

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2017-129
March 2017

PASCO-HERNANDO STATE COLLEGE

For the Fiscal Year Ended
June 30, 2016



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2015-16 fiscal year, Dr. Timothy L. Beard served as President of Pasco-Hernando State College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Morris R. Porton, Chair from 7-22-15, Vice Chair to 7-21-15	Hernando
Edward C. Blommel, Vice Chair from 7-22-15	Pasco
Leonard H. Johnson, ^a Chair to 7-21-15	Pasco
John Dougherty	Hernando
Dr. S.K. Rao Musunuru	Pasco
Marilyn Pearson-Adams	Hernando
Robin L. Schneider	Hernando
Ardian Zika	Pasco
Vacant ^b	Pasco

^a Member resigned 3-18-16, and position vacant through 6-30-16.

^b Position vacant from 7-1-15, through 6-30-16.

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 Brian Werthmiller, 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 or by telephone at (850) 412-2868.

This report and other reports prepared by the Auditor General are available at:

www.myflorida.com/audgen

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

PASCO-HERNANDO STATE COLLEGE
TABLE OF CONTENTS

	Page No.
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Net Position	20
Statement of Cash Flows	22
Notes to Financial Statements	24
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	46
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	46
Schedule of College Contributions – Florida Retirement System Pension Plan	46
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan.....	47
Schedule of College Contributions – Health Insurance Subsidy Pension Plan.....	47
Notes to Required Supplementary Information	48
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	
Internal Control Over Financial Reporting	49
Compliance and Other Matters	50
Purpose of this Report	50

SUMMARY

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, 2016. 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

We conducted our audit in accordance with 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

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



Phone: (850) 412-2722
Fax: (850) 488-6975

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of 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, 2016, 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 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **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 and other auditors 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 dated March 1, 2017, 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 1, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2016, 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, 2016, and June 30, 2015, and its component unit the Pasco-Hernando State College Foundation, Inc. for the fiscal years ended December 31, 2015, and December 31, 2014.

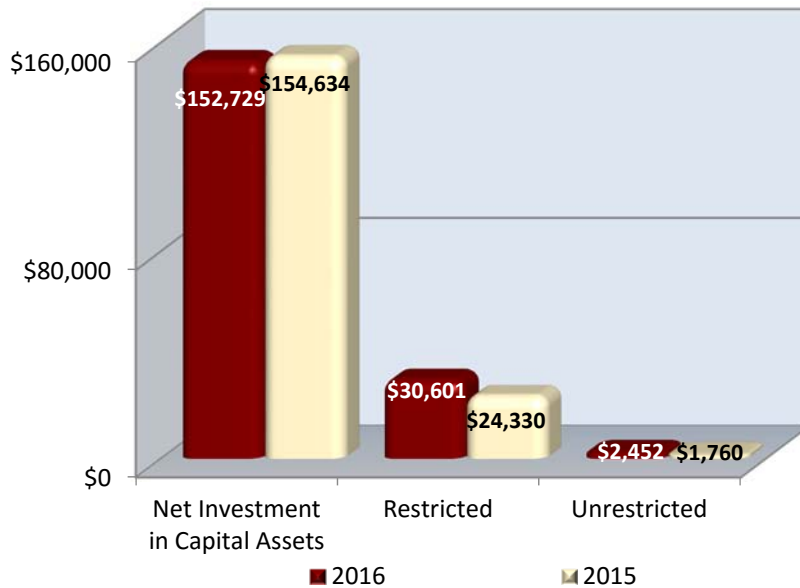
FINANCIAL HIGHLIGHTS

The College's assets totaled \$212.7 million at June 30, 2016. This balance reflects a \$3.6 million, or 1.7 percent, increase as compared to the 2014-15 fiscal year, resulting primarily from the commitment of Public Education Capital Outlay (PECO) funds to construct a future performing arts educational center in Wesley Chapel. While assets grew, liabilities increased by \$4.6 million, or 17.3 percent, totaling \$31.4 million at June 30, 2016, compared to \$26.8 million at June 30, 2015, primarily due to the increased liability for the Florida Retirement System (FRS) pension plan and Health Insurance Subsidy of \$5.6 million as required by GASB Statement No. 68. While this is and remains a liability of the Florida Retirement System, GASB Statement No. 68 requires that this liability, owed to College employees in the future, be reported in the College's financial statements. GASB Statement No. 68 also requires colleges to record annual changes in actuarial assumptions and contributions to the retirement plan for the current year as deferred outflows and/or deferred inflows of resources which effects the college's net pension liability and unrestricted net position. Consequently, ending net position increased \$5.1 million or 2.8 percent to \$185.8 million.

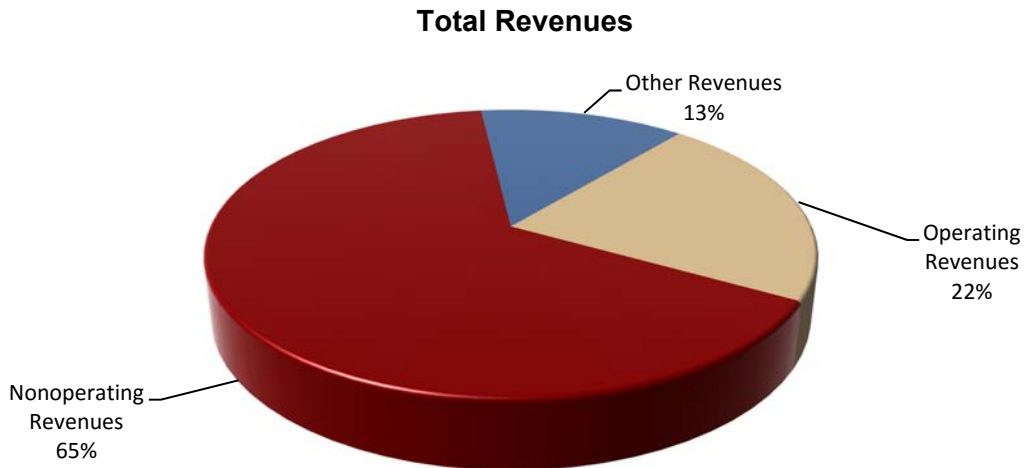
The College's operating revenues totaled \$17.3 million for the 2015-16 fiscal year, representing a 1.6 percent increase compared to the 2014-15 fiscal year due mainly to an increase in auxiliary enterprises. Operating expenses totaled \$72.8 million for the 2015-16 fiscal year, representing a decrease of 1.8 percent as compared to the 2014-15 fiscal year due mainly to a decrease in scholarships and waivers due to declining enrollment, depreciation, and materials and supplies expense. These decreases were partially offset by an increase in personnel expense, with the addition of 11.4 full-time equivalent positions and a 1 percent across the board salary increase, and an increase in contracted services, due to the increased security coverage at all campuses, contracting out landscaping services at the Dade City campus, and an increase in health program student testing services.

