

HILLSBOROUGH COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2014



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 2013-14 fiscal year are listed below:

Andrew V. Pittman, Chair (1)
James T. Burt II, Vice Chair from 8-28-13 (1)(2)
MarDee H. Buchman
Brigadier General Arthur "Chip" Diehl III, from 12-5-13
Randall H. Reid

Dr. Kenneth H. Atwater, President

Notes: (1) Board member served beyond the end of term, May 31, 2014.
(2) Vice Chair position remained vacant from July 1, 2013, to August 27, 2013.
(3) Position was vacant from July 1, 2013, to December 4, 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 Becky D. Grode, CPA, and the audit was supervised by David A. Blanton, 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.

**HILLSBOROUGH COMMUNITY COLLEGE
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position	14
Statement of Cash Flows	15
Notes to Financial Statements	17
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	34
Notes to Required Supplementary Information	35
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 <i>GOVERNMENT AUDITING STANDARDS</i>	36
Report on the Financial Statements	36
Internal Control Over Financial Reporting	36
Compliance and Other Matters	37
Purpose of this Report	37

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 Hillsborough Community College and its officers with administrative and stewardship responsibilities for College operations had:

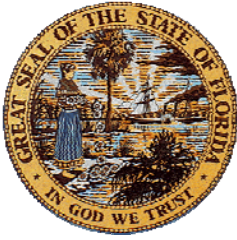
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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, 2014. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 Hillsborough 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, 2014, 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, 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 Hillsborough Community College and of its discretely presented component unit as of June 30, 2014, 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 Hillsborough 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 Hillsborough Community College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 18, 2015

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, 2014, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College and its component unit, Hillsborough Community College Foundation, Inc., for the fiscal years ended June 30, 2014, and June 30, 2013.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$249.1 million at June 30, 2014. This balance reflects a \$9.9 million, or 4.2 percent, increase as compared to the 2012-13 fiscal year, primarily resulting from the proceeds of a note payable to be used for construction and renovations and remodeling projects. Liabilities increased by \$11.3 million, or 87.3 percent, totaling \$24.2 million at June 30, 2014, as compared to \$12.9 million at June 30, 2013. As a result, the College's net position decreased by \$1.3 million, resulting in a year-end balance of \$224.9 million.

The College's operating revenues totaled \$60.6 million for the 2013-14 fiscal year, representing a 5.2 percent decrease as compared to the 2012-13 fiscal year due mainly to a \$3.1 million decrease in net student tuition and fees. Net tuition and fees decreased primarily due to a 2.4 percent decline in enrollment and a \$1.9 million increase in scholarship allowances. Operating expenses totaled \$180.7 million for the 2013-14 fiscal year, representing a decrease of 3.3 percent as compared to the 2012-13 fiscal year due mainly to reductions in costs for scholarships and waivers (\$4.3 million) and material and supplies (\$3.3 million).

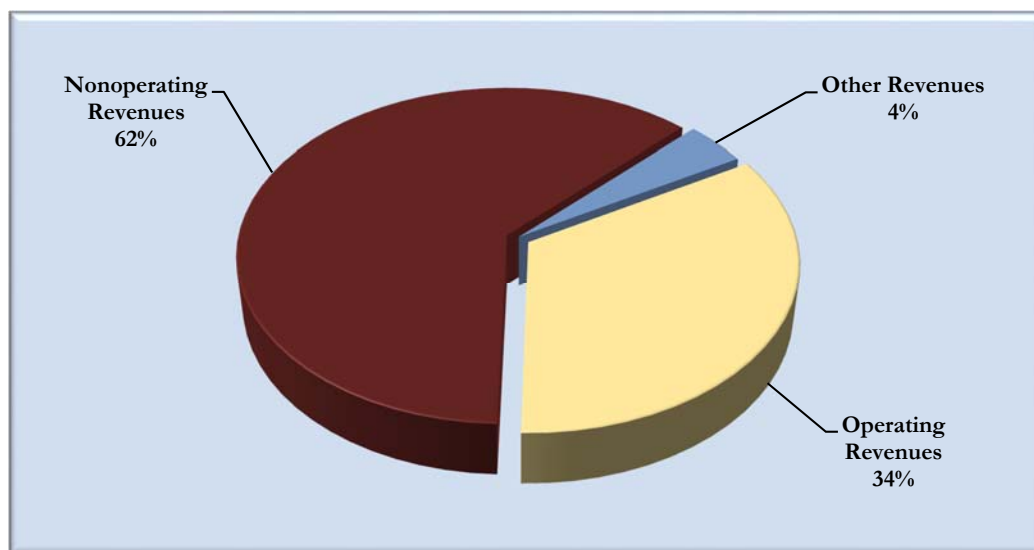
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2013-14 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:

- Hillsborough 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.
- Hillsborough 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 of the College, 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 occur 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 as of June 30, 2014, and June 30, 2013, is shown in the following table:

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

	College		Component Unit	
	6-30-14	6-30-13	6-30-14	6-30-13
Assets				
Current Assets	\$ 40,496	\$ 33,115	\$ 1,018	\$ 675
Capital Assets, Net	184,958	191,074	12,880	13,530
Other Noncurrent Assets	23,660	14,979	9,969	9,035
Total Assets	249,114	239,168	23,867	23,240
Liabilities				
Current Liabilities	9,278	7,361	1,437	1,380
Noncurrent Liabilities	14,930	5,567	16,384	17,312
Total Liabilities	24,208	12,928	17,821	18,692
Net Position				
Net Investment in Capital Assets	183,717	189,244	(4,625)	(3,275)
Restricted	19,291	19,098	7,019	6,197
Unrestricted	21,898	17,898	3,652	1,626
Total Net Position	\$ 224,906	\$ 226,240	\$ 6,046	\$ 4,548

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.

