1,573</u>
Total	<u>\$ 2,214</u>	<u>\$ 2,306</u>

- State capital appropriations for general renovations and repairs decreased by \$0.4 million due to the decrease in PECO appropriations.
- Capital grants, contracts, gifts, and fees increased as the capital improvement fees increased by \$0.3 million, or 16.9 percent, during the 2012-13 fiscal year due to the increase in the per credit hour capital improvement fee from \$7.29 to \$9.29, for in-state students, and \$29.43 to \$37.43, for out-of-state students, beginning with the Fall 2012 term.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The statement of cash flows also helps users assess:

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

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

Condensed Statement of Cash Flows: College (In Thousands)

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	\$ (36,828)	\$ (40,801)
Noncapital Financing Activities	41,356	43,655
Capital and Related Financing Activities	5,121	(2,062)
Investing Activities	289	326
Net Increase in Cash and Cash Equivalents	9,938	1,118
Cash and Cash Equivalents, Beginning of Year	28,147	27,029
Cash and Cash Equivalents, End of Year	\$ 38,085	\$ 28,147

Major sources of funds came from State noncapital appropriations (\$19.5 million), State capital appropriations (\$25.8 million), Federal and State student financial aid (\$21.7 million), Federal direct student loans (\$9.9 million), net student tuition and fees (\$10.4 million), proceeds from capital debt (\$6 million), and auxiliary enterprises (\$2.9 million).

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

- Net cash used by operating activities decreased by \$4 million compared to the prior fiscal year. The major sources of cash used by operating activities included payments to employees (\$29.4 million), scholarships (\$12.4 million), and payments to suppliers (\$9.5 million).
- Net cash provided by noncapital financing activities decreased by \$2.3 million compared to the prior fiscal year due primarily to the \$2.3 million decrease in Federal and State Student Financial Aid. Disbursements of Federal direct student loans totaled \$9.9 million.
- Net cash provided by capital and related financial activities increased by \$7.2 million, to \$5.1 million for the 2012-13 fiscal year. The increase was primarily the result of \$25.8 million in State capital appropriations and \$6 million in proceeds from capital debt relating to an energy conservation loan, offset by purchases of capital assets totaled \$28.2 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$194.5 million in capital assets, less accumulated depreciation of \$50.6 million, for net capital assets of \$143.8 million. Depreciation charges for the current fiscal year totaled \$5.6 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2013</u>	<u>2012</u>
Land	\$ 3,228	\$ 3,188
Construction in Progress	37,951	51,735
Buildings	127,552	91,770
Other Structures and Improvements	21,260	14,787
Furniture, Machinery, and Equipment	4,113	4,668
Assets Under Capital Leases	347	347
Total	194,451	166,495
Less, Accumulated Depreciation:		
Buildings	33,967	30,546
Other Structures and Improvements	12,776	11,046
Furniture, Machinery, and Equipment	3,613	3,967
Assets Under Capital Leases	277	208
Total Accumulated Depreciation	50,633	45,767
Capital Assets, Net	\$ 143,818	\$ 120,728

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2013, were incurred for the following:

- Land additions included the purchase of an adjacent land parcel at the Spring Hill Center.
- Building additions were the result of the completion of various construction projects at the Spring Hill Center.
- Other structures and improvements included repairs to the driving range pond at East Campus and repairing of parking lots 1 and 2 at West Campus.
- Furniture, machinery, and equipment additions consisted of computers and computer-related equipment, furniture, educational equipment, office equipment, vehicles, and grounds equipment.
- Construction in progress additions included roof renovations at West Campus, continued construction of Porter Campus at Wiregrass Ranch, and the district-wide energy conservation project.

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

- Construction of Porter Campus at Wiregrass Ranch \$11.2 million.
- District-wide energy conservation project of \$3.2 million.
- Roof renovation at West Campus \$0.6 million.

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$40,854
Completed to Date	<u>(25,809)</u>
Balance Committed	<u>\$15,045</u>

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

DEBT ADMINISTRATION

As of June 30, 2013, the College had \$8.3 million in outstanding bonds, loan payable, and capital lease payable, representing an increase of \$5.8 million, or 230 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2013, and June 30, 2012:

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

	2013	2012
SBE Capital Outlay Bonds	\$ 2,230	\$ 2,305
Loan Payable	5,952	
Capital Lease	154	224
Total	\$ 8,336	\$ 2,529

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2012-13 fiscal year, there were no bond sales and debt repayments totaled \$75 thousand. During the 2012-13 fiscal year, the College borrowed \$5.9 million to finance an energy conservation project (install LED lighting and replace chillers). 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 the State of Florida. After receiving an increase in State funding of \$40 thousand, or 0.2 percent, for the 2012-13 fiscal year, a portion of which was used to fund the legislative changes in employer contribution rates to the Florida Retirement System (FRS), State funding in the 2013-14 fiscal year was increased by \$7.7 million, or 39.4 percent.

