

# PASCO-HERNANDO STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2014



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

	<u>County</u>
Leonard H. Johnson, Vice Chair from 7-16-13 to 6-4-14, Chair from 6-17-14 (1)	Pasco
John L. DiRienzo, Jr., Vice Chair to 7-15-13, Chair from 7-16-13 to 6-3-14 (2) (3)	Hernando
Dr. S.K. Rao Musunuru, Chair to 7-15-13	Hernando
Edward C. Blommel	Pasco
John Dougherty from 12-18-13 (4)	Hernando
Jeanne M. Gavish to 6-3-14 (2) (5)	Hernando
Judy R. Parker (6)	Pasco
Marilyn Pearson-Adams from 6-4-14	Hernando
Morris R. Porton	Hernando
Robin L. Schneider from 6-4-14	Hernando
Victor Young to 3-12-14 (7)	Pasco

Dr. Katherine M. Johnson, President

- Notes:
- (1) Vice Chair position remained vacant from June 5, 2014, through June 30, 2014.
  - (2) Board member resigned position June 3, 2014.
  - (3) Chair position remained vacant from June 4, 2014, through June 16, 2014.
  - (4) Position remained vacant from July 1, 2013, through December 17, 2013.
  - (5) Board member served beyond the end of term, May 31, 2010.
  - (6) Board member served beyond the end of term, May 31, 2014.
  - (7) Board member resigned on March 12, 2014, and position remained vacant through June 30, 2014.

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 Joanna Slater, and the audit was supervised by Eric Davis, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto: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](http://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.

PASCO-HERNANDO STATE COLLEGE  
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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

Our audit disclosed that the College's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

### Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

### Audit Objectives and Scope

Our audit objectives were to determine whether Pasco-Hernando State College and its officers with administrative and stewardship responsibilities for College operations had:

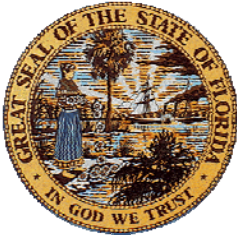
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Pasco-Hernando State 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 represents 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pasco-Hernando State 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 Pasco-Hernando State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pasco-Hernando State College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
March 17, 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 for the fiscal years ended June 30, 2014, and June 30, 2013, and its component unit the Pasco-Hernando State College Foundation, Inc., for the fiscal years ended December 31, 2013, and December 31, 2012.

**COLLEGE NAME CHANGE**

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

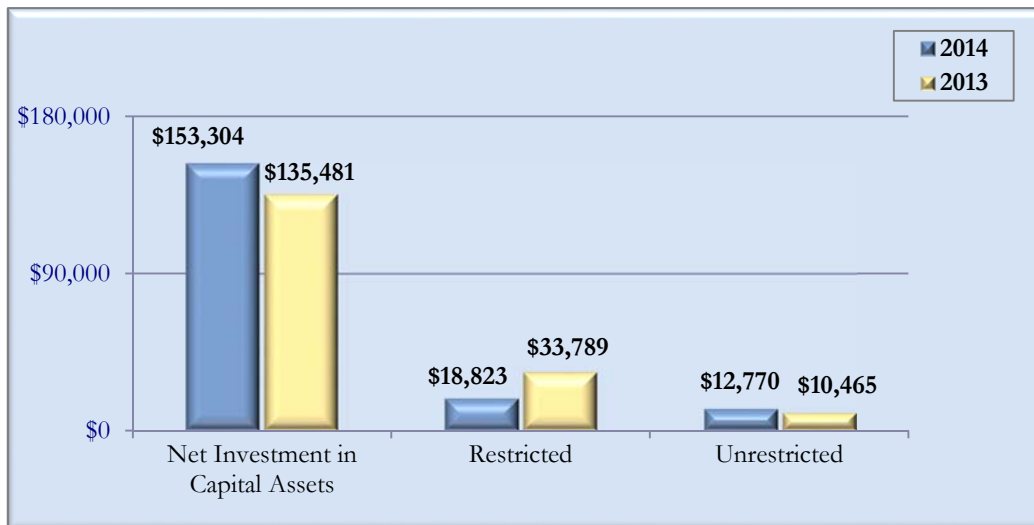
**FINANCIAL HIGHLIGHTS**

The College’s assets totaled \$203 million at June 30, 2014. This balance reflects a \$3.8 million, or 1.9 percent, increase from the 2012-13 fiscal year, resulting primarily from the increase in construction in progress related to the construction of the Porter Campus at Wiregrass Ranch. While assets grew, liabilities decreased by \$1.4 million, or 7 percent, totaling \$18.1 million at June 30, 2014, as compared to \$19.4 million at June 30, 2013, primarily due to the decrease in accounts payable related to construction of the Porter Campus at Wiregrass Ranch. As a result, the College’s net position increased by \$5.2 million, or 2.9 percent, resulting in a year-end balance of \$184.9 million.

The College’s operating revenues totaled \$14.3 million for the 2013-14 fiscal year, representing a 0.5 percent increase as compared to the 2012-13 fiscal year due mainly to a slight increase in the enrollment of fee paying students. Operating expenses totaled \$69.2 million for the 2013-14 fiscal year, representing an increase of 15.7 percent as compared to the 2012-13 fiscal year due primarily to the increase in personnel services and material and supplies expenses related to the addition of the new Porter Campus at Wiregrass Ranch that opened the spring of 2014.