The following summarizes the activities of the College and its component unit for the 2013-14 and 2012-13 fiscal years:

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

	College		Component Unit	
	6-30-14	6-30-13	6-30-14	6-30-13
Operating Revenues	\$ 60,614	\$ 63,955	\$ 4,536	\$ 4,299
Less, Operating Expenses	180,741	186,965	5,028	5,401
Operating Loss	(120,127)	(123,010)	(492)	(1,102)
Net Nonoperating Revenues	111,344	105,262	1,990	1,774
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(8,783)	(17,748)	1,498	672
Other Revenues	7,449	5,846		
Net Increase (Decrease) In Net Position	(1,334)	(11,902)	1,498	672
Net Position, Beginning of Year	226,240	238,142	4,548	3,876
Net Position, End of Year	\$ 224,906	\$ 226,240	\$ 6,046	\$ 4,548

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.

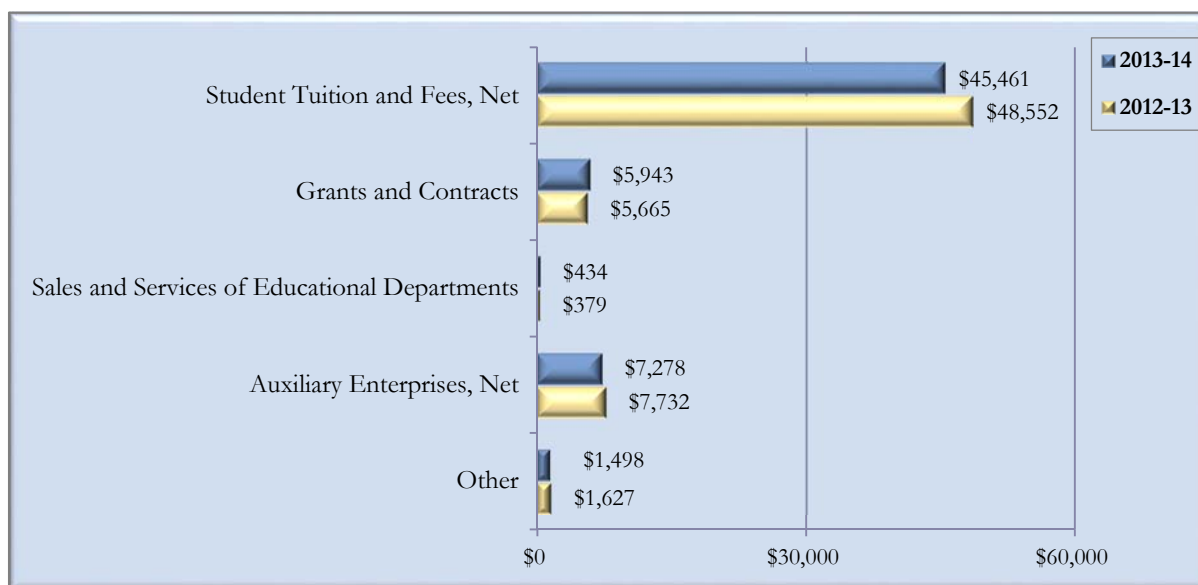
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the 2013-14 and 2012-13 fiscal years:

Operating Revenues For the Fiscal Years Ended (In Thousands)

	College		Component Unit	
	6-30-14	6-30-13	6-30-14	6-30-13
Student Tuition and Fees, Net	\$ 45,461	\$ 48,552	\$	\$
Grants and Contracts	5,943	5,665	1,117	1,200
Sales and Services of Educational Departments	434	379		
Auxiliary Enterprises, Net	7,278	7,732		
Other	1,498	1,627	3,419	3,099
Total Operating Revenues	\$ 60,614	\$ 63,955	\$ 4,536	\$ 4,299

The following chart presents the College's operating revenues for the 2013-14 and 2012-13 fiscal years:

Operating Revenues: College (In Thousands)



College operating revenue changes were primarily the results of a \$3.1 million decrease in net student tuition and fees due to a decline in enrollment and a \$1.9 million increase in scholarship allowances.