The 2013-14 fiscal year projected student fee revenues of \$14.4 million are based on an anticipated fee-paying enrollment of 6,119 full-time equivalent. Due to the declining enrollment trend experienced during the 2011-12 and 2012-13 fiscal years, the 2013-14 proposed budget is based on the premise of an 8 percent enrollment decline in the Fall semester and, with the opening of the new Porter Campus at Wiregrass Ranch in January 2014, sustaining current enrollment in the Spring and Summer semesters (annualized decrease of 3.56 percent).

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 potential state funding reductions and enrollment declines.

The College continues to implement new degree programs to meet community needs and generate continued enrollment growth. The Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) has approved the College's substantive change request to offer the Associate in Science degree programs in Accounting Technology; Financial Services; and Fire Science Technology beginning with the 2013-14 academic year. In addition, the College will be adding the Associate of Science degree program in Health Information Technology, as well as certificate programs in Health Information, Surgical Technician, and Pharmacy Technician.

The College has also obtained approval from the Florida State Board of Education and is seeking approval from the SACSCOC to offer a Bachelor of Science Degree in Nursing and the Bachelor of Applied Science Degree in Supervision and Management. Upon receipt of SACSCOC approval in December 2013, the District Board of Trustees voted to change the College's name to Pasco-Hernando State College to reflect the baccalaureate degree granting authority.

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 State 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 POSITION
June 30, 2013**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 12,735,628	\$ 7,164,713
Restricted Cash and Cash Equivalents	7,349,669	
Accounts Receivable, Net	2,120,307	
Investments		524,084
Notes Receivable, Net		37,434
Due from Other Governmental Agencies	13,383,595	21,049
Due from Component Unit	219,211	
Inventories	815,698	
Prepaid Expenses	605,281	14,068
Other Assets	34,251	
Total Current Assets	<u>37,263,640</u>	<u>7,761,348</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	17,999,822	
Investments	48,447	10,913,394
Restricted Investments	45,410	18,692,021
Due from Other Governmental Agencies		86,050
Notes Receivable, Net		12,501
Depreciable Capital Assets, Net	102,638,496	1,416
Nondepreciable Capital Assets	41,179,083	288,863
Total Noncurrent Assets	<u>161,911,258</u>	<u>29,994,245</u>
TOTAL ASSETS	<u>199,174,898</u>	<u>37,755,593</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,816,792	53,330
Salary and Payroll Taxes Payable	1,493,205	
Retainage Payable	1,960,388	
Due to College		119,909
Unearned Revenue	40,381	43,844
Deposits Held for Others	1,500,050	86,050
Long-Term Liabilities - Current Portion:		
Bonds Payable	80,000	
Loan Payable	472,389	
Capital Lease Payable	76,706	
Compensated Absences Payable	504,240	
Total Current Liabilities	<u>8,944,151</u>	<u>303,133</u>
Noncurrent Liabilities:		
Bonds Payable	2,150,000	
Loan Payable	5,479,916	
Capital Lease Payable	77,503	
Compensated Absences Payable	2,726,569	
Other Postemployment Benefits Payable	61,464	
Total Noncurrent Liabilities	<u>10,495,452</u>	
TOTAL LIABILITIES	<u>19,439,603</u>	<u>303,133</u>

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	College	Component Unit
NET POSITION		
Net Investment in Capital Assets	\$ 135,481,065	\$ 290,279
Restricted:		
Nonexpendable:		
Endowment		23,240,663
Expendable:		
Grants and Loans	376,428	5,341,452
Scholarships	439,293	6,780,068
Capital Projects	32,925,098	
Debt Service	48,447	
Unrestricted	10,464,964	1,799,998
TOTAL NET POSITION	\$ 179,735,295	\$ 37,452,460

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 POSITION
For the Fiscal Year Ended June 30, 2013