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's comparative total net position by category for the fiscal years ended June 30, 2016, and June 30, 2015, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2015-16 fiscal year:



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 June 30

(In Thousands)

	<u>College</u>		<u>Component Unit</u>	
	<u>6-30-16</u>	<u>6-30-15</u>	<u>12-31-15</u>	<u>12-31-14</u>
Assets				
Current Assets	\$ 39,773	\$ 33,431	\$ 4,806	\$ 5,140
Capital Assets, Net	158,496	161,230	291	291
Other Noncurrent Assets	14,442	14,419	41,344	42,014
Total Assets	<u>212,711</u>	<u>209,080</u>	<u>46,441</u>	<u>47,445</u>
Deferred Outflows of Resources	<u>6,584</u>	<u>4,518</u>	<u>-</u>	<u>-</u>
Liabilities				
Current Liabilities	7,631	7,919	422	368
Noncurrent Liabilities	23,790	18,859	-	-
Total Liabilities	<u>31,421</u>	<u>26,778</u>	<u>422</u>	<u>368</u>
Deferred Inflows of Resources	<u>2,092</u>	<u>6,096</u>	<u>-</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	152,729	154,634	291	291
Restricted	30,601	24,330	44,492	45,437
Unrestricted	2,452	1,760	1,236	1,349
Total Net Position	<u>\$ 185,782</u>	<u>\$ 180,724</u>	<u>\$ 46,019</u>	<u>\$ 47,077</u>

The College's assets totaled \$212.7 million at June 30, 2016. This balance reflects a \$3.6 million, or 1.7 percent, increase from the 2014-15 fiscal year resulting primarily from a \$5.5 million increase in due

from other government agencies for PECO funding for the Performing Arts Education Center (Educational Center), partially offset by a \$2.7 million decrease in capital assets.

- The College's current and noncurrent assets totaled \$39.8 million and \$172.9 million at June 30, 2016, respectively, an increase of \$6.3 million in current assets and a decrease of \$2.7 million in noncurrent assets. The increase in current assets is primarily due to the \$5.5 million increase in due from other governmental agencies related to the Educational Center. The decrease in noncurrent assets is primarily due to increases in accumulated depreciation associated with depreciation expense.
- Total liabilities increased by \$4.6 million, or 17.3 percent, as compared to the \$26.8 million at June 30, 2015. Current liabilities decreased by \$0.3 million, due primarily to the decrease in accounts payable and retainage payable (\$0.6 million), which can be attributed to a decrease in construction activity. This decrease was offset by an increase in salary and payroll taxes payable (\$0.3 million) due to the addition of 11.4 FTE positions and a 1 percent across the board salary increase.
- Noncurrent liabilities increased by \$4.9 million due primarily to the increase of the College's portion of net pension liability. GASB Statement No. 68 reporting requires the College to report its portion of the net pension liability related to the FRS Retirement Plan of \$16.1 million, an increase of \$5.6 million. This increase was partially offset by the reduction of bonds payable of \$0.1 million and loan payable of \$1 million.
- As part of the accounting requirements for GASB Statement No. 68, the College is now required to report deferred outflows and inflows related to its portion of the net pension liability. These outflows and inflows represent changes in actuarial assumption, investment earnings of the entire plan, and experience. Deferred outflows increased to \$6.6 million and deferred inflows increased to \$2.1 million, resulting in a \$4.5 million net increase in net position.

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	
	6-30-16	6-30-15	12-31-15	12-31-14
Operating Revenues	\$ 17,305	\$ 17,033	\$ 1,031	\$ 2,265
Less, Operating Expenses	72,770	74,127	1,936	1,820
Operating Income (Loss)	(55,465)	(57,094)	(905)	445
Net Nonoperating Revenues (Expenses)	50,569	52,226	(739)	3,065
Income (Loss) Before Other Revenues	(4,896)	(4,868)	(1,644)	3,510
Other Revenues	9,954	13,357	586	740
Net Increase (Decrease) In Net Position	5,058	8,489	(1,058)	4,250
Net Position, Beginning of Year	180,724	184,897	47,077	42,827
Adjustment to Beginning Net Position (1)	-	(12,662)	-	-
Net Position, Beginning of Year, as Restated	180,724	172,235	47,077	42,827
Net Position, End of Year	<u>\$ 185,782</u>	<u>\$ 180,724</u>	<u>\$ 46,019</u>	<u>\$ 47,077</u>

Note: (1) Adjustment to beginning net position is 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 employer's proportionate share of the net pension liability of the defined benefit pension plans.