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

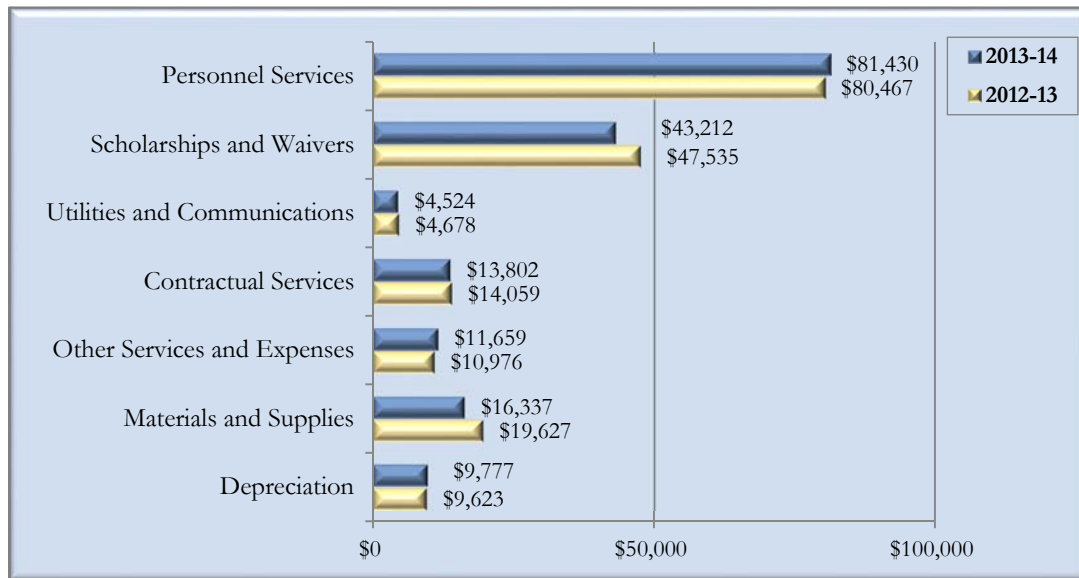
natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the College and its component unit for the 2013-14 and 2012-13 fiscal years:

Operating Expenses For the Fiscal Years Ended (In Thousands)				
	College		Component Unit	
	6-30-14	6-30-13	6-30-14	6-30-13
Personnel Services	\$ 81,430	\$ 80,467	\$ 459	\$ 378
Scholarships and Waivers	43,212	47,535	1,390	1,812
Utilities and Communications	4,524	4,678		
Contractual Services	13,802	14,059		
Other Services and Expenses	11,659	10,976	2,433	2,401
Materials and Supplies	16,337	19,627		
Depreciation	9,777	9,623	746	810
Total Operating Expenses	\$ 180,741	\$ 186,965	\$ 5,028	\$ 5,401

The following chart presents the College's operating expenses for the 2013-14 and 2012-13 fiscal years:

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



College operating expenses decreased as a result of the following factors:

- Personnel services increased by \$1 million primarily due to an increase in retirement contribution rates.
- Scholarships and waivers decreased \$4.3 million primarily due to a change in the scholarship allowances and a decrease in institutional student financial aid awarded during the 2013-14 fiscal year.
- Materials and supplies decreased \$3.3 million primarily due to decreases in purchases of noncapitalized equipment for information technology and minor renovation projects.

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 2013-14 and 2012-13 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)

	2013-14	2012-13
State Noncapital Appropriations	\$ 53,163	\$ 48,609
Federal and State Student Financial Aid	57,794	56,584
Gifts and Grants	461	
Investment Income	114	156
Unrealized Gain on Investments	23	
Loss on Disposal of Capital Assets	(5)	
Other Nonoperating Revenues	2	15
Interest on Capital Asset-Related Debt	(208)	(102)
Net Nonoperating Revenues	\$ 111,344	\$ 105,262

State noncapital appropriations increased \$4.6 million primarily due to an increase in Florida College System Program Fund and Educational Enhancement Trust Fund appropriations. Federal and State student financial aid increased by \$1.2 million primarily due to more students receiving financial aid during the 2013-14 fiscal year.

Other Revenues, Expenses, Gains, or Losses

This category is mainly 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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
State Capital Appropriations	\$ 2,787	\$ 1,033
Capital Grants, Contracts, Gifts, and Fees	4,698	4,813
Other Expenses	(36)	
Total	\$ 7,449	\$ 5,846

State capital appropriations increased \$1.8 million due to an increase in Public Education Capital Outlay funding that will be primarily used for maintenance and renovation projects.

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 2013-14 and 2012-13 fiscal years:

Condensed Statement of Cash Flows: College
(In Thousands)

	<u>2013-14</u>	<u>2012-13</u>
Cash Provided (Used) by:		
Operating Activities	\$ (109,709)	\$ (110,794)
Noncapital Financing Activities	111,019	105,208
Capital and Related Financing Activities	15,142	1,824
Investing Activities	<u>1,642</u>	<u>(4,823)</u>
Net Increase in Cash and Cash Equivalents	18,094	(8,585)
Cash and Cash Equivalents, Beginning of Year	<u>27,245</u>	<u>35,830</u>
Cash and Cash Equivalents, End of Year	<u>\$ 45,339</u>	<u>\$ 27,245</u>

Major cash inflows came from Federal and State student financial aid (\$58.3 million), Federal Direct Student Loan program receipts (\$57.4 million), State noncapital appropriations (\$52.6 million), net student tuition and fees (\$45.5 million), proceeds from capital debt (\$12 million), net auxiliary enterprises (\$7.5 million), grants and contracts (\$5.8 million), capital grants and gifts (\$5 million), and State capital appropriations (\$3 million). Major cash outflows were for payments to employees and for employee benefits (\$80.9 million), disbursements to students for Federal Direct Student Loans (\$57.4 million), payments for scholarships (\$43.2 million), payments to suppliers (\$41.9 million), payments for utilities and communications (\$4.5 million) and purchases of capital assets (\$3.5 million).