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$10,154,371	\$ 9,625,621	\$
Federal Grants and Contracts	928,842	
State and Local Grants and Contracts	160,966	36,673
Nongovernmental Grants and Contracts	472,091	269,313
Sales and Services of Educational Departments	13,415	
Auxiliary Enterprises, Net of Scholarship		
Allowances of \$2,265,185	2,813,739	
Other Operating Revenues	217,879	398,161
Total Operating Revenues	<u>14,232,553</u>	<u>704,147</u>
EXPENSES		
Operating Expenses:		
Personnel Services	29,420,310	355,194
Scholarships and Waivers	12,371,193	1,059,331
Utilities and Communications	1,624,455	
Contractual Services	3,963,533	116,862
Other Services and Expenses	2,656,250	39,205
Materials and Supplies	4,119,673	22,988
Depreciation	5,607,942	1,739
Total Operating Expenses	<u>59,763,356</u>	<u>1,595,319</u>
Operating Loss	<u>(45,530,803)</u>	<u>(891,172)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,530,994	
Federal and State Student Financial Aid	21,737,999	
Gifts and Grants	87,235	
Investment Income	219,693	674,279
Net Unrealized and Realized Gain on Investments	18,908	2,604,836
Gain on Sale of Capital Assets	16,724	
Interest on Capital Asset-Related Debt	(163,672)	
Net Nonoperating Revenues	<u>41,447,881</u>	<u>3,279,115</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(4,082,922)</u>	<u>2,387,943</u>
State Capital Appropriations	374,991	
Capital Grants, Contracts, Gifts, and Fees	1,839,010	
Additions to Permanent Endowments		635,426
Total Other Revenues	<u>2,214,001</u>	<u>635,426</u>
Increase (Decrease) in Net Position	<u>(1,868,921)</u>	<u>3,023,369</u>
Net Position, Beginning of Year	<u>181,604,216</u>	<u>34,429,091</u>
Net Position, End of Year	<u>\$ 179,735,295</u>	<u>\$ 37,452,460</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 CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 10,356,189
Grants and Contracts	1,684,041
Payments to Suppliers	(9,457,672)
Payments for Utilities and Communications	(1,624,455)
Payments to Employees	(23,891,518)
Payments for Employee Benefits	(5,489,449)
Payments for Scholarships	(12,371,193)
Auxiliary Enterprises, Net	2,917,899
Sales and Service of Educational Departments	13,415
Other Receipts	<u>1,034,318</u>
Net Cash Used by Operating Activities	<u>(36,828,425)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,530,994
Federal and State Student Financial Aid	21,737,999
Federal Direct Loan Program Receipts	9,861,207
Federal Direct Loan Program Disbursements	(9,861,207)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	<u>87,235</u>
Net Cash Provided by Noncapital Financing Activities	<u>41,356,228</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	5,952,305
State Capital Appropriations	25,772,629
Capital Grants and Gifts	1,839,010
Proceeds from Sale of Capital Assets	16,724
Purchases of Capital Assets	(28,151,763)
Principal Paid on Capital Debt and Leases	(144,291)
Interest Paid on Capital Debt and Leases	<u>(163,672)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>5,120,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	46,305
Investment Income	<u>242,822</u>
Net Cash Provided by Investing Activities	<u>289,127</u>
Net Increase in Cash and Cash Equivalents	9,937,872
Cash and Cash Equivalents, Beginning of Year	<u>28,147,247</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 38,085,119</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, 2013

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (45,530,803)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,607,942
Changes in Assets and Liabilities:	
Receivables, Net	37,125
Due From Other Governmental Agencies	911,865
Inventories	(15,369)
Prepaid Expenses	(77,464)
Other Assets	(26,000)
Accounts Payable	1,299,179
Sales and Payroll Taxes Payable	(84,873)
Unearned Revenue	5,856
Deposits Held for Others	919,902
Compensated Absences Payable	97,549
Other Postemployment Benefits Payable	26,666
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (36,828,425)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 18,908

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, 2013

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. 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), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

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

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

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options.