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:

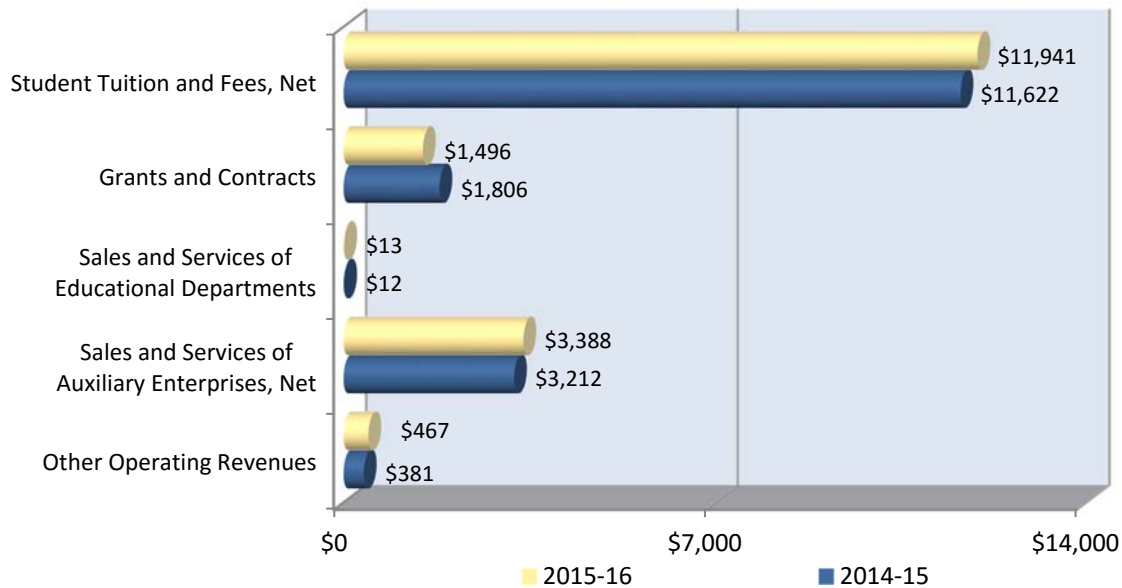
**Operating Revenues
For the Fiscal Years Ended**

(In Thousands)

	College		Component Unit	
	6-30-16	6-30-15	12-31-15	12-31-14
Student Tuition and Fees, Net	\$ 11,941	\$ 11,622	\$ -	\$ -
Grants and Contracts	1,496	1,806	537	1,840
Sales and Services of Educational Departments	13	12	-	-
Sales and Services of Auxiliary Enterprises, Net	3,388	3,212	-	-
Other Operating Revenues	467	381	494	425
Total Operating Revenues	<u>\$ 17,305</u>	<u>\$ 17,033</u>	<u>\$ 1,031</u>	<u>\$ 2,265</u>

The following chart presents the College's operating revenues for the 2015-16 and 2014-15 fiscal years:

Operating Revenues: College
(In Thousands)



College operating revenue increased from the previous year by \$0.3 million primarily attributed to an increase in auxiliary enterprise sales of \$0.2 million.

Operating Expenses

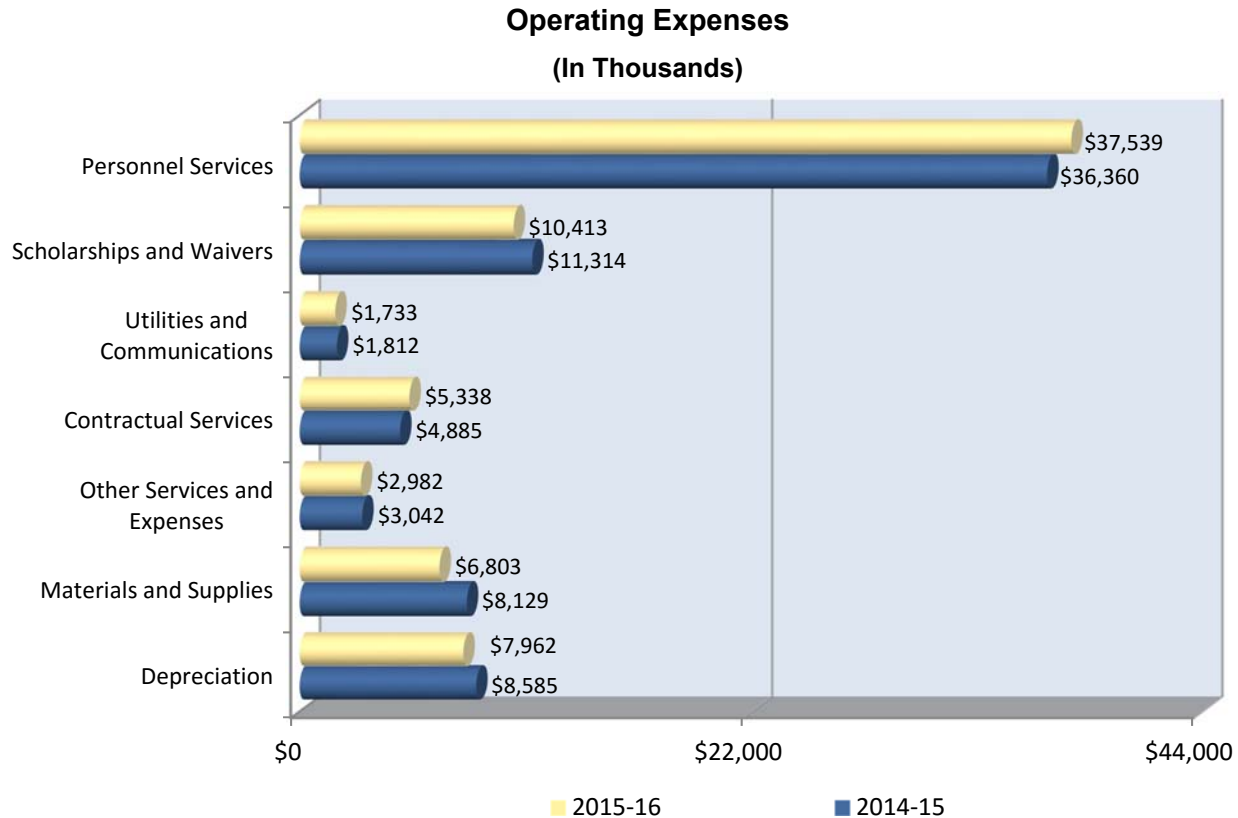
Expenses are categorized as operating or nonoperating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen 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	
	6-30-16	6-30-15	12-31-15	12-31-14
Personnel Services	\$ 37,539	\$ 36,360	\$ 417	\$ 387
Scholarships and Waivers	10,413	11,314	1,316	1,236
Utilities and Communications	1,733	1,812	-	-
Contractual Services	5,338	4,885	132	110
Other Services and Expenses	2,982	3,042	37	53
Materials and Supplies	6,803	8,129	33	34
Depreciation	7,962	8,585	1	-
Total Operating Expenses	\$ 72,770	\$ 74,127	\$ 1,936	\$ 1,820