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

- The \$5.8 million increase in cash inflows from noncapital financing activities is primarily due to a \$4.6 million increase in State noncapital appropriations and a \$1.2 million increase in Federal and State student financial aid.
- The \$13.3 million increase in cash inflows from capital and related financing activities is primarily due to \$12 million in proceeds from capital debt to finance the construction of a new science and classroom building at the SouthShore Campus, as well as a major renovation to the exterior of the Dale Mabry Campus Technology Building.
- The \$6.5 million increase in cash inflows from investing activities primarily resulted from the sale of \$1.6 million of investments as compared to the purchase of \$5 million in the prior fiscal year.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,
AND DEBT ADMINISTRATION**

CAPITAL ASSETS

At June 30, 2014, the College had \$304.1 million in capital assets, less accumulated depreciation of \$119.1 million, for net capital assets of \$185 million. Depreciation charges for the current fiscal year totaled \$9.8 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>2014</u>	<u>2013</u>
Land	\$ 29,756	\$ 29,756
Construction in Progress	2,092	
Buildings	143,082	150,515
Other Structures and Improvements	3,209	3,685
Furniture, Machinery, and Equipment	2,409	2,557
Leasehold Improvements	4,410	4,561
Capital Assets, Net	\$184,958	\$191,074

CAPITAL EXPENSES AND COMMITMENTS

During the 2013-14 fiscal year, the College had \$3.7 million in expenses for capital assets. The College had \$11.6 million in major construction commitments at June 30, 2014. The commitments are for the Dale Mabry Technology Building Renovation Project and the SouthShore New Science and Classroom Building project. The College's major construction commitments at June 30, 2014, are as follows:

	<u>Amount</u> <u>(In Thousands)</u>
Total Committed	\$13,553
Completed to Date	<u>(1,905)</u>
Balance Committed	<u>\$11,648</u>

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

DEBT ADMINISTRATION

As of June 30, 2014, the College had \$12.7 million in outstanding State Board of Education (SBE) capital outlay bonds and a note payable. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2014, and June 30, 2013:

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

	<u>2014</u>	<u>2013</u>
SBE Capital Outlay Bonds	\$ 1,570	\$ 1,830
Note Payable	11,174	
Total	<u>\$12,744</u>	<u>\$ 1,830</u>

The SBE issues capital outlay bonds on behalf of the College. During the 2013-14 fiscal year, there were no bond sales and debt repayments totaled \$0.3 million. Also during the fiscal year, the College entered into a \$12 million note payable. Proceeds from the note are to be used for the construction of the New Science and Classroom Building at SouthShore and to renovate the Dale Mabry Technology Building. Debt repayments on the note payable during the 2013-14 fiscal year totaled \$0.8 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Even though there is limited economic growth and increased demand for State resources, an increase in State funding is anticipated in the 2014-15 fiscal year. The College anticipates receiving an increase in State appropriated funds of \$5.4 million primarily due to increased program fund allocations. As of July 1, 2014, the College became self-insured, offering health insurance to employees, retirees, former employees, and their dependents. A reserve will be set aside for potential losses. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Administration/Chief Financial Officer, Hillsborough Community College, 39 Columbia Drive, Tampa, Florida 33606.

BASIC FINANCIAL STATEMENTS

HILLSBOROUGH COMMUNITY COLLEGE A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET POSITION June 30, 2014

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 18,387,618	\$ 853,357
Restricted Cash and Cash Equivalents	3,952,553	
Investments	3,004,253	
Accounts Receivable, Net	7,554,135	146,573
Notes Receivable, Net	10,909	
Due from Other Governmental Agencies	5,731,450	
Due from Component Unit	98,056	
Inventories	1,513,616	
Prepaid Expenses	85,350	18,433
Deposits Receivable	158,100	
Total Current Assets	40,496,040	1,018,363
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	22,998,846	2,481,706
Investments	500,100	7,256,727
Restricted Investments	80,866	
Notes Receivable	80,105	
Depreciable Capital Assets, Net	153,109,595	12,879,998
Nondepreciable Capital Assets	31,848,497	
Other Assets		230,393
Total Noncurrent Assets	208,618,009	22,848,824
TOTAL ASSETS	249,114,049	23,867,187
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,945,199	175,721
Salary and Payroll Taxes Payable	3,123,843	
Retainage Payable	125,469	
Due to Other Governmental Agencies	482,546	
Due to Primary Government		98,056
Unearned Revenue	5,284	42,301
Deposits Held for Others	419,472	
Long-Term Liabilities - Current Portion:		
Bonds Payable	280,000	520,000
Note Payable	1,497,000	
Other Liabilities		600,840
Compensated Absences Payable	400,000	
Total Current Liabilities	9,278,813	1,436,918
Noncurrent Liabilities:		
Bonds Payable	1,290,000	15,790,000
Note Payable	9,677,000	
Other Liabilities		594,334
Compensated Absences Payable	2,984,939	
Other Postemployment Benefits Payable	977,770	
Total Noncurrent Liabilities	14,929,709	16,384,334
TOTAL LIABILITIES	24,208,522	17,821,252

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014

	College	Component Unit
NET POSITION		
Net Investment in Capital Assets	\$ 183,716,747	\$ (4,625,176)
Restricted:		
Nonexpendable:		
Endowment		2,542,074
Expendable:		
Grants and Loans	3,002,234	1,618,051
Scholarships	811,009	2,858,883
Capital Projects	15,436,751	
Debt Service	40,778	
Unrestricted	21,898,008	3,652,103
TOTAL NET POSITION	<u>\$ 224,905,527</u>	<u>\$ 6,045,935</u>