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

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

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

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

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. To the extent that these resources are used to pay student

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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, cash held in escrow account, and cash held with the State Treasury 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 Special Purpose Investment Account (SPIA) and State Board of Administration (SBA) Florida PRIME investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2013, the College reported as cash equivalents at fair value \$8,230,662 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2013, the College reported as cash equivalents \$4,581,499 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2013, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 40 days as of June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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 Improvement – 10 years
- Furniture, Machinery, and Equipment
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture – 7 years
- Assets Under Capital Lease – 5 years

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

2. INVESTMENTS

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

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

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 45,410
State Board of Administration Debt Service Accounts	48,447
Total College Investments	\$ 93,857

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2013, the College reported investments at fair value of \$45,410 for amounts held in Fund B. The College's investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2013. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$48,447 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the Foundation, at December 31, 2012, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Government Obligations	\$ 1,966,183
Federal Agency Obligations	1,058,442
Corporate Bonds and Notes	2,976,194
Mortgage-Backed Securities	5,436,659
Equity Mutual Funds	4,206,857
Domestic Stocks and Other Equity Securities	<u>14,485,164</u>
Total Component Unit Investments	<u>\$30,129,499</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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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	\$ 1,966,183	\$ 187,143	\$ 304,767	\$ 728,983	\$ 745,290
Federal Agency Obligations	1,058,442	1,991	255,804	441,830	358,817
Corporate Bonds and Notes	2,976,194	239,422	1,067,436	1,486,987	182,349
Mortgage-Backed Securities	5,436,659		258,333	1,301,637	3,876,689
Equity Mutual Funds	4,206,857	4,206,857			
Totals	\$ 15,644,335	\$4,635,413	\$1,886,340	\$3,959,437	\$ 5,163,145

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, 2012, the Foundation's fixed income securities were rated as follows:

<u>Investment</u>	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Percentage Total Debt Securities Investments</u>
United States Government Obligations	AA+	Aaa	18%
Federal Agency Obligations	AA+	Aaa	9%
Corporate Bonds and Notes	AAA - BBB	Aaa - Baa2	26%
Mortgage-Backed Securities	AAA - AA+	Aaa-A3	47%

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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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, 2012, 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 deferments, various student services provided by the College, government receivables, unused credit memos, and third-party nongovernmental receivables. These receivables are reported net of a \$445,289 allowance for doubtful accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$13,257,406 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

5. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The amount due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid, and agreements to support a portion of the College's programs. The College's financial statements are reported for the fiscal year ended June 30, 2013. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2012. Accordingly, amounts reported by the College as due from component unit on the statement of net position 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, 2013, is shown below:

PASCO-HERNANDO COMMUNITY COLLEGE
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JUNE 30, 2013

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 3,187,699	\$ 40,156	\$	\$ 3,227,855
Construction in Progress	51,734,675	27,911,460	41,694,907	37,951,228
Total Nondepreciable Capital Assets	\$ 54,922,374	\$ 27,951,616	\$ 41,694,907	\$ 41,179,083
Depreciable Capital Assets:				
Buildings	\$ 91,770,048	\$ 35,781,832	\$	\$ 127,551,880
Other Structures and Improvements	14,786,658	6,473,694		21,260,352
Furniture, Machinery, and Equipment	4,668,346	185,480	740,456	4,113,370
Assets Under Capital Lease	347,095			347,095
Total Depreciable Capital Assets	111,572,147	42,441,006	740,456	153,272,697
Less, Accumulated Depreciation:				
Buildings	30,545,864	3,421,190		33,967,054
Other Structures and Improvements	11,046,027	1,730,137		12,776,164
Furniture, Machinery, and Equipment	3,966,567	387,196	740,456	3,613,307
Assets Under Capital Lease	208,257	69,419		277,676
Total Accumulated Depreciation	45,766,715	5,607,942	740,456	50,634,201
Total Depreciable Capital Assets, Net	\$ 65,805,432	\$ 36,833,064	\$	\$ 102,638,496

8. UNEARNED REVENUE

Unearned revenue of \$40,381 includes amounts collected for Pay-for-Print and campus gift cards that have not been used as of June 30, 2013.

9. LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 2,305,000	\$	\$ 75,000	\$ 2,230,000	\$ 80,000
Loan Payable		5,952,305		5,952,305	472,389
Capital Lease Payable	223,500		69,291	154,209	76,706
Compensated Absences Payable	3,133,260	486,891	389,342	3,230,809	504,240
Other Postemployment Benefits Payable	34,798	43,185	16,519	61,464	
Total Long-Term Liabilities	\$ 5,696,558	\$ 6,482,381	\$ 550,152	\$ 11,628,787	\$ 1,133,335

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt

PASCO-HERNANDO COMMUNITY COLLEGE
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JUNE 30, 2013

service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2013:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2010A	\$ 2,230,000	3.50 - 5.00	2030