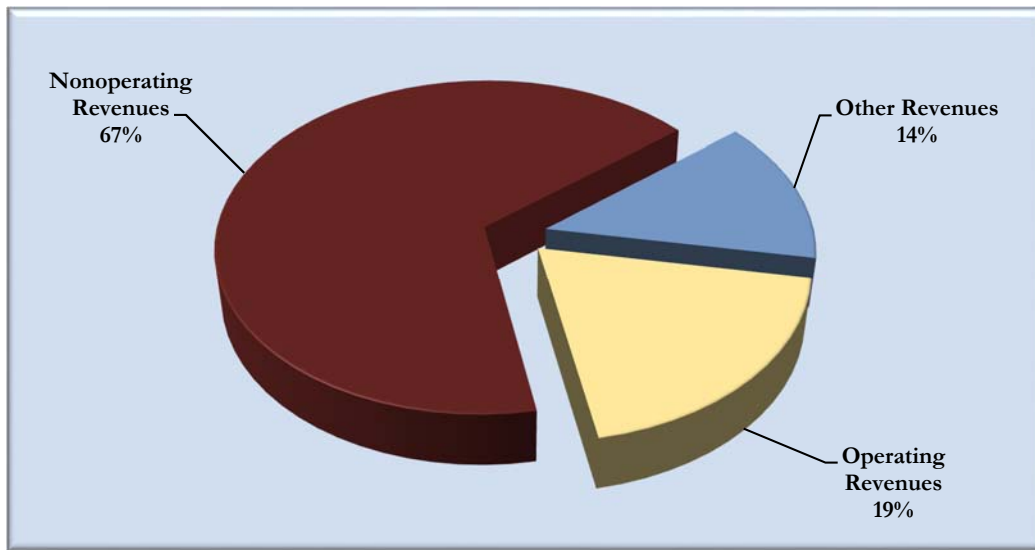
Net position represents the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

**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:

- Pasco-Hernando State College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Pasco-Hernando State College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

**THE STATEMENT OF NET POSITION**

The statement of net position reflects the assets and liabilities using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets, less liabilities, equals net position, which is one indicator of the College’s current financial condition. The changes in net position that 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 for the respective fiscal years ended is shown in the following table:

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

	College		Component Unit	
	6-30-14	6-30-13	12-31-13	12-31-12
<b>Assets</b>				
Current Assets	\$ 23,481	\$ 37,264	\$ 5,002	\$ 7,761
Capital Assets, Net	161,036	143,818	289	290
Other Noncurrent Assets	18,450	18,093	37,848	29,704
<b>Total Assets</b>	<b>202,967</b>	<b>199,175</b>	<b>43,139</b>	<b>37,755</b>
<b>Liabilities</b>				
Current Liabilities	8,511	8,944	312	303
Noncurrent Liabilities	9,559	10,496		
<b>Total Liabilities</b>	<b>18,070</b>	<b>19,440</b>	<b>312</b>	<b>303</b>
<b>Net Position</b>				
Net Investment in Capital Assets	153,304	135,481	289	290
Restricted	18,823	33,789	40,510	35,362
Unrestricted	12,770	10,465	2,028	1,800
<b>Total Net Position</b>	<b>\$ 184,897</b>	<b>\$ 179,735</b>	<b>\$ 42,827</b>	<b>\$ 37,452</b>
<b>Increase in Net Assets</b>	<b>\$ 5,162</b>	2.9%	<b>\$ 5,375</b>	14.4%

The College's assets totaled \$203 million at June 30, 2014. This balance reflects a \$3.8 million, or 1.9 percent, increase from the 2012-13 fiscal year resulting primarily from the increase in construction in progress related to the construction of the Porter Campus at Wiregrass Ranch.

- The College's current and noncurrent assets totaled \$23.5 and \$179.5 million at June 30, 2014, as compared to \$37.3 million and \$161.9 million at June 30, 2013, respectively, a decrease of \$13.8 million in current assets and an increase of \$17.6 million in noncurrent assets primarily due to the decrease in due from other governmental agencies related to Public Education Capital Outlay (PECO), and an increase in construction in progress for the new Porter Campus at Wiregrass Ranch that was substantially completed in January of 2014.
- Total liabilities decreased by \$1.4 million, or 7 percent, totaling \$18.1 million at June 30, 2014, as compared to \$19.4 million at June 30, 2013. Current liabilities decreased by \$0.4 million primarily due to the decrease in accounts payable of \$1.9 million related to the construction of the Porter Campus at Wiregrass Ranch, partially offset by the increase in salary and payroll taxes payable of \$0.5 million, increase in deposits held for others (computer consortium) of \$0.2 million, and increase in the current portion of loans payable (Energy Conservation Loan) of \$0.5 million.
- Noncurrent liabilities decreased by \$0.9 million primarily due to the scheduled increase in the current portion of principal payments for the seven year energy conservation loan obtained during the 2012-13 fiscal year, that was utilized to install LED lighting at three of the College's campuses and replace chillers.

As a result, the College's net position increased by \$5.2 million, or 2.9 percent, reaching a year-end balance of \$184.9 million.

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

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

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

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

	College		Component Unit	
	6-30-14	6-30-13	12-31-13	12-31-12
Operating Revenues	\$ 14,304	\$ 14,233	\$ 1,038	\$ 704
Less, Operating Expenses	69,152	59,763	1,623	1,595
<b>Operating Loss</b>	(54,848)	(45,530)	(585)	(891)
Net Nonoperating Revenues	49,819	41,447	5,077	3,279
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	(5,029)	(4,083)	4,492	2,388
Other Revenues, Expenses, Gains, or Losses	10,191	2,214	883	635
<b>Net Increase (Decrease) In Net Position</b>	5,162	(1,869)	5,375	3,023
Net Position, Beginning of Year	179,735	181,604	37,452	34,429
<b>Net Position, End of Year</b>	<u>\$ 184,897</u>	<u>\$ 179,735</u>	<u>\$ 42,827</u>	<u>\$ 37,452</u>

