

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial Audit**

**PASCO-HERNANDO STATE COLLEGE**

For the Fiscal Year Ended  
June 30, 2015



Sherrill F. Norman, CPA  
Auditor General

## Board of Trustees and President

During the 2014-15 fiscal year, Dr. Katherine M. Johnson served as President and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Leonard H. Johnson, Chair	Pasco
Morris R. Porton, Vice Chair from 7-15-14 <sup>a</sup>	Hernando
Edward C. Blommel	Pasco
John Dougherty	Hernando
Dr. S.K. Rao Musunuru	Pasco
Judy R. Parker	Pasco
Marilyn Pearson-Adams	Hernando
Robin L. Schneider	Hernando
Ardian Zika from 2-18-15 <sup>b</sup>	Pasco

Notes: <sup>a</sup> Vice Chair position remained vacant from 7-1-14 through 7-14-14.

<sup>b</sup> Position remained vacant from 7-1-14 through 2-17-15.

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 team leader was Kristina Schoen, CPA, and the audit was supervised by Eric Davis, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Supervisor, by e-mail at [jaimehoelscher@aud.state.fl.us](mailto:jaimehoelscher@aud.state.fl.us) or by telephone at (850) 412-2868.

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**PASCO-HERNANDO STATE COLLEGE**  
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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Pasco-Hernando State College (a component unit of the State of Florida) 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 *Governmental 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, 2015. 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.



Sherrill F. Norman, 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those 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 solely 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, 2015, 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.

### ***Emphasis of Matter***

As discussed in Notes 2 and 4 to the financial statements, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple-employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion is not modified with respect to this matter.

### ***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, Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of College Contributions – Florida Retirement System Pension Plan, Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of College Contributions – Health Insurance Subsidy Pension 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 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 the 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 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 the 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 the Pasco-Hernando State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 24, 2016

## **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, 2015, 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, 2015, and June 30, 2014, and its component unit, Pasco-Hernando State College Foundation, Inc. for the fiscal years ended December 31, 2014, and December 31, 2013.

### **FINANCIAL HIGHLIGHTS**

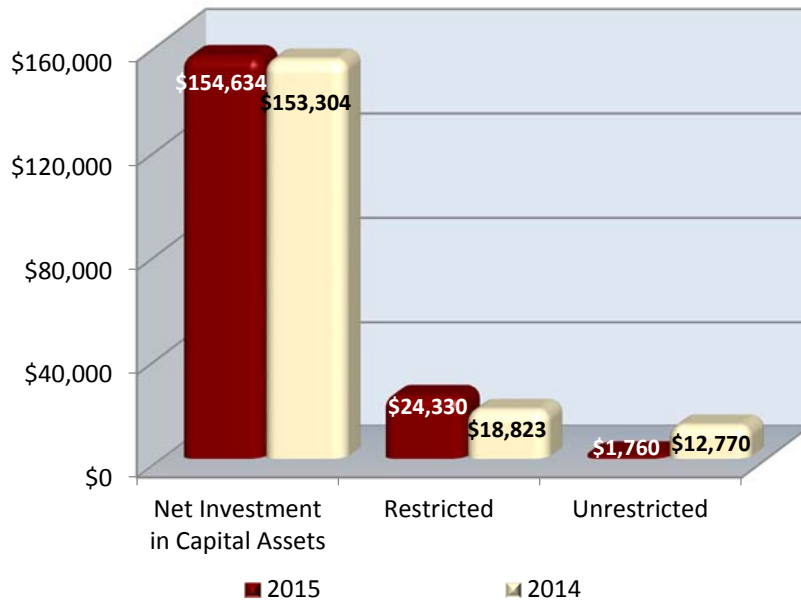
The College's assets totaled \$209.1 million at June 30, 2015. This balance reflects a \$6.1 million, or 3 percent, increase as compared to the 2013-14 fiscal year, resulting primarily from the commitment of Public Education Capital Outlay (PECO) funds to construct the Performing Arts Educational Center in Wesley Chapel. Liabilities increased by \$8.7 million, or 48.2 percent, totaling \$26.8 million at June 30, 2015, compared to \$18.1 million at June 30, 2014, due to the addition of pension liabilities totaling \$10.4 million due to the adoption of Governmental Accounting Standard Board (GASB) Statement No. 68. While this is and remains a liability of the Florida Retirement System, GASB 68 requires that this liability, owed to College employees in the future, be reported in our financial statements. As a result, the College's net position decreased by \$4.2 million, resulting in a year-end balance of \$180.7 million.

The College's operating revenues totaled \$17 million for the 2014-15 fiscal year, representing a 19.1 percent increase compared to the 2013-14 fiscal year due mainly to the increase in enrollment in fee paying students. Operating expenses totaled \$74.1 million for the 2014-15 fiscal year, representing an increase of 7.2 percent as compared to the 2013-14 fiscal year due mainly to the increase in personnel services, depreciation, and contractual services expenses related to the operation of the new Porter Campus, which opened in spring 2014, for a full year.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College did have a significant decrease in its unrestricted fund balance caused by the implementation of GASB 68.

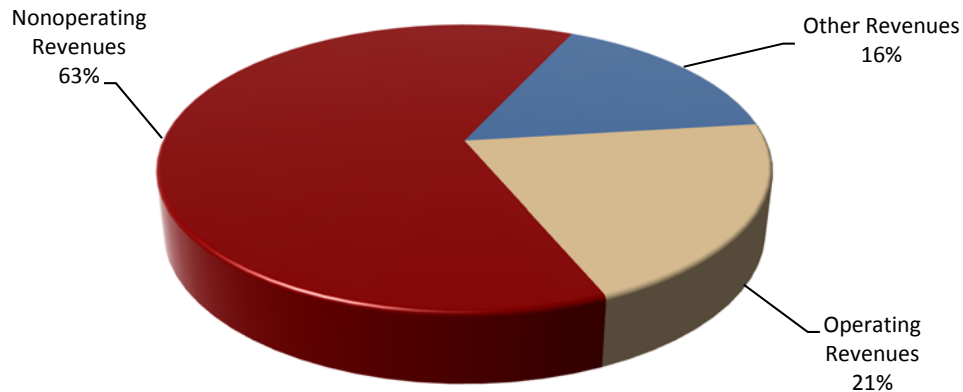
The College's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2014-15 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. The 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, deferred outflows of resources, liabilities, and deferred inflows of resources of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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)