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

HILLSBOROUGH 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, 2014

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$17,105,900	\$ 45,461,492	\$
Federal Grants and Contracts	4,282,848	
State and Local Grants and Contracts	151,552	
Nongovernmental Grants and Contracts	1,508,276	1,116,753
Sales and Services of Educational Departments	434,108	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,107,349	7,277,537	
Other Operating Revenues	1,498,428	3,418,856
Total Operating Revenues	<u>60,614,241</u>	<u>4,535,609</u>
EXPENSES		
Operating Expenses:		
Personnel Services	81,430,028	459,374
Scholarships and Waivers	43,211,187	1,389,768
Utilities and Communications	4,524,192	
Contractual Services	13,801,730	
Other Services and Expenses	11,659,459	2,433,141
Materials and Supplies	16,337,256	
Depreciation	9,777,292	745,539
Total Operating Expenses	<u>180,741,144</u>	<u>5,027,822</u>
Operating Loss	<u>(120,126,903)</u>	<u>(492,213)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	53,163,218	84,738
Federal and State Student Financial Aid	57,793,796	
Gifts and Grants	461,415	404,690
Investment Income	113,553	146,640
Realized Gain on Investments		148,770
Unrealized Gain on Investments	23,300	1,154,991
Loss on Disposal of Capital Assets	(5,100)	
Other Nonoperating Revenues	1,635	50,000
Interest on Capital Asset-Related Debt	(208,540)	
Net Nonoperating Revenues	<u>111,343,277</u>	<u>1,989,829</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(8,783,626)</u>	<u>1,497,616</u>
State Capital Appropriations	2,786,632	
Capital Grants, Contracts, Gifts, and Fees	4,698,474	
Other Expenses	(35,734)	
Total Other Revenues	<u>7,449,372</u>	
Increase (Decrease) in Net Position	<u>(1,334,254)</u>	<u>1,497,616</u>
Net Position, Beginning of Year	<u>226,239,781</u>	<u>4,548,319</u>
Net Position, End of Year	<u>\$ 224,905,527</u>	<u>\$ 6,045,935</u>

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

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2014

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 45,530,418
Grants and Contracts	5,843,127
Payments to Suppliers	(41,940,101)
Payments for Utilities and Communications	(4,524,192)
Payments to Employees	(64,362,328)
Payments for Employee Benefits	(16,505,752)
Payments for Scholarships	(43,211,187)
Auxiliary Enterprises, Net	7,481,184
Sales and Service of Educational Departments	527,852
Other Operating Receipts	1,452,088
Net Cash Used by Operating Activities	<u>(109,708,891)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	52,645,772
Federal and State Student Financial Aid	58,264,780
Federal Direct Loan Program Receipts	57,406,999
Federal Direct Loan Program Disbursements	(57,445,064)
Other Nonoperating Receipts	146,195
Net Cash Provided by Noncapital Financing Activities	<u>111,018,682</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	12,000,000
State Capital Appropriations	3,016,138
Capital Grants and Gifts	4,959,802
Proceeds from Sale of Capital Assets	1,635
Purchases of Capital Assets	(3,541,366)
Principal Paid on Capital Debt	(1,086,000)
Interest Paid on Capital Debt	(208,540)
Net Cash Provided by Capital and Related Financing Activities	<u>15,141,669</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	113,553
Purchase of Investments	(26,436)
Proceeds from Sales and Maturities of Investments	1,555,464
Net Cash Provided by Investing Activities	<u>1,642,581</u>
Net Increase in Cash and Cash Equivalents	18,094,041
Cash and Cash Equivalents, Beginning of Year	<u>27,244,976</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 45,339,017</u></u>

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2014**

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (120,126,903)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	9,777,292
Changes in Assets and Liabilities:	
Accounts Receivable, Net	430,098
Notes Receivable	10,563
Due from Other Governmental Agencies	
Due from Component Unit	34,153
Inventories	(6,889)
Prepaid Expenses	69,229
Other Assets	(137,500)
Accounts Payable	(301,035)
Salaries and Payroll Taxes Payable	283,157
Due to Other Governmental Agencies	470,983
Unearned Revenue	(53,704)
Deposits Held for Others	(123,625)
Compensated Absences Payable	(108,163)
Other Postemployment Benefits Payable	73,453
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (109,708,891)</u></u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND
CAPITAL FINANCING 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.	\$ 23,300
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (5,100)

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

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 unit 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 Hillsborough 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 June 30, 2014.

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

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

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

- 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 use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows FASB standards of accounting and financial reporting for not-for-profit organizations.

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 difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash with the 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 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, 2014, the College reported as cash equivalents \$32,013,840 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, 2014, 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, 2014. 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 leasehold improvements. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

- Computer Equipment – 3 years
- Vehicles, Office Machines, and Educational Equipment – 5 years
- Furniture – 7 years
- Pianos – 10 years
- Leasehold Improvements – 40 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, note 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, 2014, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Fair Value</u>
SBA Fund B Surplus Funds Trust Fund	\$ 40,089
SBA Debt Service Accounts	40,777
Federal Instrumentality Obligations	500,100
Certificates of Deposit	3,004,253
Total College Investments	\$ 3,585,219

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

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2014, the College reported investments at fair value of \$40,089 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 1.84438408 at June 30, 2014. The weighted-average life (WAL) of Fund B at June 30, 2014, was 2.86 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, 2014. 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 \$40,777 at June 30, 2014, 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.