**Operating Revenues**

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

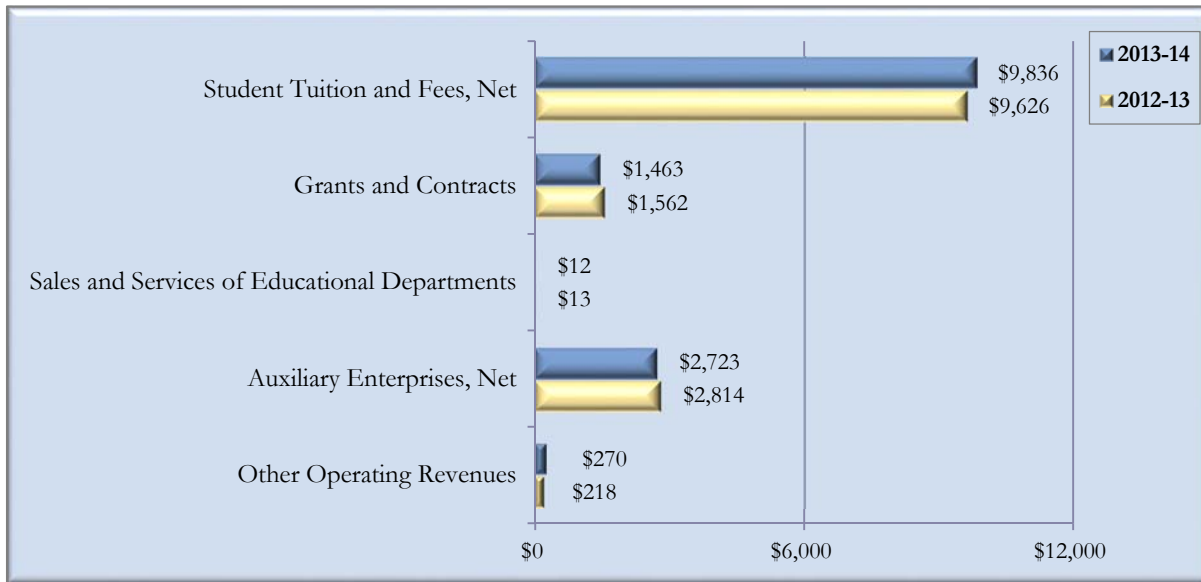
The following summarizes the operating revenues for the College and its component unit for the respective fiscal years ended:

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

	College		Component Unit	
	6-30-14	6-30-13	12-31-13	12-31-12
Student Tuition and Fees, Net	\$ 9,836	\$ 9,626	\$	\$
Grants and Contracts	1,463	1,562	580	306
Sales and Services of Educational Departments	12	13		
Auxiliary Services, Net	2,723	2,814		
Other Operating Revenues	270	218	458	398
<b>Total Operating Revenues</b>	<u>\$ 14,304</u>	<u>\$ 14,233</u>	<u>\$ 1,038</u>	<u>\$ 704</u>

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 revenues were consistent with those of the prior fiscal year.

**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.

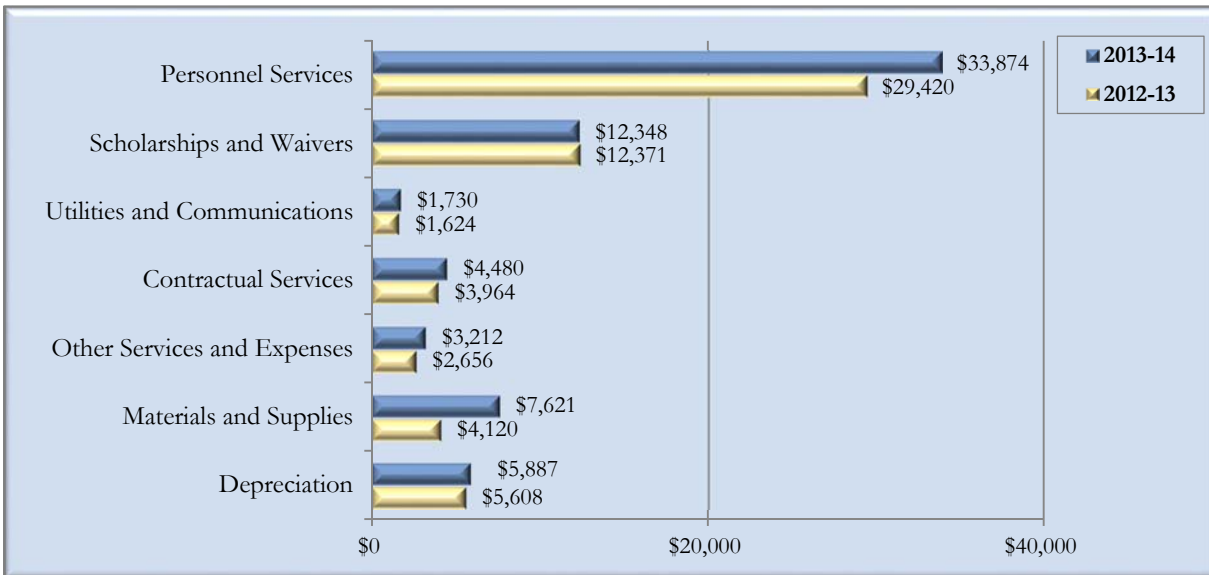
The following summarizes operating expenses by natural classification for the College and its component unit for the respective fiscal years ended is shown in the following table:

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

	College		Component Unit	
	6-30-14	6-30-13	12-31-13	12-31-12
Personnel Services	\$ 33,874	\$ 29,420	\$ 359	\$ 355
Scholarships and Waivers	12,348	12,371	1,091	1,059
Utilities and Communications	1,730	1,624		
Contractual Services	4,480	3,964	115	117
Other Services and Expenses	3,212	2,656	31	39
Materials and Supplies	7,621	4,120	26	23
Depreciation	5,887	5,608	1	2
<b>Total Operating Expenses</b>	<b>\$ 69,152</b>	<b>\$ 59,763</b>	<b>\$ 1,623</b>	<b>\$ 1,595</b>

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 expense increased by \$9.4 million, or 15.7 percent, from \$59.8 million to \$69.2 million as a result of the following factors:

- Personnel services increased by \$4.5 million or 15.1 percent, due to an across the board 6 percent cost of living increase for all eligible full-time faculty and staff, and a net increase of 50.5 full-time equivalent (FTE) positions, consisting of the addition of 41.5 FTE for the new Porter Campus at Wiregrass Ranch and an additional 9 FTE to support increased workloads at various campuses. In addition, the College incurred increases in insurance and retirement contribution rates.
- Contracted services increased by \$0.5 million or 13 percent, primarily due to the increase in custodial and security services at the new Porter Campus at Wiregrass Ranch campus, and the increase in advertisements to fill existing and new positions due to the addition of the new campus.
- Other services increased by \$0.6 million or 20.9 percent due to an increase in student fee write-offs, overall facilities maintenance, and travel associated with restricted fund activities.
- Materials and supplies increased by \$3.5 million, or 85 percent, due primarily to the increase in cost of supplies and equipment relating to the addition of the new Porter Campus at Wiregrass Ranch.