	<b>College</b>		<b>Component Unit</b>	
	<b>6-30-15</b>	<b>6-30-14</b>	<b>12-31-14</b>	<b>12-31-13</b>
<b>Assets</b>				
Current Assets	\$ 33,431	\$ 23,481	\$ 5,140	\$ 5,002
Capital Assets, Net	161,230	161,036	291	289
Other Noncurrent Assets	14,419	18,450	42,014	37,848
<b>Total Assets</b>	<b>209,080</b>	<b>202,967</b>	<b>47,445</b>	<b>43,139</b>
<b>Deferred Outflows of Resources</b>	<b>4,518</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Current Liabilities	7,919	8,511	368	312
Noncurrent Liabilities	18,859	9,559	-	-
<b>Total Liabilities</b>	<b>26,778</b>	<b>18,070</b>	<b>368</b>	<b>312</b>
<b>Deferred Inflows of Resources</b>	<b>6,096</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>				
Net Investment in Capital Assets	154,634	153,304	291	289
Restricted	24,330	18,823	45,437	40,510
Unrestricted	1,760	12,770	1,349	2,028
<b>Total Net Position</b>	<b>\$ 180,724</b>	<b>\$ 184,897</b>	<b>\$ 47,077</b>	<b>\$ 42,827</b>

The College's assets totaled \$209.1 million at June 30, 2015. This balance reflects a \$6.1 million, or 3 percent, increase from the 2013-14 fiscal year resulting primarily from the \$10 million increase in due

from other governmental agencies related to funding for the future Performing Arts Education Center in Wesley Chapel.

- The College's current and noncurrent assets totaled \$33.4 and \$175.6 million, respectively, at June 30, 2015, as compared to \$23.5 and \$179.5 million at June 30, 2014, respectively, an increase of \$9.9 million in current assets and a decrease of \$3.9 million in noncurrent assets primarily due to the increase in due from other governmental agencies related to PECO funding for the Performing Arts Education Center and a decrease in restricted cash due to the final payment for the Porter Campus construction.
- Current liabilities decreased \$0.6 million, primarily due to the decrease in retainage payable of \$1.7 million. This decrease was partially offset by an increase in salary and payroll taxes payable of \$0.2 million, an increase in deposits held for others (computer consortium and Council on Business Affairs) of \$0.6 million, and the addition of the current pension liability of \$0.2 million.
- Noncurrent liabilities increased by \$9.3 million due primarily to the addition of noncurrent pension liabilities totaling \$10.2 million due to the adoption of GASB 68. This increase was partially offset by the reduction of loans payable of \$1 million.
- As part of the accounting requirements for GASB 68, the College is now required to report deferred outflows and inflows of resources of \$4.5 million and \$6.1 million, respectively.
- GASB 68 also requires the College to record its share of the net pension liability for the Florida Retirement System pension plan and health insurance subsidy plan. The recording of this liability and the offsetting entry to the amount to be financed in future years resulted in a decrease of \$11 million to the College's unrestricted net position.

As a result, the College's net position decreased by \$4.2 million, or 2.3 percent, reaching a year-end balance of \$180.7 million.

### **The Statement of Revenues, Expenses, and Changes in Net Position**

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

The following summarizes the activities of the College and its component unit for the respective fiscal years ended:

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

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Operating Revenues	\$ 17,033	\$ 14,304	\$ 2,265	\$ 1,038
Less, Operating Expenses	74,127	69,152	1,820	1,623
<b>Operating Income (Loss)</b>	(57,094)	(54,848)	445	(585)
Net Nonoperating Revenues	52,226	49,819	3,065	5,077
<b>Income (Loss) Before Other Revenues</b>	(4,868)	(5,029)	3,510	4,492
Other Revenues	13,357	10,191	740	883
<b>Net Increase In Net Position</b>	8,489	5,162	4,250	5,375
Net Position, Beginning of Year	184,897	179,735	42,827	37,452
Adjustments to Beginning Net Position (1)	(12,662)	-	-	-
<b>Net Position, Beginning of Year, as Restated</b>	172,235	179,735	42,827	37,452
<b>Net Position, End of Year</b>	\$ 180,724	\$ 184,897	\$ 47,077	\$ 42,827

Note: (1) The adjustment to beginning net position of the College was due to the implementation of GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liability of the defined benefit pension plans. See notes 2 and 4 to the financial statements.

**Operating Revenues**

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

The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective fiscal years ended:

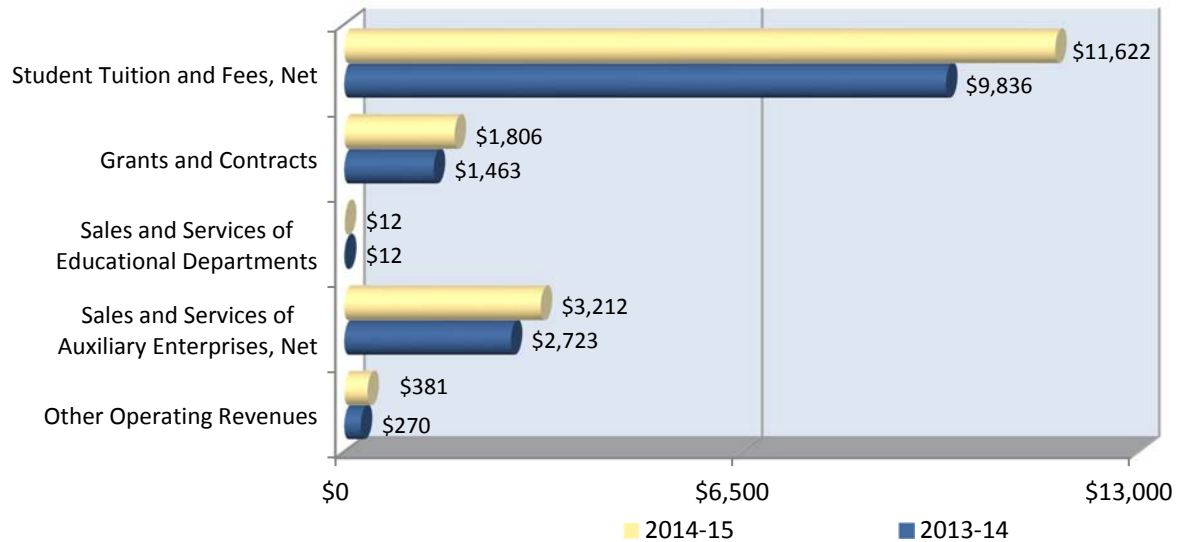
**Operating Revenues  
For the Fiscal Years Ended**

(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Student Tuition and Fees, Net	\$ 11,622	\$ 9,836	\$ -	\$ -
Grants and Contracts	1,806	1,463	1,840	580
Sales and Services of Educational Departments	12	12	-	-
Sales and Services of Auxiliary Enterprises, Net	3,212	2,723	-	-
Other Operating Revenues	381	270	425	458
<b>Total Operating Revenues</b>	\$ 17,033	\$ 14,304	\$ 2,265	\$ 1,038

The following chart presents the College's operating revenues for the respective fiscal years ended:

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



College operating revenue increased from the previous year by \$2.7 million, or 19.1 percent, from the previous year partially as a result of increased enrollment due to the opening of the Porter Campus and two new Bachelor of Science programs in nursing and business as well as two new associate degrees in pharmacy and surgical technician.