The following chart presents the College's operating expenses for the 2015-16 and 2014-15 fiscal years:



College operating expense decreased by \$1.3 million, or 1.8 percent from \$74.1 million to \$72.8 million as a result of the following factors:

- Personnel services increased by \$1.2 million, or 3.2 percent due to an across the board 1 percent salary increase for all eligible full-time faculty and staff and a net increase of 11.4 full-time equivalent (FTE) positions. In addition, the College incurred increases in insurance rates.
- Scholarships and waivers decreased by \$0.9 million, or 8 percent, due to the decline in fee paying enrollment.
- Contractual services increased by \$0.5 million, or 9.3 percent, primarily due to the increase in security coverage at all campuses, contracting out landscaping services at the Dade City Campus, and an increase in the volume of health program student testing services.
- Materials and supplies expense decreased by \$1.3 million, or 16.3 percent, due to the decrease in technology purchases.

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 2015-16 and 2014-15 fiscal years:

**Nonoperating Revenues (Expenses)
For the Fiscal Years
(In Thousands)**

	2015-16	2014-15
State Noncapital Appropriations	\$ 27,886	\$ 28,025
Federal and State Student Financial Aid	21,618	23,311
Gifts and Grants	1,045	883
Investment Income	178	191
Net Realized and Unrealized Loss on Investments	-	(8)
Gain on Sale of Capital Assets	9	11
Interest on Capital Asset-Related Debt	(167)	(187)
Net Nonoperating Revenues	\$ 50,569	\$ 52,226

Total nonoperating revenues for the College decreased by \$1.7 million, or 3.2 percent, to \$50.6 million for the 2015-16 fiscal year due primarily to the decrease in Federal and State student financial aid which decreased by \$1.7 million, or 7.3 percent. This decrease is attributed to the decline in enrollment of fee paying students.

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 2015-16 and 2014-15 fiscal years:

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

	2015-16	2014-15
State Capital Appropriations	\$ 7,171	\$ 10,530
Capital Grants, Contracts, Gifts, and Fees	2,783	2,827
Total	\$ 9,954	\$ 13,357

Total other revenues for the College decreased by \$3.4 million, or 25.5 percent, to \$10 million for the 2015-16 fiscal year based on the following factors:

- Capital appropriations decreased by \$3.4 million, or 31.9 percent, due to the second year allocation of PECO appropriation for the Educational Center being \$4.5 million less compared to the prior year initial appropriation of \$10 million. This was partially offset by \$1 million in funding received from the State to renovate the firing range at the East campus.
- Capital grants, contracts, and fees decreased by \$0.04 million, or 1.6 percent, due primarily to the decrease in capital improvement fee revenue from fee paying enrollment decline.

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 2015-16 and 2014-15 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years
(In Thousands)**

	2015-16	2014-15
Cash Provided (Used) by:		
Operating Activities	\$(47,322)	\$(49,140)
Noncapital Financing Activities	50,550	52,219
Capital and Related Financing Activities	(2,715)	(6,276)
Investing Activities	183	197
Net Increase (Decrease) in Cash and Cash Equivalents	696	(3,000)
Cash and Cash Equivalents, Beginning of Year	32,956	35,956
Cash and Cash Equivalents, End of Year	\$ 33,652	\$ 32,956

Major sources of funds came from State noncapital appropriations (\$27.9 million), Federal and State student financial aid (\$21.6 million), net student tuition and fees (\$12.3 million), capital gifts and grants (\$2.8 million), and auxiliary services (\$3.2 million).

Major uses of funds were for payments to employees for salaries and benefits (\$37.5 million), disbursements to students for scholarships (\$12.4 million), payments to suppliers (\$13.3 million), and purchases of capital assets (\$5.4 million).

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

- Net cash used by operating activities decreased by \$1.8 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 (\$37.5 million), payments to suppliers (\$13.3 million), and scholarships (\$12.4 million).
- Cash provided by noncapital financing activities decreased by \$1.7 million as compared to the prior fiscal year due primarily to a decrease in Federal and State financial aid attributed to a decline in fee paying enrollment.
- Cash used by capital related financing activities amounted to \$2.7 million for the 2015-16 fiscal year, which represents a \$3.6 million decrease as compared to the 2014-15 fiscal year. The decrease was due primarily to a decrease in State capital appropriations from \$1.8 million in 2014-15 to \$1.1 million offset by a decrease in purchases of capital assets from \$9.6 million in 2014-15 to \$5.4 million in fiscal year 2015-16.

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

Capital Assets

At June 30, 2016, the College had \$230.6 million in capital assets, less accumulated depreciation of \$72.1 million, for net capital assets of \$158.5 million. Depreciation charges for the current fiscal year totaled \$8 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2016	2015
Land	\$ 4,429	\$ 4,429
Construction in Progress	3,207	4,744
Buildings	122,454	125,677
Other Structures and Improvements	27,259	25,155
Furniture, Machinery, and Equipment	935	1,214
Assets Under Capital Lease	212	11
Capital Assets, Net	\$158,496	\$161,230

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2016, were incurred on the following projects:

- Construction in progress additions included East Campus door and window replacement; East and North Campus restroom improvements and creation of a new board room at the North Campus; a re-roofing project for A, B, C, D, and E buildings at West Campus as well as other site improvements; architectural planning for the Performing Arts Educational Center – Wesley Chapel; and revocations of the shooting range at the East Campus.
- Other structure and improvements included the repaving of the East Campus perimeter road, improvements to the West Campus parking lots 1 and 2, a new Information Technology generator at the West Campus as well as new signage for the West Campus, and additions to the North Campus chiller plant.
- Furniture, machinery, and equipment additions consisted of technology equipment, computer related equipment, furniture, educational equipment, vehicles, and grounds equipment.