**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)**

	<u>2013-14</u>	<u>2012-13</u>
State Noncapital Appropriations	\$ 27,279	\$ 19,531
Federal and State Student Financial Aid	21,904	21,738
Gifts and Grants	725	87
Investment Income	111	220
Net Realized and Unrealized Gain on Investments	3	19
Gain on Sale of Investments	10	16
Interest on Capital Asset-Related Debt	<u>(213)</u>	<u>(164)</u>
<b>Net Nonoperating Revenues</b>	<b><u>\$ 49,819</u></b>	<b><u>\$ 41,447</u></b>

Total nonoperating revenues for the College increased by \$8.4 million, or 20.2 percent, to \$49.8 million for the 2013-14 fiscal year based on the following factors:

- State noncapital appropriations increased by \$7.7 million, or 39.7 percent, for the 2013-14 fiscal year, primarily due to a \$6 million increase in compression allocation State funding in recognition of the College’s significant enrollment growth over the last five years. Additionally funding of \$510 thousand was for the increase in employer contributions to the Florida Retirement System (FRS) and operating funds of \$750 thousand for the Spring Hill Campus.
- Gifts and grants increased by \$0.6 million due to recent legislative changes requiring the College to charge local school districts for dual enrollment courses taught on the College’s campuses at the standard tuition rate of \$71.98 per credit hour.

**Other Revenues, Expenses, Gains, or Losses**

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2013-14 and 2012-13 fiscal years:

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

	<u>2013-14</u>	<u>2012-13</u>
State Capital Appropriations	\$ 7,933	\$ 375
Capital Grants, Contracts, Gifts, and Fees	<u>2,258</u>	<u>1,839</u>
<b>Total</b>	<b><u>\$ 10,191</u></b>	<b><u>\$ 2,214</u></b>

Total other revenues for the College increased by \$8 million, or 360 percent, to \$10.2 million for the 2013-14 fiscal year based on the following factors:

- Capital appropriations increased by \$7.6 million primarily due to the receipt of the final \$6.9 million installment of PECO funds for the completion of the new Porter Campus at Wiregrass Ranch and \$0.7 million in minor project funding for general renovations and repairs.
- Capital grants, contracts, gifts, and fees increased as the capital improvement fees increased by \$0.4 million, or 22.8 percent, during the 2013-14 fiscal year due to the increase in the per credit hour capital improvement fee from \$9.29 to \$11.29, for in-state students, and \$37.43 to \$45.43, for out-of-state students, beginning with the Fall 2013 term.

**THE STATEMENT OF CASH FLOWS**

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

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

The following summarizes the College’s cash flows for the 2013-14 and 2012-13 fiscal years:

**Condensed Statement of Cash Flows: College  
(In Thousands)**

	2013-14	2012-13
Cash Provided (Used) by:		
Operating Activities	\$(48,798)	\$(36,828)
Noncapital Financing Activities	49,908	41,356
Capital and Related Financing Activities	(3,374)	5,121
Investing Activities	135	289
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(2,129)	9,938
Cash and Cash Equivalents, Beginning of Year	38,085	28,147
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 35,956</b>	<b>\$ 38,085</b>

Major sources of cash came from State noncapital appropriations (\$27.3 million), Federal and State student financial aid (\$21.9 million), State capital appropriations (\$19.7 million), net student tuition and fees (\$9.7 million), and Federal direct loan program receipts (\$9.3 million).

Major uses of cash were for payments to employees (\$26.5 million), purchases of capital assets (\$24.5 million), payments to suppliers (\$15.5 million), payments for scholarships (\$12.3 million) and Federal direct loan program disbursements (\$9.3 million).

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

- Net cash used by operating activities increased by \$12 million, as compared to the prior fiscal year. The major sources of cash used by operating activities include payments to employees and for employee benefits (\$33.1 million), payments to suppliers (\$15.5 million), and scholarships (\$12.3 million).
- Cash provided by noncapital financing activities increased by \$8.6 million, as compared to the prior fiscal year due primarily to the \$7.7 million increase in State noncapital appropriations.
- Cash used by capital and related financing activities amounted to \$3.4 million for the 2013-14 fiscal year, which represents a \$8.5 million decline as compared to the 2012-13 fiscal year. The decrease was primarily due to a \$6.1 reduction in State capital appropriations related to the Porter Campus at Wiregrass Ranch, and \$6 million in proceeds from capital debt related to an energy conservation loan received in the 2012-13 fiscal year, partially offset by a \$3.6 million reduction in capital asset purchases made in the 2013-14 fiscal year.