**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:

**Operating Expenses  
For the Fiscal Years Ended**

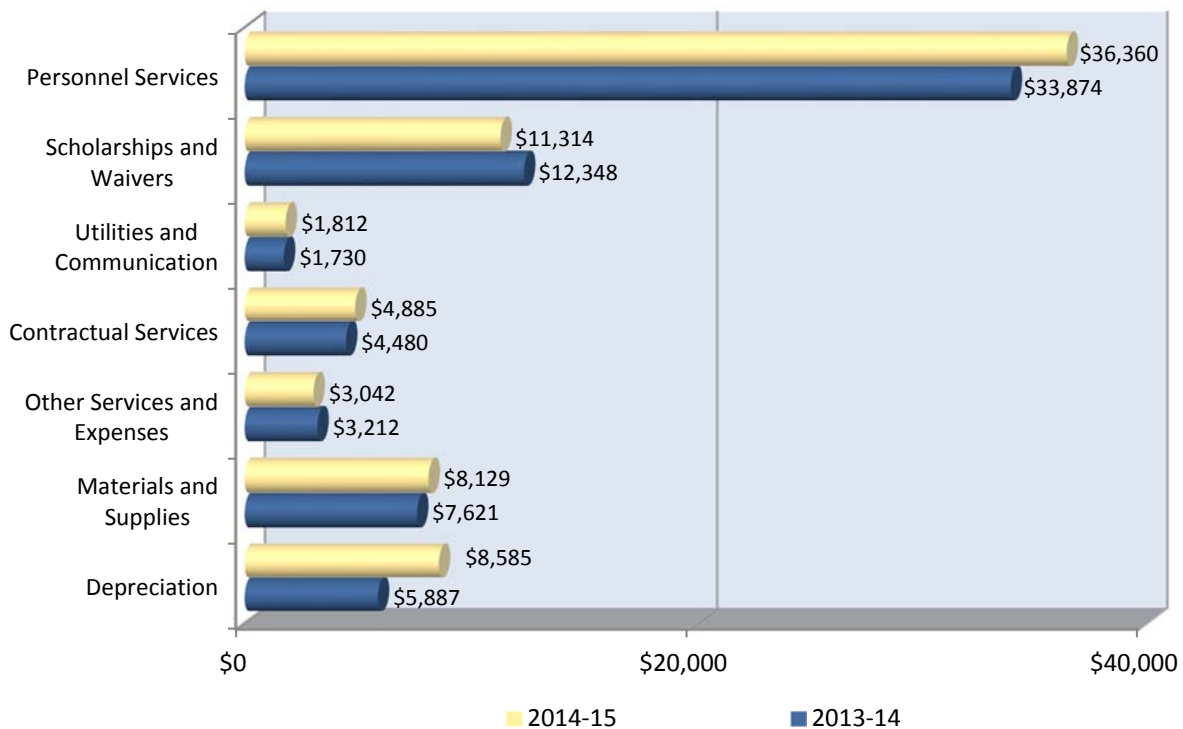
(In Thousands)

	College		Component Unit	
	6-30-15	6-30-14	12-31-14	12-31-13
Personnel Services	\$ 36,360	\$ 33,874	\$ 387	\$ 359
Scholarships and Waivers	11,314	12,348	1,236	1,091
Utilities and Communications	1,812	1,730	-	-
Contractual Services	4,885	4,480	110	115
Other Services and Expenses	3,042	3,212	53	31
Materials and Supplies	8,129	7,621	34	26
Depreciation	8,585	5,887	-	1
<b>Total Operating Expenses</b>	<b>\$ 74,127</b>	<b>\$ 69,152</b>	<b>\$ 1,820</b>	<b>\$ 1,623</b>

The following chart presents the College's operating expenses for the 2014-15 and 2013-14 fiscal years:

**Operating Expenses: College**

(In Thousands)



College operating expenses increased by \$5 million, or 7.2 percent, from \$69.2 million to \$74.1 million as a result of the following factors:

- Personnel services increased by \$2.5 million, or 7.3 percent, due to an across-the-board 2.5 percent cost-of-living increase for all eligible full-time faculty and staff and a net increase of 20.25 full-time equivalent (FTE) positions including the addition of 9.5 FTE for the Porter Campus at Wiregrass Ranch. In addition, the College incurred increases in insurance and retirement contribution rates.

- Contractual services increased by \$0.4 million, or 9 percent, primarily due to incurring a full year's cost of services for janitorial, security, and grounds maintenance at the college's Porter Campus at Wiregrass Ranch.
- Depreciation expense increased by \$2.7 million, or 45.8 percent, primarily due to the addition of the Porter Campus facilities being depreciated for the first year.

### **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 2014-15 and 2013-14 fiscal years:

#### **Nonoperating Revenues (Expenses): College**

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Noncapital Appropriations	\$ 28,025	\$ 27,279
Federal and State Student Financial Aid	23,311	21,904
Gifts and Grants	883	725
Investment Income	191	111
Net Realized and Unrealized Gain (Loss) on Investments	(8)	3
Gain on Sale of Capital Assets	11	10
Interest on Capital Asset-Related Debt	(187)	(213)
<b>Net Nonoperating Revenues</b>	<u><u>\$ 52,226</u></u>	<u><u>\$ 49,819</u></u>

Total nonoperating revenues for the College increased by \$2.4 million, or 4.8 percent, to \$52.2 million for the 2014-15 fiscal year based on the following factors:

- State noncapital appropriations increased \$0.7 million, or 2.7 percent, due to the increase in student enrollment associated with the opening of the Porter Campus.
- Federal and State Financial Aid increased by \$1.4 million, or 6.4 percent, due to the increase in Federal aid being disbursed for the 2014-15 fiscal year associated with the increase in student enrollment.