The College's major construction commitments, totaling \$1.5 million, at June 30, 2016, are as follows:

- East Campus door and window replacement
- East Campus shooting range improvements
- East and North Campus restroom improvements
- North Campus Board Room
- West Campus Site Improvements

- West Campus re-roofing project for A, B, C, D, and E buildings
- West Campus perimeter road improvements
- Performing Arts Educational Center – Wesley Chapel

	Amount
	<u>(In Thousands)</u>
Total Committed	\$ 4,040
Completed to Date	<u>(2,541)</u>
Balance Committed	<u>\$ 1,499</u>

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

Debt Administration

As of June 30, 2016, the College had \$5.8 million in outstanding bonds, loan payable, and capital lease payable, representing a decrease of \$0.8 million, or 12.6 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

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

	<u>2016</u>	<u>2015</u>
SBE Capital Outlay Bonds	\$ 1,975	\$ 2,065
Loan Payable	3,548	4,523
Capital Lease Payable	<u>244</u>	<u>9</u>
Total	<u>\$ 5,767</u>	<u>\$ 6,597</u>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2015-16 fiscal year, there were no bond sales and debt repayments totaled \$1.1 million. Capital lease long-term debt increased in the 2015-16 fiscal year due to the acquisition of copier equipment in the amount of \$265,863 under a capital lease agreement with Konica Minolta at an imputed interest rate of 6.6897 percent. 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 received an increase in operating, General Revenue and Lottery State funds of \$982,298 in the 2016-17 fiscal year, of which \$692,946 was nonrecurring. The College’s performance base funding at risk increased from \$429,083 to \$719,500. This increase was due to the Legislature increasing the institutional investment in performance funding from \$20 million to \$30 million. The College’s share of the performance institutional investment was \$719,500. For the 2016-17 fiscal year, due to improved performance, Pasco-Hernando State College moved from the Bronze category to the Silver category which resulted in the College immediately earning back its at risk funds plus retaining an equal amount

in the State investment performance funding new dollars. The College also received a special project appropriation of \$2.5 million for a new STEM (Science, Technology, Engineering, and Mathematics) stackable certificate program. This project will be to develop an Aviation Program and a Cybersecurity Program that will allow students to progress through the completion of various certificates ultimately concluding with an Associate of Science Degree.

The College's approved fiscal year 2016-17 budget is based on projected student fee revenues of \$15.9 million calculated on an anticipated fee-paying enrollment of 6,598 full-time equivalent (FTE). The proposed budget is based on a combined trend of declining enrollment of 5 percent for non-Baccalaureate programs and an increased enrollment of 25 percent, or 55 FTE, for Baccalaureate programs in Nursing and Supervision and Management.

The College did not recommend an increase in credit course tuition fees (Bachelor, A&P, PSV, and College Preparatory) and post-secondary adult vocational (PSAV) course tuition fees for the 2016-17 fiscal year. This is the fourth consecutive year that the College has not increased tuition. Pasco-Hernando State College's approved tuition rates remain among the lowest in the 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 has maintained an appropriate level of 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 work with our community, educational and business partners to identify the need for new and expanding existing academic programs to meet the economic development and workforce requirements of our community. The College has added the Minimum Fire Standards Academy program to the curriculum and obtained approval from Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) to offer the program beginning in August 2016.

The STEM stackable programs legislative funding for programs in Aviation and Cybersecurity will lead to the following four Associate of Science (AS) Degree programs: Professional Pilot Technology, Aviation Administration, Aviation Maintenance, and Unmanned Vehicle Systems. The Cybersecurity program will include the expansion of the current AS degree in Information Technology Security/Cybersecurity, the development of a technical certificate in Cybersecurity, and the development of a Cybersecurity track in the AS degree in Network Systems Technology.

In addition, the College will add two new concentrations to our Bachelor of Applied Science in Supervision and Management which consist of Cybersecurity Management and Aviation Management. The relevant Substantive Change Prospectuses are in the process of being submitted to SACSCOC for approval.

The College also plans to offer an Applied Technical Certificate in Welding Technologies program on the west side of the county via a facility sharing agreement with Marchman Technical College and explore options for a similar agreement in Hernando County.

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.

THIS PAGE INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS

Pasco-Hernando State College A Component Unit of the State of Florida Statement of Net Position

June 30, 2016

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 16,661,616	\$ 4,606,789
Restricted Cash and Cash Equivalents	2,590,502	-
Investments	-	137,586
Accounts Receivable, Net	1,344,067	-
Notes Receivable, Net	-	39,974
Due from Other Governmental Agencies	17,120,662	19,618
Due from Component Unit	210,541	-
Inventories	1,062,931	-
Prepaid Expenses	759,332	2,317
Other Assets	23,320	-
Total Current Assets	39,772,971	4,806,284
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	14,399,494	-
Investments	41,899	11,857,243
Restricted Investments	-	29,339,408
Due from Other Governmental Agencies	-	142,388
Notes Receivable, Net	-	5,001
Depreciable Capital Assets, Net	150,860,352	1,753
Nondepreciable Capital Assets	7,635,867	288,863
Total Noncurrent Assets	172,937,612	41,634,656
TOTAL ASSETS	212,710,583	46,440,940
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	6,584,740	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	843,217	52,842
Salary and Payroll Taxes Payable	2,406,428	-
Retainage Payable	195,776	-
Due to College	-	170,700
Unearned Revenue	58,273	56,511
Deposits Held for Others	2,251,473	142,388
Long-Term Liabilities - Current Portion:		
Bonds Payable	95,000	-
Loan Payable	991,604	-
Capital Lease Payable	61,652	-
Compensated Absences Payable	430,351	-
Net Pension Liability	297,385	-
Total Current Liabilities	7,631,159	422,441