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

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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	100,000	78,900	178,900
2019-2023	590,000	317,950	907,950
2024-2028	800,000	174,600	974,600
2029-2030	390,000	23,600	413,600
Total	\$ 2,230,000	\$ 955,650	\$ 3,185,650

Loan Payable. On January 31, 2013, the College borrowed \$5,952,305, at a stated interest rate of 1.76 percent, to finance the cost of capital improvements at all college locations. The loan matures on December 31, 2019, and principal and interest payments are made monthly. Annual requirements to amortize the outstanding loan as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Amount
2014	\$ 575,420
2015	1,046,079
2016	1,046,079
2017	1,046,079
2018	1,046,079
2019-20	1,569,121
Total Minimum Payments	6,328,857
Less Amount Representing Interest	376,552
Present Value of Minimum Loan Payments	\$ 5,952,305

Capital Lease Payable. Copier equipment in the amount of \$347,095 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, 2013, are as follows:

PASCO-HERNANDO COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2014	\$ 88,926
2015	<u>81,515</u>
Total Minimum Payments	170,441
Less, Amount Representing Interest	<u>16,232</u>
Present Value of Minimum Lease Payments	<u>\$ 154,209</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, 2013, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,230,809. The current portion of the compensated absences liability, \$504,240, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment benefits administered by the Florida College 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 for retiree coverage. 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 has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 33 retirees received other postemployment benefits and 43 retirees received postemployment life insurance benefits. The College provided required contributions of \$16,519 toward the annual OPEB cost, comprised of

**PASCO-HERNANDO COMMUNITY COLLEGE
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JUNE 30, 2013**

benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$234,238, which represents 1.2 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 34,694
Amortization of Unfunded Actuarial Accrued Liability	8,254
Interest on Normal Cost and Amortization	
Annual Required Contribution	42,948
Interest on Net OPEB Obligation	1,424
Adjustment to Annual Required Contribution	(1,187)
Annual OPEB Cost (Expense)	43,185
Contribution Toward the OPEB Cost	(16,519)
Increase in Net OPEB Obligation	26,666
Net OPEB Obligation, Beginning of Year	34,798
Net OPEB Obligation, End of Year	<u>\$ 61,464</u>

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

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010-11	\$ 17,973	185.7%	\$ 8,055
2011-12	43,001	37.8%	34,798
2012-13	43,185	38.3%	61,464

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 employees) was \$19,844,495 for the 2012-13 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

**PASCO-HERNANDO COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 fiscal year ARC. 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, an inflation rate of 3 percent, and an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years pre-Medicare and 5 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2013, was 24 years.

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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

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

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

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

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

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$1,528,946, \$925,715, and \$1,241,024, respectively, which were equal to the required contributions for each fiscal year.

There were 89 College participants in the Investment Plan during the 2012-13 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$318,686, which was equal to the required contribution for the 2012-13 fiscal year.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

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

There were 22 College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled \$85,089 and employee contributions totaled \$48,856 for the 2012-13 fiscal year.

11. CONSTRUCTION COMMITMENTS

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

Project Description	Total Commitment	Completed to Date	Balance Committed
West Campus Roofs:			
Architect	\$ 875,166	\$ 262,539	\$ 612,627
Construction Manager	50,000	39,313	10,687
College-Wide Energy Management:			
Engineer	3,724,374	482,975	3,241,399
Porter Campus at Wiregrass Ranch:			
Architect	3,603,040	3,201,947	401,093
Construction Manager	32,601,181	21,822,476	10,778,705
TOTAL	\$ 40,853,761	\$ 25,809,250	\$ 15,044,511

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

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A COMPONENT UNIT OF THE STATE OF FLORIDA
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JUNE 30, 2013**

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

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, 2013, the accumulated credits to the College's account were \$707,842.

14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 14,707,938
Academic Support	5,201,112
Student Services	6,855,336
Institutional Support	7,069,937
Operation and Maintenance of Plant	5,390,115
Scholarships and Waivers	12,371,193
Auxiliary Enterprises	2,559,783
Depreciation	5,607,942
Total Operating Expenses	\$ 59,763,356

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15. SUBSEQUENT EVENTS

On January 21, 2014, the College's Board of Trustees approved the name change from Pasco-Hernando Community College to Pasco-Hernando State College, pursuant to Section 1001.60(2)(b), Florida Statutes.

**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	\$ 365,736	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*

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 17, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2014-061.

Purpose of this Report

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 17, 2014