### **Other Revenues**

This category is mainly composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2014-15 and 2013-14 fiscal years:

#### **Other Revenues: College**

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
State Capital Appropriations	\$ 10,530	\$ 7,933
Capital Grants, Contracts, Gifts, and Fees	2,827	2,258
<b>Total</b>	<u><u>\$ 13,357</u></u>	<u><u>\$ 10,191</u></u>

Total other revenues for the College increased by \$3.2 million, or 31.1 percent, to \$13.4 million for the 2014-15 fiscal year based on the following factors:

- Capital appropriations increased by \$2.6 million, or 32.7 percent, due to the PECO appropriation of \$10 million for the Performing Arts Education Center in Wesley Chapel. This increase was offset by a decrease of PECO funding related to the completion of the Porter Campus.
- Capital grants, contracts, gifts, and fees increased by \$0.6 million, or 25.2 percent, primarily due to the increase in the capital improvement fee as well as the increase in student enrollment.

### **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. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. 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 following summarizes the College's cash flows for the 2014-15 and 2013-14 fiscal years:

#### **Condensed Statement of Cash Flows: College**

(In Thousands)

	<u>2014-15</u>	<u>2013-14</u>
Cash Provided (Used) by:		
Operating Activities	\$ (49,140)	\$ (48,798)
Noncapital Financing Activities	52,219	49,908
Capital and Related Financing Activities	(6,276)	(3,374)
Investing Activities	197	135
	<hr/>	<hr/>
<b>Net Decrease in Cash and Cash Equivalents</b>	(3,000)	(2,129)
Cash and Cash Equivalents, Beginning of Year	35,956	38,085
	<hr/>	<hr/>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 32,956</u>	<u>\$ 35,956</u>

Major sources of funds came from State noncapital appropriations (\$28 million); Federal and State student financial aid (\$23.3 million), net student tuition and fees (\$11.4 million); Federal Direct Loan program receipts (\$10.2 million); auxiliary services (\$3.2 million); and capital gifts and grants (\$2.8 million).

Major uses of funds were for payments to employees for salaries and benefits (\$36.8 million), payments to suppliers (\$13.9 million); disbursements to students for scholarships (\$13.5 million), Federal Direct Loan program disbursements (\$10.2 million); and purchases of capital assets (\$9.6 million).

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

- Net cash used by operating activities increased by \$0.3 million, as compared to the prior fiscal year. The major sources of cash used by operating activities include payments to employees for

salaries and benefits (\$36.8 million), payments to suppliers (\$13.9 million), and scholarships (\$13.5 million).

- Cash provided by noncapital financing activities increased by \$2.3 million, as compared to the prior fiscal year due primarily to an increase in Federal and State student financial aid.
- Cash used by capital related financing activities amounted to \$6.3 million for the 2014-15 fiscal year, which represents a \$2.9 million increase as compared to the 2013-14 fiscal year. The increase was due primarily to a decrease in State capital appropriations from \$19.7 million in the 2013-14 fiscal year to \$1.8 million for the 2014-15 fiscal year, partially offset by a reduction of \$15 million in capital asset purchases made during the year.

<b>CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION</b>
--

### **Capital Assets**

At June 30, 2015, the College had \$225.5 million in capital assets, less accumulated depreciation of \$64.3 million, for net capital assets of \$161.2 million. Depreciation charges for the current fiscal year totaled \$8.6 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

#### **Capital Assets, Net at June 30: College**

(In Thousands)

Capital Assets	2015	2014
Land	\$ 4,429	\$ 3,230
Construction in Progress	4,744	52,679
Buildings	125,677	91,004
Other Structures and Improvements	25,155	13,035
Furniture, Machinery, and Equipment	1,214	1,066
Assets Under Capital Lease	11	22
<b>Capital Assets, Net</b>	<b>\$161,230</b>	<b>\$161,036</b>

Additional information about the College's capital assets is presented in the notes to financial statements.

### **Capital Expenses and Commitments**

Major capital expenses through June 30, 2015, were incurred on the following projects:

- Land additions included the purchase and cleanup of the adjacent land parcel at the Spring Hill Center.
- Construction in progress additions included East and West Campus perimeter road improvements; North Campus chiller plant addition; renovation of parking lots 1 and 2 at West Campus; addition of a generator at West Campus to support Institutional Technology; West Campus signage upgrades; and a reroofing project for A, B, C, D, and E buildings at West Campus.
- Building additions consisted of the renovation of C-205 at West Campus to house the Information Center; renovation of B building at West Campus to house Student Accounting; renovation of Human Resources in E building at West Campus; the addition of new bleachers in the gym at West Campus, and completion of the Porter Campus at Wiregrass Ranch.

- Other structures and improvements included new entrance signs at East Campus, North Campus, and the Spring Hill Center; repaving of the perimeter road at North Campus; and completion of the parking garage, parking lots, and chiller plant at Porter Campus at Wiregrass Ranch.
- Furniture, machinery, and equipment additions consisted of technology equipment, computer-related equipment, furniture, educational equipment, vehicles, and grounds equipment.

The College's construction commitments at June 30, 2015, are as follows:

- East Campus perimeter road improvements.
- North Campus chiller plant addition.
- West Campus renovation of parking lots 1 and 2.
- West Campus signage upgrades.
- West Campus addition of a generator to support Institutional Technology.
- West Campus re-roofing project for A, B, C, D, and E buildings.
- West Campus perimeter road improvements.

	<b>Amount (In Thousands)</b>
Total Committed	\$ 6,638
Completed to Date	<u>(3,638)</u>
<b>Balance Committed</b>	<b><u>\$ 3,000</u></b>

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

### **Debt Administration**

As of June 30, 2015, the College had \$6.6 million in outstanding bonds, loan payable, and capital lease payable, representing a decrease of \$1.1 million, or 14.7 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2015, and June 30, 2014:

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

	<b>2015</b>	<b>2014</b>
SBE Capital Outlay Bonds	\$ 2,065	\$ 2,150
Loan Payable	4,523	5,480
Capital Lease Payable	9	102
<b>Total</b>	<b><u>\$ 6,597</u></b>	<b><u>\$ 7,732</u></b>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2014-15 fiscal year, there was no new long-term debt issued and debt and principal repayments totaled \$1.1 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

## ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Pasco-Hernando State College's economic condition is closely tied to that of the State of Florida. The College did not receive any additional State funds in the 2015-16 fiscal year, and the College was ranked in the bronze category for performance based funding which reduced our State appropriation by \$0.5 million. The College submitted a performance enhancement plan which was approved by the Florida Board of Education and provides an opportunity to recover the lost funds.