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

**CAPITAL ASSETS**

At June 30, 2014, the College had \$217.4 million in capital assets, less accumulated depreciation of \$56.3 million, for net capital assets of \$161 million. Depreciation charges for the current fiscal year totaled \$5.9 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	\$ 3,230	\$ 3,228
Construction in Progress	52,679	37,951
Buildings	128,666	127,552
Other Structures and Improvements	27,450	21,260
Furniture, Machinery, and Equipment	4,951	4,113
Assets Under Capital Lease	380	347
<b>Total</b>	<u>217,356</u>	<u>194,451</u>
Less, Accumulated Depreciation:		
Buildings	37,662	33,967
Other Structures and Improvements	14,415	12,776
Furniture, Machinery, and Equipment	3,885	3,613
Assets Under Capital Lease	358	277
<b>Total Accumulated Depreciation</b>	<u>56,320</u>	<u>50,633</u>
<b>Capital Assets, Net</b>	<u>\$ 161,036</u>	<u>\$ 143,818</u>

**CAPITAL EXPENSES AND COMMITMENTS**

Capital expenses through June 30, 2014, were incurred on the following projects:

- Construction in progress additions included continued construction of the Porter Campus at Wiregrass Ranch.
- Building additions consisted of roof renovations at West Campus.
- Other structure and improvements included repairs to the Firing Range at East Campus, installation of a fence and guardrail at the TodayCare Center at West Campus, installation of an Emergency Warning System at West Campus, upgrade of the district-wide telecommunications system, and a district-wide energy conservation project.
- Furniture, machinery, and equipment additions consisted of technology equipment, computer related equipment, furniture, educational equipment, athletic equipment, vehicles, and grounds equipment.

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

- Construction of Porter Campus at Wiregrass Ranch (Phase I) \$0.7 million.
- Construction of Porter Campus at Wiregrass Ranch (Phase II) \$0.3 million.

	Amount (In Thousands)
Total Committed	\$52,368
Completed to Date	<u>(51,374)</u>
<b>Balance Committed</b>	<b><u>\$ 994</u></b>

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

**DEBT ADMINISTRATION**

At fiscal year end, the College had \$7.7 million in outstanding bonds, loan payable, and capital lease payable, representing a decrease of \$0.6 million, or 7.2 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2014, and June 30, 2013:

<b>Long-Term Debt, at June 30: College</b>		
<b>(In Thousands)</b>		
	<u>2014</u>	<u>2013</u>
SBE Capital Outlay Bonds	\$ 2,150	\$ 2,230
Loan Payable	5,480	5,952
Capital Lease	<u>102</u>	<u>154</u>
<b>Total</b>	<b><u>\$ 7,732</u></b>	<b><u>\$ 8,336</u></b>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2013-14 fiscal year, there was no new long-term debt and principal repayments totaled \$637 thousand for long-term debt. Additional information about the College’s long-term debt is presented in the notes to financial statements.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Pasco-Hernando State College’s economic condition is closely tied to that of the State of Florida. State funding for the 2014-15 fiscal year increased by 2.1 percent, including \$86 thousand for increase in employer contributions to the FRS.

The College projects student tuition fee revenues of \$15.5 million based on an anticipated fee-paying enrollment of 6,458 FTE for the 2014-15 fiscal year. The proposed budget is conservatively based on the premise of “sustaining current enrollment” and includes the addition of 66 FTE for the new Baccalaureate programs in Nursing and Supervision and Management that will be offered beginning in the Fall of 2014.

The District Board of Trustees voted not to increase tuition fees for credit courses for the 2014-15 fiscal year. PHSC’s approved tuition fee rates remain the lowest among the Bay area colleges, and fourth lowest in the state, and are within the allowable range of statutory adjustment flexibility and therefore will continue to be compliant with Florida Statutes.

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

The College has obtained approval from the Florida State Board of Education and Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) to offer the Bachelor of Science Degree in Nursing and the Bachelor of Applied Science Degree in Supervision and Management effective Fall 2014.

The College continues to implement new degree programs to service the community and generate continued enrollment growth. The College will be adding the Associate of Science Degree in Health Information Technology, as well as certificate programs in health information, surgical technician, and pharmacy technician in the Fall of 2014, which are pending final SACSCOC approval. In addition, the College is exploring adding Associate in Science Degrees in Engineering Technology and Aviation Technology for the 2015-16 fiscal year.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President of Administration and Finance, Pasco-Hernando State College, 10230 Ridge Road, New Port Richey, Florida 34654.

## BASIC FINANCIAL STATEMENTS

**PASCO-HERNANDO STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	College	Component Unit
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 15,073,378	\$ 4,320,951
Restricted Cash and Cash Equivalents	2,497,396	
Accounts Receivable, Net	1,877,811	
Investments		539,271
Notes Receivable, Net		112,308
Due from Other Governmental Agencies	1,982,858	20,565
Due from Component Unit	264,940	
Inventories	1,118,295	
Prepaid Expenses	636,059	8,777
Other Assets	30,261	
<b>Total Current Assets</b>	<b>23,480,998</b>	<b>5,001,872</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	18,385,299	
Investments	46,972	8,880,898
Restricted Investments	17,425	28,861,364
Due from Other Governmental Agencies		96,013
Notes Receivables, Net		10,001
Depreciable Capital Assets, Net	105,127,098	201
Nondepreciable Capital Assets	55,908,783	288,863
<b>Total Noncurrent Assets</b>	<b>179,485,577</b>	<b>38,137,340</b>
<b>TOTAL ASSETS</b>	<b>202,966,575</b>	<b>43,139,212</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	1,075,199	40,965
Salary and Payroll Taxes Payable	1,952,498	
Retainage Payable	2,010,017	
Due to College		133,440
Unearned Revenue	45,887	41,682
Deposits Held for Others	1,683,600	96,013
Long-Term Liabilities - Current Portion:		
Bonds Payable	85,000	
Loan Payable	957,331	
Capital Lease Payable	93,689	
Compensated Absences Payable	607,588	
<b>Total Current Liabilities</b>	<b>8,510,809</b>	<b>312,100</b>
Noncurrent Liabilities:		
Bonds Payable	2,065,000	
Loan Payable	4,522,585	
Capital Lease Payable	8,781	
Compensated Absences Payable	2,865,789	
Other Postemployment Benefits Payable	96,688	
<b>Total Noncurrent Liabilities</b>	<b>9,558,843</b>	
<b>TOTAL LIABILITIES</b>	<b>18,069,652</b>	<b>312,100</b>