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

June 30, 2016

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	1,880,000	-
Loan Payable	2,556,665	-
Capital Lease Payable	182,232	-
Compensated Absences Payable	3,253,684	-
Other Postemployment Benefits Payable	143,390	-
Net Pension Liability	15,773,751	-
Total Noncurrent Liabilities	23,789,722	-
TOTAL LIABILITIES	31,420,881	422,441
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	2,091,768	-
NET POSITION		
Net Investment in Capital Assets	152,729,066	290,616
Restricted:		
Nonexpendable:		
Endowment	-	26,019,528
Expendable:		
Grants and Loans	165,902	8,108,749
Scholarships	386,605	10,364,091
Capital Projects	30,006,880	-
Debt Service	41,899	-
Unrestricted	2,452,322	1,235,515
TOTAL NET POSITION	\$ 185,782,674	\$ 46,018,499

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, 2016

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$10,527,040	\$ 11,941,056	\$ -
Federal Grants and Contracts	895,273	-
State and Local Grants and Contracts	94,449	34,178
Nongovernmental Grants and Contracts	506,934	502,395
Sales and Services of Educational Departments	12,515	-
Auxiliary Enterprises, Net of Scholarship Allowances of \$2,034,624	3,388,082	-
Other Operating Revenues	466,767	494,040
Total Operating Revenues	17,305,076	1,030,613
EXPENSES		
Operating Expenses:		
Personnel Services	37,538,770	417,393
Scholarships and Waivers	10,412,642	1,316,656
Utilities and Communications	1,732,728	-
Contractual Services	5,337,718	131,770
Other Services and Expenses	2,982,428	37,566
Materials and Supplies	6,803,374	32,612
Depreciation	7,962,270	502
Total Operating Expenses	72,769,930	1,936,499
Operating Loss	(55,464,854)	(905,886)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	27,886,797	-
Federal and State Student Financial Aid	21,617,607	-
Gifts and Grants	1,045,097	-
Investment Income	178,446	2,536,267
Net Loss on Investments	-	(3,275,424)
Gain on Sale of Capital Assets	8,886	-
Interest on Capital Asset-Related Debt	(167,315)	-
Net Nonoperating Revenues (Expenses)	50,569,518	(739,157)
Loss Before Other Revenues	(4,895,336)	(1,645,043)
State Capital Appropriations	7,170,526	-
Capital Grants, Contracts, Gifts, and Fees	2,783,343	-
Additions to Endowments	-	586,481
Total Other Revenues	9,953,869	586,481
Increase (Decrease) in Net Position	5,058,533	(1,058,562)
Net Position, Beginning of Year	180,724,141	47,077,061
Net Position, End of Year	\$ 185,782,674	\$ 46,018,499

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

THIS PAGE INTENTIONALLY LEFT BLANK

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

For the Fiscal Year Ended June 30, 2016

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 12,326,192
Grants and Contracts	1,543,120
Payments to Suppliers	(13,285,064)
Payments for Utilities and Communications	(1,732,728)
Payments to Employees	(29,991,915)
Payments for Employee Benefits	(7,502,915)
Payments for Scholarships	(12,447,267)
Auxiliary Enterprises, Net	3,211,515
Sales and Services of Educational Departments	12,515
Other Receipts	544,760
	(47,321,787)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	27,886,797
Federal and State Student Financial Aid	21,617,607
Federal Direct Loan Program Receipts	10,297,979
Federal Direct Loan Program Disbursements	(10,297,979)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,045,097
	50,549,501
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,143,256
Capital Grants and Gifts	2,770,307
Proceeds from Sale of Capital Assets	8,886
Purchases of Capital Assets	(5,375,146)
Principal Paid on Capital Debt and Leases	(1,095,077)
Interest Paid on Capital Debt and Leases	(167,315)
	(2,715,089)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	2,355
Investment Income	180,201
	182,556
Net Increase in Cash and Cash Equivalents	695,181
Cash and Cash Equivalents, Beginning of Year	32,956,431
Cash and Cash Equivalents, End of Year	\$ 33,651,612

Pasco-Hernando State College
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2016

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (55,464,854)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,962,270
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	78,546
Due from Other Governmental Agencies	131,285
Inventories	25,171
Prepaid Expenses	116,323
Other Assets	2,797
Accounts Payable	(169,137)
Salary and Payroll Taxes Payable	290,705
Unearned Revenue	(7,000)
Deposits Held for Others	(41,127)
Compensated Absences Payable	154,941
Other Postemployment Benefits Payable	20,624
Net Pension Liability	5,648,732
Deferred Outflows of Resources Related to Pensions	(2,066,433)
Deferred Inflows of Resources Related to Pensions	(4,004,630)
	\$ (47,321,787)

**SUPPLEMENTAL DISCLOSURE OF NONCASH
CAPITAL FINANCING ACTIVITIES**

The College entered into a new capital lease, which was recognized on the statement of net position, but is not a cash transaction for the statement of cash flows.	\$ 265,863
---	------------

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

NOTES TO FINANCIAL STATEMENTS

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

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 and can be obtained from the Vice President of Administration and Finance, Pasco-Hernando State College, 10230 Ridge Road, New Port Richey, Florida 34654. 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, 2015.

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

Measurement Focus and 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, 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. The College applied “The Alternate Method” as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. 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 pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury SPIA and SBA Florida PRIME investment 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, 2016, the College reported as cash equivalents at fair value \$10,618,510 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities (Level 3 inputs, as discussed in Note 3.). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor’s, had an effective duration of 2.61 years and fair value factor of 1.0143 at June 30, 2016. Participants contribute to the State Treasury SPIA investment pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool’s total fair value by the pool participant’s total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant’s pool balance. 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, 2016, the College reported as cash equivalents \$5,686,857 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 39 days as of June 30, 2016. 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 amortized cost. Section 218.409(8)(a), Florida Statutes, states that “the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days.” As of June 30, 2016, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

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.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; furniture, machinery, and equipment; and assets under capital leases. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition 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 – 7years
- Assets Under Capital Lease – 5 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. Deficit Net Position in Individual Funds