Federal Instrumentality Obligations. At June 30, 2014, the College reported investments at fair value totaling \$500,100 in Federal instrumentality obligations. The following risks apply to these investments:

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy, as a means of mitigating this risk, suggests that investments maintain an average maturity of 18 months for internally managed investments and 36 months for externally managed investments. The policy however specifically limits the maximum average duration of the College's investment portfolio to be no greater than 120 percent of this target benchmark's average duration. Additionally the policy limits the maximum effective maturity of individual securities to five years and requires that no more than 20 percent of investments shall have maturities greater than 3 years and at least 10 percent of investments have maturities of one year or less. The College's investment in Federal instrumentality obligations matures on January 30, 2018.

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. The College's investment policy limits money market instruments to securities rated A1/P1 or better, or Tier 1 or the equivalent as a minimum as defined by Standard & Poor's or Moody's and mortgage-backed pass-throughs guaranteed by the U.S. Government or a Federal agency. As of June 30, 2014, the College's investment in Federal instrumentality obligations was rated AA+ by Standard & Poor's, and Aaa by Moody's.

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

securities that are in the possession of an outside party. The College's investment policy addresses custodial credit risk in that all securities purchased by the College shall be properly designated as an asset of the District Board of Trustees of Hillsborough Community College and held in safe keeping by a third party custodial bank or other third party custodial institution. If a bank or trust company serves in the capacity of Investment Manager, said bank or trust company could also perform required custodial and reporting services. The College's \$500,100 investment in Federal instrumentality obligations was uninsured and held by the investment's counterparty, not in the name of the College.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. The College's investment policy does not limit the amount the College may invest in any one issuer; however, it does seek to diversity its portfolio by maintaining the fund as a short to medium term maturity portfolio. More than 5 percent of the College's investments are in Federal instrumentality obligations. At June 30, 2014, these investments represented 13.9 percent of the College's total investments.

Certificates of Deposit. The College reported investments totaling \$3,004,253 at June 30, 2014, in certificates of deposits (CDs) with 12 banks. The investments in CDs were fully insured by the Federal Deposit Insurance Corporation. The CDs carry original maturity dates ranging from 2 to 5 years and, at June 30, 2014, have a weighted-average maturity of 1.04 years. The College's investments in CDs are held in the name of a third-party custodial bank, not in the name of the College.

Component Unit Investments

The College's component unit reports investments totaling \$7,256,727 at June 30, 2014, of which \$7,066,890 is invested open-end mutual funds and are reported at fair value and \$189,837 is invested in other investments.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$2,356,539 allowance for doubtful accounts.

4. NOTE RECEIVABLE

Note receivable represents a promissory note issued to the College by a Florida not-for-profit corporation dated September 30, 2011, for \$116,803. The interest rate on the note is 3.21 percent per annum on the unpaid principal balance from the date of the note through and including December 1, 2021. Monthly fixed payments of \$1,139 for principal and interest commenced on January 1, 2012, and are scheduled for 120 consecutive months. As of June 30, 2014, the outstanding balance is \$91,014.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$4,913,721 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

6. DUE FROM COMPONENT UNIT

The \$98,056 reported as due from component unit by the College consists of amounts owed by the Foundation to the College as of June 30, 2014, for private grants awarded by the Foundation, but not paid to the College.

7. 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.

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 29,756,180	\$	\$	\$ 29,756,180
Construction in Progress		2,092,317		2,092,317
Total Nondepreciable Capital Assets	\$ 29,756,180	\$ 2,092,317	\$	\$ 31,848,497
Depreciable Capital Assets:				
Buildings	\$ 242,570,190	\$	\$	\$ 242,570,190
Other Structures and Improvements	10,046,424			10,046,424
Furniture, Machinery, and Equipment	13,814,748	1,574,518	2,131,974	13,257,292
Leasehold Improvements	6,376,319			6,376,319
Total Depreciable Capital Assets	272,807,681	1,574,518	2,131,974	272,250,225
Less, Accumulated Depreciation:				
Buildings	92,055,481	7,432,799		99,488,280
Other Structures and Improvements	6,361,601	475,621		6,837,222
Furniture, Machinery, and Equipment	11,258,222	1,717,351	2,126,874	10,848,699
Leasehold Improvements	1,814,908	151,521		1,966,429
Total Accumulated Depreciation	111,490,212	9,777,292	2,126,874	119,140,630
Total Depreciable Capital Assets, Net	\$ 161,317,469	\$ (8,202,774)	\$ 5,100	\$ 153,109,595

9. UNEARNED REVENUE

Unearned revenue includes student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2014, the College reported \$5,284 as unearned revenue.

10. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2014, include bonds payable, note payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2014, is shown below:

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 1,830,000	\$	\$ 260,000	\$ 1,570,000	\$ 280,000
Note Payable		12,000,000	826,000	11,174,000	1,497,000
Compensated Absences Payable	3,493,102	227,000	335,163	3,384,939	400,000
Other Postemployment Benefits Payable	904,317	137,580	64,127	977,770	
Total Long-Term Liabilities	\$ 6,227,419	\$ 12,364,580	\$ 1,485,290	\$ 17,106,709	\$ 2,177,000

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 service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2014:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2009A	<u>\$ 1,570,000</u>	5	2019

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2015	\$ 280,000	\$ 78,500	\$ 358,500
2016	295,000	64,500	359,500
2017	315,000	49,750	364,750
2018	330,000	34,000	364,000
2019	350,000	17,500	367,500
Total	<u>\$ 1,570,000</u>	<u>\$ 244,250</u>	<u>\$ 1,814,250</u>

Bonds Payable – Component Unit. The Foundation issued Student Housing Revenue Bonds, Series 2006 in the amount of \$18.6 million on December 6, 2006. Interest on the bonds is payable at a variable rate equal to the municipal swap index rate, which was 0.06 percent at June 30, 2014. In conjunction with the issuance of the bonds, the Foundation entered into an interest rate swap agreement to effectively fix the interest rate on the bonds at 3.59 percent. The bonds mature on December 1, 2033. The proceeds raised from the issuance of the bonds were used to construct a 420-bed student housing facility which serves as collateral for the bonds. The future scheduled maturities of the bonds are as follows:

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2015	\$ 520,000
2016	550,000
2017	575,000
2018	610,000
2019	640,000
2020-2034	<u>13,415,000</u>
Total Minimum Payments Required	<u>\$ 16,310,000</u>

In conjunction with the issuance of the bonds, the Foundation also entered into an \$18.6 million letter of credit agreement that serves as security for the bonds. The letter of credit was renewed with a different financial institution in October 2012 and matures in October 2015. There was no outstanding balance on the letter of credit at June 30, 2014. The letter of credit is subject to certain restrictive financial covenants that the Foundation must maintain with respect to debt service coverage. As of June 30, 2014, management believes the Foundation is in compliance with all covenants.

The Foundation pays an annual letter of credit fee based on a percentage of the outstanding balance on the bonds. That percentage was 0.88 percent as of June 30, 2014. During the continuance of any event of default, the applicable percentage is the relevant obligation rate plus 4 percent.

Upon certain circumstances, the interest rate may be converted to a fixed rate. As long as the bonds carry a variable interest rate, they can be redeemed at the option of the bondholders. The Foundation has entered into an agreement that provides for the remarketing, to the extent possible, of the bonds in the event of redemption. In the event remarketing is unsuccessful, the letter of credit will be drawn upon to pay the trustee. The letter of credit is due the earlier of its expiration date or 180 days from the date of draw.

Bond issuance costs of \$311,288 are being amortized over the life of the bonds using the straight line method, which approximates the effective interest method. Bond issuance costs consist of the following:

	<u>Amount</u>
Bond Underwriter's Discount and Issue Costs	\$ 311,288
Less, Accumulated Amortization	<u>(80,895)</u>
Total	<u>\$ 230,393</u>

Amortization of bond issuance costs totaled \$12,452 for the year ended June 30, 2014.

Interest Rate Swap Agreement – Component Unit. On December 6, 2006, in conjunction with the issuance of the bonds, the Foundation entered into an interest rate swap agreement for the purpose of converting the bonds from adjustable interest rate debt to a 3.59 percent fixed interest rate. The maturity date of the swap agreement is December 1, 2016, and after that date the bonds will return to a variable interest rate. The Foundation records the interest rate swap agreement at fair value.

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

The fair value of the swap agreement is the estimated amount the Foundation would pay to terminate the agreement at the reporting date. The fair value is estimated based on projected discounted cash flows, taking into consideration current interest rates and the current creditworthiness of the counterparties. The fair value of the Foundation's swap agreement at June 30, 2014, is negative \$1,195,174 and is included as a liability in the accompanying statement of net position. The change in the fair value of the swap agreement was \$412,081 for the year ended June 30, 2014, and is included as an increase of revenues and support in the Foundation's statements of activities.

Note Payable. On December 13, 2013, the College borrowed \$12 million, at a stated interest rate of 2.09 percent, to construct a new science and classroom building at the SouthShore campus and for renovations and remodeling of the Technology Building at the Dale Mabry Campus. The note matures on December 1, 2020, and principal and interest payments are made semi-annually. The College's capital improvement fees collected pursuant to Sections 1009.22 and 1009.23, Florida Statutes, are pledged as security for the note. The College has pledged a total of \$12,060,798 of capital improvement fees in connection with the note payable. During the 2013-14 fiscal year, the College recognized capital improvement fees totaling \$4,698,474 and expensed \$943,040 (20 percent) of these revenues for debt service directly collateralized by these revenues. The pledged capital improvement fee revenues are committed until final maturity of the debt on December 1, 2020. Approximately 37 percent of the revenue stream from capital improvement fees collected by the College has been pledged in connection with debt service on the note payable. Annual requirements to amortize the outstanding note as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2015	\$ 1,497,000	\$ 225,720	\$ 1,722,720
2016	1,529,000	194,255	1,723,255
2017	1,561,000	162,132	1,723,132
2018	1,594,000	129,340	1,723,340
2019	1,627,000	95,858	1,722,858
2020-2021	3,366,000	79,493	3,445,493
Total	\$ 11,174,000	\$ 886,798	\$ 12,060,798

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, 2014, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,384,939. The current portion of the compensated absences liability, \$400,000, is the amount expected to be paid in the coming fiscal year, and represents a historical average of terminal leave payments over the last six years.

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits administered by the College.