The College's approved 2015-16 budget is based on projected student fee revenues of \$16.7 million calculated on an anticipated fee-paying enrollment of 6,985 full-time equivalent (FTE). The proposed budget is conservatively based on the premise of "sustaining current enrollment" and includes the addition of 106 FTE for Baccalaureate programs in Nursing and Supervision and Management.

The College did not recommend an increase in credit course tuition fees (A&P, PSV, & College Preparatory) and post-secondary adult vocational (PSAV) course tuition fees for the 2015-16 fiscal year. The College's approved tuition rates remain among the 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 continues to implement new degree programs to serve the community and generate continued enrollment growth. The College added the Associate in Science Degree in Engineering Technology in August 2015. Approval has been granted from Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) to move forward with the possible reinstatement of a fire academy with a start date of August 2015. Additionally, the College has sent a letter to SACSCOC requesting permission to add two new programs: Aviation Administration and Professional Pilot Technology that are anticipated to be implemented during the 2016-17 academic year.

## REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President 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, 2015**

	<u>College</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 15,984,611	\$ 4,679,765
Restricted Cash and Cash Equivalents	2,596,636	-
Accounts Receivable, Net	1,215,314	-
Investments	-	375,863
Notes Receivable, Net	-	50,228
Due from Other Governmental Agencies	11,472,999	28,750
Due from Component Unit	171,274	-
Inventories	1,088,102	-
Prepaid Expenses	875,655	5,175
Other Assets	26,117	-
<b>Total Current Assets</b>	<b>33,430,708</b>	<b>5,139,781</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	14,375,184	-
Investments	44,254	10,326,899
Restricted Investments	-	31,546,385
Due from Other Governmental Agencies	-	133,185
Notes Receivable, Net	-	7,501
Depreciable Capital Assets, Net	152,057,199	2,255
Nondepreciable Capital Assets	9,173,320	288,863
<b>Total Noncurrent Assets</b>	<b>175,649,957</b>	<b>42,305,088</b>
<b>TOTAL ASSETS</b>	<b>209,080,665</b>	<b>47,444,869</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	4,518,307	-
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	1,309,773	51,280
Salary and Payroll Taxes Payable	2,115,723	-
Retainage Payable	321,041	-
Due to Other Governmental Agencies	3,393	-
Due to College		141,470
Unearned Revenue	65,273	41,873
Deposits Held for Others	2,292,600	133,185
Long-Term Liabilities - Current Portion:		
Bonds Payable	90,000	-
Loan Payable	974,317	-
Capital Lease Payable	8,781	-
Compensated Absences Payable	506,539	-
Net Pension Liability	231,587	-
<b>Total Current Liabilities</b>	<b>7,919,027</b>	<b>367,808</b>

**Pasco-Hernando State College**  
**A Component Unit of the State of Florida**  
**Statement of Net Position (Continued)**

**June 30, 2015**

	<b>College</b>	<b>Component Unit</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds Payable	1,975,000	-
Loan Payable	3,548,268	-
Compensated Absences Payable	3,022,555	-
Other Postemployment Benefits Payable	122,766	-
Net Pension Liability	10,190,817	-
<b>Total Noncurrent Liabilities</b>	<b>18,859,406</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>26,778,433</b>	<b>367,808</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Amounts Related to Pensions	6,096,398	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	154,634,153	291,118
Restricted:		
Nonexpendable:		
Endowment	-	24,891,125
Expendable:		
Grants and Loans	281,919	8,947,409
Scholarships	481,148	11,598,705
Capital Projects	23,522,570	-
Debt Service	44,254	-
Unrestricted	1,760,097	1,348,704
<b>TOTAL NET POSITION</b>	<b>\$ 180,724,141</b>	<b>\$ 47,077,061</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, 2015**

	<u>College</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$10,985,451	\$ 11,622,254	\$ -
Federal Grants and Contracts	1,219,224	-
State and Local Grants and Contracts	227,285	28,750
Nongovernmental Grants and Contracts	359,349	1,810,951
Sales and Services of Educational Departments	11,625	-
Auxiliary Enterprises, Net of Scholarship Allowances of \$2,192,686	3,212,067	-
Other Operating Revenues	380,885	425,654
<b>Total Operating Revenues</b>	<u>17,032,689</u>	<u>2,265,355</u>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	36,360,326	386,561
Scholarships and Waivers	11,314,122	1,236,313
Utilities and Communications	1,811,937	-
Contractual Services	4,884,691	109,852
Other Services and Expenses	3,041,731	53,127
Materials and Supplies	8,128,967	33,811
Depreciation	8,585,075	452
<b>Total Operating Expenses</b>	<u>74,126,849</u>	<u>1,820,116</u>
<b>Operating Income (Loss)</b>	<u>(57,094,160)</u>	<u>445,239</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	28,025,374	-
Federal and State Student Financial Aid	23,310,813	-
Gifts and Grants	883,245	-
Investment Income	190,459	2,162,666
Net Unrealized and Realized Gain (Loss) on Investments	(7,978)	901,952
Gain on Sale of Capital Assets	11,255	-
Interest on Capital Asset-Related Debt	(187,470)	-
<b>Net Nonoperating Revenues</b>	<u>52,225,698</u>	<u>3,064,618</u>
<b>Income (Loss) Before Other Revenues</b>	<u>(4,868,462)</u>	<u>3,509,857</u>
State Capital Appropriations	10,530,103	-
Capital Grants, Contracts, Gifts, and Fees	2,827,232	-
Additions to Endowments	-	740,092
<b>Total Other Revenues</b>	<u>13,357,335</u>	<u>740,092</u>
<b>Increase in Net Position</b>	<u>8,488,873</u>	<u>4,249,949</u>
Net Position, Beginning of Year	184,896,923	42,827,112
Adjustment to Beginning Net Position	(12,661,655)	-
<b>Net Position, Beginning of Year, as Restated</b>	<u>172,235,268</u>	<u>42,827,112</u>
<b>Net Position, End of Year</b>	<u>\$ 180,724,141</u>	<u>\$ 47,077,061</u>