**PASCO-HERNANDO STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET POSITION (CONTINUED)  
June 30, 2014**

	College	Component Unit
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 153,303,495	\$ 289,064
Restricted:		
Nonexpendable:		
Endowment		24,151,033
Expendable:		
Grants and Loans	317,001	6,759,965
Scholarships	452,998	9,599,316
Capital Projects	18,006,089	
Debt Service	46,972	
Unrestricted	12,770,368	2,027,734
<b>TOTAL NET POSITION</b>	<b>\$ 184,896,923</b>	<b>\$ 42,827,112</b>

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

**PASCO-HERNANDO STATE 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**

	<b>College</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$10,359,337	\$ 9,836,342	\$
Federal Grants and Contracts	896,156	
State and Local Grants and Contracts	233,137	35,851
Nongovernmental Grants and Contracts	332,445	544,005
Sales and Services of Educational Departments	12,225	
Auxiliary Enterprises, Net of Scholarship		
Allowances of \$2,159,528	2,723,223	
Other Operating Revenues	270,220	458,388
	<b>14,303,748</b>	<b>1,038,244</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	33,874,352	359,167
Scholarships and Waivers	12,348,576	1,090,554
Utilities and Communications	1,729,597	
Contractual Services	4,479,578	114,408
Other Services and Expenses	3,212,427	31,295
Materials and Supplies	7,620,677	26,044
Depreciation	5,886,689	1,215
	<b>69,151,896</b>	<b>1,622,683</b>
<b>Total Operating Expenses</b>		
	<b>(54,848,148)</b>	<b>(584,439)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	27,279,386	
Federal and State Student Financial Aid	21,903,887	
Gifts and Grants	725,001	
Investment Income	110,710	772,168
Net Unrealized and Realized Gain on Investments	3,168	4,304,553
Gain on Sale of Capital Assets	9,978	
Interest on Capital Asset-Related Debt	(213,448)	
	<b>49,818,682</b>	<b>5,076,721</b>
<b>Net Nonoperating Revenues</b>		
	<b>(5,029,466)</b>	<b>4,492,282</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>		
	<b>7,933,426</b>	
State Capital Appropriations	7,933,426	
Capital Grants, Contracts, Gifts, and Fees	2,257,668	
Additions to Endowments		882,370
	<b>10,191,094</b>	<b>882,370</b>
<b>Total Other Revenues</b>		
	<b>5,161,628</b>	<b>5,374,652</b>
<b>Increase in Net Position</b>		
Net Position, Beginning of Year	179,735,295	37,452,460
	<b>\$ 184,896,923</b>	<b>\$ 42,827,112</b>
<b>Net Position, End of Year</b>		

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

**PASCO-HERNANDO STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2014**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 9,681,296
Grants and Contracts	1,389,872
Payments to Suppliers	(15,505,451)
Payments for Utilities and Communications	(1,729,597)
Payments to Employees	(26,481,683)
Payments for Employee Benefits	(6,655,584)
Payments for Scholarships	(12,348,576)
Sales and Service of Educational Departments	12,225
Auxiliary Enterprises, Net	2,412,849
Other Receipts	426,985
	<b>(48,797,664)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	27,279,386
Federal and State Student Financial Aid	21,903,887
Federal Direct Loan Program Receipts	9,306,454
Federal Direct Loan Program Disbursements	(9,306,454)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	725,001
	<b>49,908,274</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	19,720,853
Capital Grants and Gifts	2,257,668
Proceeds from Sale of Capital Assets	9,978
Purchases of Capital Assets	(24,513,132)
Principal Paid on Capital Debt and Leases	(636,535)
Interest Paid on Capital Debt and Leases	(213,448)
	<b>(3,374,616)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	32,628
Investment Income	102,332
	<b>134,960</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,129,046)</b>
Cash and Cash Equivalents, Beginning of Year	38,085,119
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 35,956,073</b>

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

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (54,848,148)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,886,689
Changes in Assets and Liabilities:	
Receivables, Net	(108,782)
Due from Other Governmental Agencies	(432,419)
Inventories	(302,597)
Prepaid Expenses	(30,778)
Other Assets	3,990
Accounts Payable	108,240
Salaries and Payroll Taxes Payable	459,293
Unearned Revenue	5,506
Deposits Held for Others	183,550
Compensated Absences Payable	242,568
Other Postemployment Benefits Payable	35,224
	<b>\$ (48,797,664)</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND</b>	
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
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.	\$ 3,168
The College entered into a new capital lease, which was recognized on the statement of net position, but is not a cash transaction for the statement of cash flows.	\$ 32,407

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

**PASCO-HERNANDO STATE 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 Pasco-Hernando State College<sup>1</sup>, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the District correspond with those of Pasco and Hernando Counties.

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

**Discretely Presented Component Unit.** Based on the application of the criteria for determining component units, the Pasco-Hernando State College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2013.

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

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<sup>1</sup> The College's Board of Trustees approved the name change from Pasco-Hernando Community College to Pasco-Hernando State College on January 21, 2014, pursuant to Section 1001.60(2)(b), Florida Statutes.

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

GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

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

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

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

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

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge

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

for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against tuition and fee revenue and auxiliary enterprise revenue.

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

**Cash and Cash Equivalents.** The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, cash held in escrow account, and cash held with the State Treasury and State Board of Administration (SBA) Florida PRIME Investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury Special Purpose Investment Account (SPIA) and 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 at fair value \$10,320,037 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.57 years, and had a fair value factor of 1.0074 at June 30, 2014. The College relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2014, the College reported as cash equivalents \$8,625,741 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 assets under capital leases. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and

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

purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

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

## 2. INVESTMENTS

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

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College's investments at June 30, 2014, are reported at fair value, as follows:

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

Investment Type	Amount
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 17,425
State Board of Administration Debt Service Accounts	46,972
<b>Total College Investments</b>	<b>\$ 64,397</b>

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

At June 30, 2014, the College reported restricted investments at fair value of \$17,425 for amounts held in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.84438408 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 \$46,972 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.