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer, defined-benefit plan administered by the College. 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 health and hospitalization plan for medical, prescription drug, dental, vision, and life insurance coverage. 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. The College does not issue a stand-alone report 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 2013-14 fiscal year, 23 retirees received other postemployment healthcare benefits, and 128 retirees received life insurance benefits. The College provided required contributions of \$64,127 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$320,235, which represents 0.7 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:

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 83,361
Amortization of Unfunded Actuarial Accrued Liability	<u>48,190</u>
Annual Required Contribution	131,551
Interest on Net OPEB Obligation	36,173
Adjustment to Annual Required Contribution	<u>(30,144)</u>
Annual OPEB Cost (Expense)	137,580
Contribution Toward the OPEB Cost	<u>(64,127)</u>
Increase in Net OPEB Obligation	73,453
Net OPEB Obligation, Beginning of Year	<u>904,317</u>
Net OPEB Obligation, End of Year	<u><u>\$ 977,770</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2014, 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>
2011-12	\$ 204,692	42.8%	\$ 805,444
2012-13	205,472	51.9%	904,317
2013-14	137,580	46.6%	977,770

Funded Status and Funding Progress. As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$1,445,690, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,445,690, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$43,696,172 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.3 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the College's 2013-14 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 per year, and an annual healthcare cost trend rate of 8.5 percent pre-Medicare and 6.25 percent Medicare for the 2013-14 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 5 years pre-Medicare and 4 years for 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, 2014, was 23 years.

11. 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.

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.

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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, 2012, June 30, 2013, and June 30, 2014, totaled \$2,281,759, \$2,872,795, and \$4,124,341, respectively, which were equal to the required contributions for each fiscal year.

There were 348 College participants in the Investment Plan during the 2013-14 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$1,159,992, which was equal to the required contribution for the 2013-14 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services' Web site (www.myfloridacfo.com). 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 Division of Retirement's Web site (www.frs.myflorida.com).

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

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, 7.34 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 92 College participants during the 2013-14 fiscal year. The College's contributions to the Program totaled \$456,806 and employee contributions totaled \$185,070 for the 2013-14 fiscal year.

Senior Management Service Local Annuity Program. Section 121.055(1)(b)2., Florida Statutes, and Florida Department of Management Services Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class, may elect to withdraw from the FRS altogether and participate in a local annuity program. Pursuant thereto, the College established the Senior Management Service Class Local Annuity Program (Local Annuity Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Local Annuity Program, rather than the FRS.

The Local Annuity Program is defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. The College contributes 18.31 percent and employees contribute 3 percent of the employee's salary to the Local Annuity Program. Additionally, the participants may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

There were 2 College participants during the 2013-14 fiscal year. The College's contributions to the Annuity Program totaled \$45,516 and employee contributions totaled \$7,458 for the 2013-14 fiscal year.

HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

12. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2014, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Dale Mabry Technology Building Renovation	\$ 4,966,934	\$ 725,282	\$ 4,241,652
SouthShore New Science and Classroom Building	8,585,974	1,179,468	7,406,506
Total	\$ 13,552,908	\$ 1,904,750	\$ 11,648,158

13. OPERATING LEASE COMMITMENTS

The College leased vehicles, computers, electrical transformers, and copiers under operating leases, which expire in 2021. These leased assets and the related commitments are not reported on the College's statement of net position. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for these noncancelable operating leases are as follows:

Fiscal Year Ending June 30	Amount
2015	\$ 889,240
2016	526,221
2017	390,806
2018	185,900
2019	38,039
2020-2021	14,354
Total Minimum Payments Required	\$ 2,044,560

14. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided for property coverage of up to \$125 million to February 28, 2014, and up to \$150 million from March 1, 2014. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**HILLSBOROUGH COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Health and hospitalization, life, dental, and long-term disability coverage are provided through purchased commercial insurance.

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net 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	\$ 48,804,286
Public Services	2,789,929
Academic Support	8,100,228
Student Services	18,317,380
Institutional Support	20,876,627
Operation and Maintenance of Plant	20,998,511
Scholarships and Waivers	43,896,703
Depreciation	9,777,292
Auxiliary Enterprises	7,180,188
Total Operating Expenses	\$ 180,741,144

16. SUBSEQUENT EVENTS

In March 2014, the Board approved an individual self-insured program to provide health insurance for College employees, retirees, former employees, and their dependents beginning in the 2014-15 fiscal year. The College contracted with a service provider for administrative services and reinsurance/stop loss coverage effective July 1, 2014. The College designated a reserve amounting to approximately \$1 million to cover potential losses.

**HILLSBOROUGH 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]
7/1/2009	\$ -	\$ 2,399,186	\$ 2,399,186	0%	\$55,213,729	4.3%
7/1/2011	-	1,735,452	1,735,452	0%	42,651,654	4.1%
7/1/2013	-	1,445,690	1,445,690	0%	43,696,172	3.3%

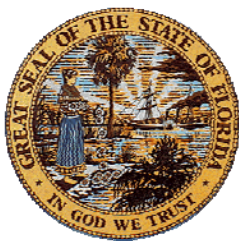
Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the actuarial accrued liability.

**HILLSBOROUGH COMMUNITY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2013, unfunded actuarial accrued liability of \$1,445,690 was significantly lower than the July 1, 2011, liability of \$1,735,452 as a result of:

- Demographic assumptions (rates of termination, 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.
- 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.
- The conditions for retirement eligibility and rates of retirement were supplemented to accommodate active employees hired on or after July 1, 2011.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-412-2722
FAX: 850-488-6975

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 Hillsborough 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, 2014, 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 18, 2015, 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*.

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 18, 2015