The College reported an unrestricted net position which included a deficit in the current funds-unrestricted, 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	\$ (5,806,381)
Auxiliary Funds	8,258,703
	<hr/>
Total	\$ 2,452,322
	<hr/> <hr/>

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; 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 categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair

value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The College reported investments totaling \$41,899 at June 30, 2016, in the SBA Debt Service Accounts, at fair value using quoted market prices (Level 1 inputs). These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to the 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, 2015, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Government Obligations	\$ 1,897,958
Federal Agency Obligations	2,056,463
Corporate Bonds and Notes	3,804,279
Asset-Backed Securities	768,057
Mortgage-Backed Obligations	3,468,072
Equity Mutual Funds	9,389,425
Domestic Stocks and Other Equity Securities	19,949,983
Total Component Unit Investments	\$ 41,334,237

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

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

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
United States Government Obligations	\$ 1,897,958	\$ 801	\$ 98,781	\$ 1,206,957	\$ 591,419
Federal Agency Obligations	2,056,463	-	576,950	785,398	694,115
Corporate Bonds and Notes	3,804,279	40,013	947,088	2,408,034	409,144
Asset-Back Securities	768,057	-	673,516	49,753	44,788
Mortgage-Backed Securities	3,468,072	-	-	83,415	3,384,657
Equity Mutual Funds	9,389,425	9,389,425	-	-	-
Total	\$ 21,384,254	\$ 9,430,239	\$ 2,296,335	\$ 4,533,557	\$ 5,124,123

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality is evaluated by independent investment rating organizations such as Standard

and Poor's and Moody's Investor Services. The lower the rating, the greater the risk that the bond issuer may default or fail to meet its payment obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government, are not considered to have credit risk. The Foundation's investment policy limits fixed income securities to those that are rated at least Baa2 by Moody's and BBB by Standard and Poor's. In addition, if investments are downgraded below the minimum rating, the security shall be sold within 10 trading days. At December 31, 2015, the Foundation's fixed income securities were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Percentage Total Debt Securities Investments</u>
U.S. Government Obligations	AA+	Aaa	16%
Federal Agency Obligations	AA+	Aaa	17%
Corporate Bonds and Notes	AAA - BBB	Aaa - Baa2	32%
Asset-Back Securities	AAA - BBB	Aaa	6%
Mortgage-Backed Securities	AAA - AA+	Aaa	29%

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, 2015, 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.

4. Accounts Receivable

Accounts receivable represent amounts for Federal Title IV repayments, student fee deferrals, various student services provided by the College, government receivables, unused credit memos, and third-party nongovernmental receivables. These receivables are reported net of a \$399,069 allowance for uncollectable accounts.

5. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of \$16,238,347 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

6. 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 and 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, 2016. The College's component unit's financial statements are reported for the fiscal year ended December 31, 2015. Accordingly, amounts reported by the College as due from component unit on the Statement of Net Position do not agree with amounts reported by the component unit as due to the College.

7. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016, 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	\$ 4,428,968	\$ -	\$ -	\$ 4,428,968
Construction in Progress	4,744,352	3,099,682	4,637,135	3,206,899
Total Nondepreciable Capital Assets	\$ 9,173,320	\$ 3,099,682	\$ 4,637,135	\$ 7,635,867
Depreciable Capital Assets:				
Buildings	\$ 168,165,722	\$ 356,909	\$ -	\$ 168,522,631
Other Structures and Improvements	42,739,525	5,865,148	-	48,604,673
Furniture, Machinery, and Equipment	5,409,630	280,054	97,462	5,592,222
Assets Under Capital Lease	32,407	265,863	32,407	265,863
Total Depreciable Capital Assets	216,347,284	6,767,974	129,869	222,985,389
Less, Accumulated Depreciation:				
Buildings	42,488,296	3,580,090	-	46,068,386
Other Structures and Improvements	17,584,319	3,761,784	-	21,346,103
Furniture, Machinery, and Equipment	4,195,866	556,421	94,911	4,657,376
Assets Under Capital Lease	21,604	63,975	32,407	53,172
Total Accumulated Depreciation	64,290,085	7,962,270	127,318	72,125,037
Total Depreciable Capital Assets, Net	\$ 152,057,199	\$ (1,194,296)	\$ 2,551	\$ 150,860,352

8. Unearned Revenue

As of June 30, 2016, unearned revenue of \$58,273 includes amounts collected for Pay-for-Print and College gift cards that have not been used.

9. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2016, 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	\$ 2,065,000	\$ -	\$ 90,000	\$ 1,975,000	\$ 95,000
Loan Payable	4,522,585	-	974,316	3,548,269	991,604
Capital Lease Payable	8,781	265,863	30,760	243,884	61,652
Compensated Absences Payable	3,529,094	738,418	583,477	3,684,035	430,351
Other Postemployment Benefits Payable	122,766	46,992	26,368	143,390	-
Net Pension Liability	10,422,404	8,261,269	2,612,537	16,071,136	297,385
Total Long-Term Liabilities	\$ 20,670,630	\$ 9,312,542	\$ 4,317,458	\$ 25,665,714	\$ 1,875,992

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, 2016:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rate (Percentage)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2010A	\$ 1,975,000	3.5 - 5.0	2030

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, 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>
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	120,000	64,200	184,200
2022-2026	545,000	198,050	743,050
2027-2030	900,000	110,300	1,010,300
Total	\$ 1,975,000	\$ 678,700	\$ 2,653,700

Loan Payable. On January 31, 2013, the College borrowed \$5,952,305, at a stated interest rate of 1.76 percent, to finance the cost of capital improvements at all College locations. The loan matures on December 31, 2019, and principal and interest payments are made monthly. Annual requirements to amortize the loan as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 1,046,079
2018	1,046,079
2019	1,046,079
2020	523,041
Total Minimum Payments	3,661,278
Less, Amount Representing Interest	113,009
Present Value of Minimum Payments	<u>\$ 3,548,269</u>