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

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**Pasco-Hernando State College**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows**

**For the Fiscal Year Ended June 30, 2015**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 11,393,524
Grants and Contracts	1,466,390
Payments to Suppliers	(13,868,860)
Payments for Utilities and Communications	(1,811,937)
Payments to Employees	(29,231,772)
Payments for Employee Benefits	(7,544,695)
Payments for Scholarships	(13,506,808)
Sales and Service of Educational Departments	11,625
Auxiliary Enterprises, Net	3,197,878
Other Receipts	754,434
	<b>(49,140,221)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	28,025,374
Federal and State Student Financial Aid	23,310,813
Federal Direct Loan Program Receipts	10,215,735
Federal Direct Loan Program Disbursements	(10,215,735)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	883,244
	<b>52,219,431</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	1,789,005
Capital Grants and Gifts	2,840,269
Proceeds from Sale of Capital Assets	11,255
Purchases of Capital Assets	(9,593,349)
Principal Paid on Capital Debt and Leases	(1,136,020)
Interest Paid on Capital Debt and Leases	(187,470)
	<b>(6,276,310)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	12,165
Investment Income	185,293
	<b>197,458</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(2,999,642)</b>
Cash and Cash Equivalents, Beginning of Year	35,956,073
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 32,956,431</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, 2015**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS</b>	
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (57,094,160)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	8,585,075
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	41,193
Due from Other Governmental Agencies	(655,376)
Inventories	30,193
Prepaid Expenses	(239,596)
Other Assets	4,144
Accounts Payable	(10,902)
Salaries and Payroll Taxes Payable	163,225
Unearned Revenue	6,349
Deposits Held for Others	609,000
Compensated Absences Payable	55,716
Other Postemployment Benefits Payable	26,078
Net Pension Liability	3,757,048
Deferred Outflows of Resources Related to Pensions	(10,514,606)
Deferred Inflows of Resources Related to Pensions	6,096,398
	<b>\$ (49,140,221)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>	
Unrealized losses 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.	\$ (7,978)

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **1. Summary of Significant Accounting Policies**

**Reporting Entity.** The governing body of Pasco-Hernando State College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The 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 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 College 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 Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based on 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), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2014.

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

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

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net 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, assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, gifts and grants, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

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

**Cash and Cash Equivalents.** The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash invested with the State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration (SBA) Florida PRIME investment pools. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and SBA Florida PRIME investment pools 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, 2015, the College reported as cash equivalents at fair value \$10,475,921 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 2.67 years and fair value factor of 1.0013 at June 30, 2015. 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, 2015, the College reported as cash equivalents \$8,650,510 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, 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 34 days as of June 30, 2015. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

**Capital Assets.** College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital lease. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. 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 – 3 years

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

**Pensions.** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS’s and the HIS’s fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

## 2. Reporting Change

The College implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers’ proportionate share of the net pension liabilities of the defined benefit pension plans. The College participates in the FRS defined benefit pension plan and the HIS defined benefit plan administered by the Florida Department of Management Services, Division of Retirement. The effects of implementing this Statement are discussed in a subsequent note.

## 3. Deficit Net Position in Individual Funds

The College reported an unrestricted net position, which included a deficit in the current funds – unrestricted net position as shown below. This deficit can be attributed to the full recognition of long-term liabilities (i.e., compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (5,997,159)
Auxiliary Funds	<u>7,757,256</u>
<b>Total</b>	<b><u>\$ 1,760,097</u></b>

## 4. Adjustment to Beginning Net Position

The beginning net position of the College, was decreased by \$12,661,655 due to the adoption of a new GASB Pronouncement, Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB

Statement No. 68 requires the College to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple-employer FRS and HIS defined benefit plans.

**5. Investments**

The College’s Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; 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; and other investments approved by the 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 reported investments totaling \$44,254 at June 30, 2015, 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 6 months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk and 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, 2014, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Government Obligations	\$ 1,566,708
Federal Agency Obligations	2,813,987
Corporate Bonds and Notes	2,699,553
Asset-Backed Securities	304,197
Mortgage-Backed Obligations	3,318,317
Equity Mutual Funds	8,235,211
Domestic Stocks and Other Equity Securities	23,311,174
<b>Total Component Unit Investments</b>	<b><u><u>\$ 42,249,147</u></u></b>

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:

<b>Investment Type</b>	<b>Investment Maturities (In Years)</b>				
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
United States Government Obligations	\$ 1,566,708	\$ 11,066	\$ 166,144	\$ 1,159,740	\$ 229,758
Federal Agency Obligations	2,813,987	205,154	1,071,641	726,520	810,672
Corporate Bonds and Notes	2,699,553	66,515	1,237,693	1,150,721	244,624
Asset-Backed Securities	304,197	-	249,841	-	54,356
Mortgage-Backed Securities	3,318,317	-	94,792	56,916	3,166,609
Equity Mutual Funds	8,235,211	8,235,211	-	-	-
<b>Total</b>	<b>\$ 18,937,973</b>	<b>\$ 8,517,946</b>	<b>\$ 2,820,111</b>	<b>\$ 3,093,897</b>	<b>\$ 4,506,019</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 & Poor's. In addition, if investments are downgraded below the minimum rating, the security shall be sold within 10 trading days. At December 31, 2014, the Foundation's fixed income securities were rated as follows:

<b>Investment Type</b>	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>Percentage Total Debt Securities Investments</b>
United States Government Obligations	AA+	Aaa	15%
Federal Agency Obligations	AA+	Aaa	26%
Corporate Bonds and Notes	AAA - BBB	Aaa - Baa2	25%
Asset-Backed Securities	AAA	Aaa	3%
Mortgage-Backed Securities	AAA - AA+	Aaa	31%

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

entry” format per the investment management agreements with the individual financial institutions managing those assets.

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

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates between the United States dollar and foreign currencies could adversely affect an investment’s fair value. As of December 31, 2014, 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.

## **6. Accounts Receivable**

Accounts receivable represent amounts for Federal Title IV repayments, student fee deferments, various student services provided by the College, government receivables, unused credit memos, and third-party nongovernmental receivables. These receivables are reported net of a \$484,493 allowance for uncollectible accounts.

## **7. Due From Other Governmental Agencies**

The amount due from other governmental agencies primarily consists of \$10,115,482 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

## **8. Due From and To Component Unit/College**

The amount due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid, and agreements to support a portion of the College’s programs. The College’s financial statements are reported for the fiscal year ended June 30, 2015. The College’s component unit’s financial statements are reported for the fiscal year ended December 31, 2014. 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.