**Component Unit Investments**

Investments held by the Pasco-Hernando State College Foundation, Inc. (Foundation), at December 31, 2013, are reported at fair value as follows:

Investment Type	Amount
United States Government Obligations	\$ 1,680,350
Federal Agency Obligations	1,868,495
Corporate Bonds and Notes	2,512,337
Mortgage-Backed Obligations	3,358,987
Equity Mutual Funds	7,357,986
Domestic Stocks and Other Equity Securities	21,503,378
<b>Total Component Unit Investments</b>	<b>\$ 38,281,533</b>

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

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

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
United States Government Obligations	\$ 1,680,350	\$ 199,432	\$ 721,637	\$ 554,515	\$ 204,766
Federal Agency Obligations	1,868,495		572,434	578,298	717,763
Corporate Bonds and Notes	2,512,337	41,135	1,375,932	991,015	104,255
Mortgage-Backed Securities	3,358,987		126,358	499,711	2,732,918
Equity Mutual Funds	7,357,986	7,357,986			
<b>Totals</b>	<b>\$ 16,778,155</b>	<b>\$7,598,553</b>	<b>\$2,796,361</b>	<b>\$2,623,539</b>	<b>\$ 3,759,702</b>

*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 and Poor’s and Moody’s Investor Services. The lower the rating, the greater the risk that the bond issuer may default or fail to meet its payment obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk. The Foundation’s investment policy limits fixed income securities to those that are rated at least Baa2 by Moody’s and BBB by Standard and Poor’s. In addition, if investments are downgraded below the minimum rating, the security shall be sold within 10 trading days. At December 31, 2013, the Foundation’s fixed income securities were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Moody's</u>	<u>Percentage Total Debt Securities Investments</u>
United States Government Obligations	AA+	Aaa	18%
Federal Agency Obligations	AA+	Aaa	20%
Corporate Bonds and Notes	AAA - BBB	Aaa - Baa2	27%
Mortgage-Backed Securities	AAA - AA+	Aaa	35%

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial risk relates to investment securities that are held by someone other than the Foundation and are not registered in the Foundation’s name. The Foundation’s investment policy states that custodial credit risk for deposits will be mitigated by limiting deposits to the amount insured by the Federal Depositors Insurance Corporation (FDIC) for each banking institution. Custodial credit

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risk for investments will be mitigated by prohibiting investments in securities that are not eligible for depository trust company holding. The Foundation's fixed income securities are registered in the name of the Foundation and, according to industry standard, held in "book entry" format per the investment management agreements with the individual financial institutions managing those assets.

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

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates between the United States dollar and foreign currencies could adversely affect an investment's fair value. As of December 31, 2013, the Foundation's portfolio did not hold any investments subject to that risk. The Foundation's investment policy limits foreign investments to 15 percent of the Foundation's assets.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for Federal Title IV student aid repayments, student fee deferrals, various student services provided by the College, government receivables, unused credit memos, and third party nongovernmental receivables. These receivables are reported net of a \$578,406 allowance for uncollectible accounts.

**4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$1,469,979 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

**5. DUE FROM AND TO COMPONENT UNIT/COLLEGE**

The amount due from component unit reported by the College consists of amounts owed to the College by the Foundation for scholarships, student aid, and agreements to support a portion of the College's programs. The amount due to College reported by the Foundation consists of amounts owed to the College by the Foundation for salaries and expenses to support College programs. The College's financial statements are reported for the fiscal year ended June 30, 2014. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2013. Accordingly, amounts reported by the College as due from the component unit on the statement of net position do not agree with amounts reported by the component unit as due to the College.

**6. INVENTORIES**

Inventories consist of items for resale by the campus bookstores, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching

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materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

**7. CAPITAL ASSETS**

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 3,227,855	\$ 1,900	\$	\$ 3,229,755
Construction in Progress	37,951,228	15,986,096	1,258,296	52,679,028
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 41,179,083</b>	<b>\$ 15,987,996</b>	<b>\$ 1,258,296</b>	<b>\$ 55,908,783</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 127,551,880	\$ 1,113,932	\$	\$ 128,665,812
Other Structures and Improvements	21,260,352	6,190,092		27,450,444
Furniture, Machinery, and Equipment	4,113,370	1,038,860	200,690	4,951,540
Assets Under Capital Lease	347,095	32,407		379,502
<b>Total Depreciable Capital Assets</b>	<b>153,272,697</b>	<b>8,375,291</b>	<b>200,690</b>	<b>161,447,298</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	33,967,054	3,695,379		37,662,433
Other Structures and Improvements	12,776,164	1,638,542		14,414,706
Furniture, Machinery, and Equipment	3,613,307	472,547	200,690	3,885,164
Assets Under Capital Lease	277,676	80,221		357,897
<b>Total Accumulated Depreciation</b>	<b>50,634,201</b>	<b>5,886,689</b>	<b>200,690</b>	<b>56,320,200</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 102,638,496</b>	<b>\$ 2,488,602</b>	<b>\$</b>	<b>\$ 105,127,098</b>

**8. UNEARNED REVENUE**

Unearned revenue of \$45,887 includes amounts collected for Pay-for-Print and College Gift Cards that have not been used as of June 30, 2014.

**9. LONG-TERM LIABILITIES**

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

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Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 2,230,000	\$	\$ 80,000	\$ 2,150,000	\$ 85,000
Loan Payable	5,952,305		472,389	5,479,916	957,331
Capital Lease Payable	154,209	32,407	84,146	102,470	93,689
Compensated Absences Payable	3,230,809	485,138	242,570	3,473,377	607,588
Other Postemployment Benefits Payable	61,464	59,059	23,835	96,688	
<b>Total Long-Term Liabilities</b>	<b>\$ 11,628,787</b>	<b>\$ 576,604</b>	<b>\$ 902,940</b>	<b>\$ 11,302,451</b>	<b>\$ 1,743,608</b>

**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 2010A	\$ 2,150,000	3.5 - 5.0	2030
<b>Total</b>	<b>\$ 2,150,000</b>		