## **9. Inventories**

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

## **10. Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2015, is shown in the following table:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$ 3,229,755	\$ 1,199,213	\$ -	\$ 4,428,968
Construction in Progress	52,679,028	4,744,352	52,679,028	4,744,352
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 55,908,783</b>	<b>\$ 5,943,565</b>	<b>\$ 52,679,028</b>	<b>\$ 9,173,320</b>
Depreciable Capital Assets:				
Buildings	\$ 128,665,812	\$ 39,499,910	\$ -	\$ 168,165,722
Other Structures and Improvements	27,450,444	15,289,081	-	42,739,525
Furniture, Machinery, and Equipment	4,951,540	726,185	268,095	5,409,630
Assets Under Capital Lease	379,502	-	347,095	32,407
<b>Total Depreciable Capital Assets</b>	<b>161,447,298</b>	<b>55,515,176</b>	<b>615,190</b>	<b>216,347,284</b>
Less, Accumulated Depreciation:				
Buildings	37,662,433	4,825,863	-	42,488,296
Other Structures and Improvements	14,414,706	3,169,613	-	17,584,319
Furniture, Machinery, and Equipment	3,885,164	578,797	268,095	4,195,866
Assets Under Capital Lease	357,897	10,802	347,095	21,604
<b>Total Accumulated Depreciation</b>	<b>56,320,200</b>	<b>8,585,075</b>	<b>615,190</b>	<b>64,290,085</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 105,127,098</b>	<b>\$ 46,930,101</b>	<b>\$ -</b>	<b>\$ 152,057,199</b>

## 11. Unearned Revenue

As of June 30, 2015, unearned revenue of \$65,273 includes amounts collected for Pay-for-Print and College Gift Cards totaling \$52,236 that have not been used and \$13,037 of Capital Outlay and Debt Service Funds that have been deferred for distribution to the College by the State of Florida.

## 12. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 2,150,000	\$ -	\$ 85,000	\$ 2,065,000	\$ 90,000
Loan Payable	5,479,916	-	957,331	4,522,585	974,317
Capital Lease Payable	102,470	-	93,689	8,781	8,781
Compensated Absences Payable	3,473,377	484,268	428,551	3,529,094	506,539
Other Postemployment Benefits Payable	96,688	59,294	33,216	122,766	-
Net Pension Liability (1)	14,179,452	3,857,147	7,614,195	10,422,404	231,587
<b>Total Long-Term Liabilities</b>	<b>\$ 25,481,903</b>	<b>\$ 4,400,709</b>	<b>\$ 9,211,982</b>	<b>\$ 20,670,630</b>	<b>\$ 1,811,224</b>

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

**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, 2015:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2010A	\$ 2,065,000	3.5 - 5.0	2030

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	110,000	69,700	179,700
2021-2025	665,000	262,250	927,250
2026-2030	900,000	110,300	1,010,300
<b>Total</b>	<b>\$ 2,065,000</b>	<b>\$ 766,850</b>	<b>\$ 2,831,850</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. The annual requirements to amortize the loan as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 1,046,079
2017	1,046,079
2018	1,046,079
2019	1,046,079
2020	523,041
<b>Total Minimum Payments</b>	<b>4,707,357</b>
Less, Amount Representing Interest	184,772
<b>Present Value of Minimum Payments</b>	<b>\$ 4,522,585</b>

**Capital Lease Payable.** Copier equipment in the amount of \$32,407 was acquired during the 2013-14 fiscal years. The imputed interest rate was 9.47 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 9,023
Less, Amount Representing Interest	<u>242</u>
<b>Present Value of Minimum Payments</b>	<b><u>\$ 8,781</u></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, 2015, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,529,094. The current portion of the compensated absences liability, \$506,539, 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 (Plan) administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary 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 has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2014-15 fiscal year, 31 retirees received postemployment healthcare benefits, and 52 retirees received postemployment life insurance benefits. The College provided required contributions of \$33,216 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$184,288, which represents 0.8 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	3,867
Adjustment to Annual Required Contribution	<u>(3,222)</u>
<b>Annual OPEB Cost (Expense)</b>	59,294
Contribution Toward the OPEB Cost	<u>(33,216)</u>
<b>Increase in Net OPEB Obligation</b>	26,078
Net OPEB Obligation, Beginning of Year	<u>96,688</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 122,766</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, 2015, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012-13	\$ 43,185	38.3%	\$ 61,464
2013-14	59,059	40.4%	96,688
2014-15	59,294	56.0%	122,766

*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 \$24,408,288 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.1 percent.

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

whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The College's OPEB actuarial valuation as of July 1, 2013, used the projected unit credit actuarial method to estimate the accrued actuarial liability as of June 30, 2015, and the College's 2014-15 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. 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 7.5 percent pre-Medicare and 6 percent Medicare for the 2014-15 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 3 years for pre-Medicare and 2 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, 2015, was 22 years.

### **13. Retirement Plans – Defined Benefit Pension Plans**

#### **General Information about the Florida Retirement System (FRS)**

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees of State colleges.

Essentially all regular employees of the College are eligible to enroll as members of the State-administered 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. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information,

actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The College's FRS and HIS pension expense totaled \$1,146,698 for the 2014-15 fiscal year.

### **FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class* – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 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. Employees enrolled in the Plan 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 to eligible participants.

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-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

*Benefits Provided.* Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b>Regular Class members initially enrolled on or after July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b>Senior Management Service Class</b>	<b>2.00</b>

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

*Contributions.* The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2014-15 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.37
FRS, Senior Management Service	3.00	21.14
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The College's contributions to the plan totaled \$1,504,156 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2015, the College reported a liability of \$3,523,830 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was

0.057753781 percent, which was an increase of 0.009083115 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$581,208. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 218,065
Change of assumptions	610,269	-
Net difference between projected and actual earnings on FRS pension plan investments	-	5,878,333
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,315,417	-
College FRS contributions subsequent to the measurement date	1,504,156	-
<b>Total</b>	<u>\$ 3,429,842</u>	<u>\$ 6,096,398</u>

The deferred outflows of resources related to pensions totaling \$1,504,156 resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (800,299)
2017	(800,299)
2018	(800,299)
2019	(800,299)
2020	(745,782)
Thereafter	(223,734)
<b>Total</b>	<u>\$ (4,170,712)</u>