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	\$ 85,000	\$ 92,400	\$ 177,400
2016	90,000	88,150	178,150
2017	95,000	83,650	178,650
2018	100,000	78,900	178,900
2019	105,000	73,900	178,900
2020-2024	625,000	290,800	915,800
2025-2029	850,000	143,450	993,450
2030	200,000	8,000	208,000
<b>Total</b>	<b>\$ 2,150,000</b>	<b>\$ 859,250</b>	<b>\$ 3,009,250</b>

**Loan Payable.** On January 31, 2013, the College borrowed \$5,952,305, at a stated interest rate of 1.76 percent, to finance the cost of capital improvements at all College locations. The loan matures on December 31, 2019, and principal and interest payments are made monthly. Annual requirements to amortize the outstanding loan as of June 30, 2014, are as follows:

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Fiscal Year Ending June 30	Amount
2015	\$ 1,046,079
2016	1,046,079
2017	1,046,079
2018	1,046,079
2019	1,046,079
2020	523,041
<b>Total Minimum Payments</b>	5,753,436
Less, Amount Representing Interest	273,520
<b>Present Value of Minimum Payments</b>	<b>\$ 5,479,916</b>

**Capital Lease Payable.** Copier equipment in the amount of \$347,095 was acquired under a capital lease agreement during the 2009-10 fiscal year. The imputed interest rate was 10.21 percent. Additional copier equipment in the amount of \$32,407 was acquired in January 2014 for the start-up of the Porter Campus. The imputed interest rate is 9.47 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Amount
2015	\$ 99,365
2016	9,023
<b>Total Minimum Payments</b>	108,388
Less, Amount Representing Interest	5,918
<b>Present Value of Minimum Payments</b>	<b>\$ 102,470</b>

**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 \$3,473,377. The current portion of the compensated absences liability, \$607,588, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

**Other Postemployment Benefits Payable.** The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

*Plan Description.* The College contributes to an agent, multiple-employer, defined-benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College’s healthcare and life

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insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a 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, 27 retirees received postemployment healthcare benefits and 45 retirees received postemployment life insurance benefits. The College provided required contributions of \$23,835 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$202,969, which represents 0.9 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 41,861
Amortization of Unfunded Actuarial Accrued Liability	<u>16,788</u>
<b>Annual Required Contribution</b>	58,649
Interest on Net OPEB Obligation	2,459
Adjustment to Annual Required Contribution	<u>(2,049)</u>
<b>Annual OPEB Cost (Expense)</b>	59,059
Contribution Toward the OPEB Cost	<u>(23,835)</u>
<b>Increase in Net OPEB Obligation</b>	35,224
Net OPEB Obligation, Beginning of Year	<u>61,464</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 96,688</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:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 43,001	37.8%	\$ 34,798
2012-13	43,185	38.3%	61,464
2013-14	59,059	40.4%	96,688

*Funded Status and Funding Progress.* As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$503,668 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$503,668 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$22,491,507 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.2 percent.

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

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

The College’s OPEB actuarial valuation as of July 1, 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 for 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.

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## 10. RETIREMENT PROGRAMS

**Florida Retirement System.** Essentially all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

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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 \$925,715, \$1,241,024, and \$1,816,950, respectively, which were equal to the required contributions for each fiscal year.

There were 104 College participants in the Investment Plan during the 2013-14 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$442,700, 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](http://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](http://www.frs.myflorida.com)).

**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

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account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 22 College participants during the 2013-14 fiscal year. The College’s contributions to the Program totaled \$88,513 and employee contributions totaled \$50,903 for the 2013-14 fiscal year.

**11. CONSTRUCTION COMMITMENTS**

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

Project Description	Total Commitment	Completed to Date	Balance Committed
Porter Campus at Wiregrass Ranch (Phase I)			
Architect	\$ 3,598,532	\$ 3,435,804	\$ 162,728
Construction Manager	48,419,119	47,838,329	580,790
Porter Campus at Wiregrass Ranch (Phase II)			
Construction Manager	349,966	99,755	250,211
<b>Total</b>	<b>\$ 52,367,617</b>	<b>\$ 51,373,888</b>	<b>\$ 993,729</b>

**12. RISK MANAGEMENT PROGRAMS**

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

**13. CAPITAL CREDITS**

The College participates in a nonprofit electrical cooperative, the Withlacoochee River Electric Cooperative, Inc., established under Chapter 425, Florida Statutes. In accordance with this Statute, revenues in excess of operating expenses, unless otherwise determined by a vote of membership, are distributed by the Cooperative on a pro rata basis to its members’ accounts. Capital credits are distributed only after the Cooperative meets a certain margin of profit required by the Rural Electrification Administration. At June 30, 2014, the accumulated credits to the College’s account were \$742,779.

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**14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 17,107,029
Academic Support	5,761,983
Student Services	7,715,024
Institutional Support	8,283,136
Operation and Maintenance of Plant	9,539,042
Scholarships and Waivers	12,348,576
Auxiliary Enterprises	2,510,417
Depreciation	5,886,689
<b>Total Operating Expenses</b>	<b>\$ 69,151,896</b>

**PASCO-HERNANDO STATE 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	\$ -	\$ 179,359	\$ 179,359	0%	\$17,277,238	1.0%
7/1/2011	-	247,625	247,625	0%	20,411,244	1.2%
7/1/2013	-	503,668	503,668	0%	22,491,507	2.2%

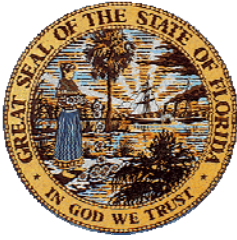
Notes: (1) The actuarial cost method used to estimate the actuarial accrued liability was the projected unit credit actuarial method.

**PASCO-HERNANDO STATE 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 \$503,668 was significantly higher than the July 1, 2011, liability of \$247,625 as a result of the following:

- Demographic assumptions (rates of termination, mortality, disability, and retirement) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capital 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 for eligibility and rates of retirement were supplemented to accommodate those employees hired on or after July 1, 2011.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

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

### Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pasco-Hernando State 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 17, 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 17, 2015