*Actuarial Assumptions.* The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%	10.00%
Real estate (Property)	12.00%	7.11%	6.35%	13.00%
<b>Total</b>	<b>100.00%</b>			
Assumed inflation - Mean		2.60%		2.00%

Note: (1) As outlined in the Plan's investment policy.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.65 percent. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

*Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
College's proportionate share of the net pension liability	\$ 15,071,889	\$ 3,523,830	\$ (6,081,952)

*Pension Plan Fiduciary Net Position.* Detailed information about pension plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

## **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$303,702 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2015, the College reported a liability of \$6,898,574 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the College's proportionate share was 0.073779618 percent, which was an increase of 0.007149087 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the College recognized pension expense of \$565,490. In addition, the College reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 245,479
Net difference between projected and actual earnings on FRS pension plan investments	3,311
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	535,975
College FRS contributions subsequent to the measurement date	<u>303,702</u>
<b>Total</b>	<u><u>\$ 1,088,467</u></u>

The deferred outflows of resources totaling \$303,702 was related to pensions resulting from College contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 126,869
2017	126,869
2018	126,869
2019	126,869
2020	126,041
Thereafter	<u>151,248</u>
<b>Total</b>	<u><u>\$ 784,765</u></u>

*Actuarial Assumptions.* The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal Bond Rate	4.29 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the Florida Retirement System Actuarial Assumptions Conference reviewed the actuarial assumptions for the Plan.

*Discount Rate.* The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

*Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

	<b>1% Decrease (3.29%)</b>	<b>Current Discount Rate (4.29%)</b>	<b>1% Increase (5.29%)</b>
College's proportionate share of the net pension liability	\$ 7,846,570	\$ 6,898,574	\$ 6,107,270

*Pension Plan Fiduciary Net Position.* Detailed information about pension plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

#### **14. Retirement Plans – Defined Contribution Pension Plans**

**FRS Investment Plan.** The State Board of Administration (SBA) administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

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. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2014-15 fiscal year were as follows:

<b><u>Class</u></b>	<b><u>Percent of Gross Compensation</u></b>
FRS, Regular	6.30
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension

Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The College's Investment Plan pension expense totaled \$565,490 for the fiscal year ended June 30, 2015.

**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 8 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 5.14 percent of the participant's salary to the participant's account, 2.54 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.69 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 22 College participants during the 2014-15 fiscal year. The College's contributions to the Program totaled \$81,120 and employee contributions totaled \$47,255 for the 2014-15 fiscal year.

**Senior Management Service Optional Annuity Program.** Section 121.055, Florida Statutes, created the Senior Management Service Optional Annuity Program (Annuity Program) as an optional retirement program for College employees that are members of the FRS Senior Management Service Class.

The Annuity 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. College employees in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 21.31 percent and employees contribute

3 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

There were two College participants during the 2014-15 fiscal year. The College's contributions to the Annuity Program totaled \$14,319 and employee contributions totaled \$7,088 for the 2014-15 fiscal year.

## 15. Construction Commitments

The College's major construction commitments at June 30, 2015, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
East Campus Perimeter Road Improvements			
Construction Manager	\$ 241,287	\$ 232,014	\$ 9,273
North Campus Chiller Plant Addition			
Engineer	140,025	138,275	1,750
Construction Manager	1,656,166	1,614,655	41,511
West Campus Parking Lot Renovations			
Architect	80,500	72,627	7,873
Construction Manager	1,598,836	1,101,720	497,116
West Campus Signage			
Architect	10,197	9,177	1,020
Construction Manager	175,307	115,778	59,529
West Campus IT Generator			
Construction Manager	247,879	246,924	955
West Campus Reroofing			
Architect	167,526	107,216	60,310
Construction Manager	1,999,830	-	1,999,830
West Campus Perimeter Road			
Construction Manager	320,852	-	320,852
<b>Total</b>	<b>\$ 6,638,405</b>	<b>\$ 3,638,386</b>	<b>\$ 3,000,019</b>

## 16. 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 of up to \$150 million to February 28, 2015, and up to \$200 million from March 1, 2015, for property insurance. 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 3 fiscal years.

## 17. 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, 2015, the accumulated credits to the College's account were \$806,729.

## 18. 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	\$ 19,009,126
Academic Support	6,137,800
Student Services	8,153,911
Institutional Support	7,933,845
Operation and Maintenance of Plant	7,589,132
Scholarships and Waivers	11,314,122
Auxiliary Enterprises	5,403,838
Depreciation	8,585,075
<b>Total Operating Expenses</b>	<b><u><u>\$ 74,126,849</u></u></b>

## 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%

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

### Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.057753781%	0.048670666%
College's proportionate share of the FRS net pension liability	\$ 3,523,830	\$ 8,378,388
College's covered-employee payroll (2)	\$ 19,151,209	\$ 17,241,785
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	18.40%	48.59%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

### Schedule of College Contributions – Florida Retirement System Pension Plan

	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 1,504,156	\$ 1,265,053
FRS contributions in relation to the contractually required contribution	(1,504,156)	(1,265,053)
FRS contribution deficiency (excess)	\$ -	\$ -
College's covered-employee payroll (2)	\$ 20,352,962	\$ 19,151,209
FRS contributions as a percentage of covered-employee payroll	7.39%	6.61%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of the College's Proportionate Share  
of the Net Pension Liability –  
Health Insurance Subsidy Pension Plan**

	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.073779618%	0.066630531%
College's proportionate share of the HIS net pension liability	\$ 6,898,574	\$ 5,801,064
College's covered-employee payroll (2)	\$ 23,635,469	\$ 21,039,301
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	29.19%	27.57%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of College Contributions –  
Health Insurance Subsidy Pension Plan**

	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 303,702	\$ 252,744
HIS contributions in relation to the contractually required HIS contribution	<u>(303,702)</u>	<u>(252,744)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll (2)	25,914,778	23,635,469
HIS contributions as a percentage of covered-employee payroll	1.17%	1.07%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

<b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>
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**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.

## **2. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan**

*Changes of Assumptions.* As of June 30, 2014, the inflation rate assumption was decreased from 3 percent to 2.6 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

## **3. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan**

*Changes of Assumptions.* The municipal rate used to determine the total pension liability decreased from 4.63 percent to 4.29 percent.



Sherrill F. Norman, 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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 the 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, 2015, 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 24, 2016, 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 from 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 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 results 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,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 24, 2016