Capital Lease Payable. Copier equipment in the amount of \$265,863 is being acquired under a capital lease agreement. The imputed interest rate is 6.6897 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2016, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2017	\$ 75,931
2018	75,931
2019	75,931
2020	44,293
Total Minimum Payments	272,086
Less, Amount Representing Interest	28,202
Present Value of Minimum Payments	<u>\$ 243,884</u>

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2016, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,684,035. The current portion of the compensated absences liability, \$430,351, 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 Other Post Employment Benefit Plan (OPEB 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 OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend OPEB Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) cost or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2015-16 fiscal year, 38 retirees received postemployment health care benefits and 52 retirees received post-employment life insurance benefits. The College provided required contributions of \$26,368 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$191,016 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 OPEB Plan, and changes in the College's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 30,818
Amortization of Unfunded Actuarial Accrued Liability	<u>15,356</u>
Annual Required Contribution	46,174
Interest on Net OPEB Obligation	4,910
Adjustment to Annual Required Contribution	<u>(4,092)</u>
Annual OPEB Cost (Expense)	46,992
Contribution Toward the OPEB Cost	<u>(26,368)</u>
Increase in Net OPEB Obligation	20,624
Net OPEB Obligation, Beginning of Year	<u>122,766</u>
Net OPEB Obligation, End of Year	<u><u>\$ 143,390</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2016, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	Percentage of		<u>Net OPEB Obligation</u>
	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	
2013-14	\$ 59,059	40.4%	\$ 96,688
2014-15	59,294	56.0%	122,766
2015-16	46,992	56.1%	143,390

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$415,618, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$415,618, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,892,425 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.7 percent.

Actuarial valuations for an OPEB 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. Actuarially determined amounts regarding the funded status of the OPEB 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 OPEB 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 OPEB 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the College's 2015-16 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent per year and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 5.5 percent Medicare for the 2015-16 fiscal year, reduced by decrements to an ultimate rate of 5 percent in 2020 for pre-Medicare and 2017 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, 2016, was 21 years.

10. 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 (DROP) 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 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 FRS 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).

The College's FRS and HIS pension expense totaled \$1,676,527 for the fiscal year ended June 30, 2016.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a 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 (SMSC)* – 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>
Regular Class members initially enrolled before July 1, 2011	
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
Regular Class members initially enrolled on or after July 1, 2011	
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
Senior Management Service Class	2.00

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 2015-16 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.26
FRS, Senior Management Service	3.00	21.43
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 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, including employee contributions, totaled \$1,744,156 to the defined-benefit pension plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the College reported a liability of \$7,968,630 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.061694177 percent, which was an increase of 0.003940396 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$915,479. 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	\$ 841,251	\$ 188,992
Change of assumptions	528,905	-
Net difference between projected and actual earnings on FRS Plan investments	-	1,902,776
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	1,584,376	-
College FRS contributions subsequent to the measurement date	1,744,156	-
Total	\$ 4,698,688	\$ 2,091,768

The deferred outflows of resources related to pensions totaling \$1,744,156, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. 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>
2017	\$ (284,612)
2018	(284,612)
2019	(284,612)
2020	1,285,237
2021	354,475
Thereafter	76,888
Total	\$ 862,764

Actuarial Assumptions. The total pension liability in the July 1, 2015, 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, 2015, 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%	3.2%	3.1%	1.7%
Fixed Income	18%	4.8%	4.7%	4.7%
Global Equity	53%	8.5%	7.2%	17.7%
Real Estate (Property)	10%	6.8%	6.2%	12.0%
Private Equity	6%	11.9%	8.2%	30.0%
Strategic Investments	12%	6.7%	6.1%	11.4%
Total	100%			
Assumed inflation - Mean		2.6%		1.9%

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	\$ 20,648,524	\$ 7,968,630	\$ (2,583,123)

Pension Plan Fiduciary Net Position. Detailed information about the 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, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$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, 2016, the contribution rate was 1.66 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 \$354,702 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the College reported a net pension liability of \$8,102,506 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 1 year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount.

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.079448582 percent, which was an increase of 0.005668964 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of \$761,048. 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	\$ 637,456
Net difference between projected and actual earnings on HIS Plan investments	4,386
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	889,508
College contributions subsequent to the measurement date	354,702
Total	\$ 1,886,052

The deferred outflows of resources totaling \$354,702, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. 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>
2017	\$ 268,424
2018	268,424
2019	268,424
2020	267,532
2021	267,104
Thereafter	191,442
Total	\$ 1,531,350

Actuarial Assumptions. The total pension liability at July 1, 2015, determined by applying update procedures to the actuarial valuation at July 1, 2014, used 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	3.80 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 actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 3.8 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. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date.

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 3.8 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 (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
College's proportionate share of the net pension liability	\$9,232,428	\$ 8,102,506	\$7,160,320

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report. Retirement Plans – Defined Contribution Pension Plans

11. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The 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 2015-16 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
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, 2016, 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 \$623,279 for the fiscal year ended June 30, 2016.

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 5.15 percent of the participant's salary to the participant's account, 2.65 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 7.8 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 2015-16 fiscal year. The College's contributions to the Program totaled \$79,214 and employee contributions totaled \$45,926 for the 2015-16 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 6.27 percent of the participant's salary to the participant's account and 15.41 percent to cover the unfunded actuarial liability of the FRS pension plan for a total of 21.68 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 three College participants during the 2015-16 fiscal year. The College's contributions to the Annuity Program totaled \$20,190 and employee contributions totaled \$10,214 for the 2015-16 fiscal year.

12. Construction Commitments

The College's major construction commitments at June 30, 2016, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
East Campus Door & Window Replacement			
Architect	\$ 35,400	\$ 23,680	\$ 11,720
Construction Manager	782,565	34,006	748,559
Shooting Range East Campus			
Architect	44,200	33,420	10,780
East and North Campus Restroom Improvements			
Architect	17,670	14,826	2,844
Construction Manager	350,876	152,462	198,414
Board Room, North Campus			
Construction Manager	197,093	178,495	18,598
West Campus Site Improvements			
Construction Manager	199,760	174,221	25,539
West Campus Re-Roofing (A,B,C,D, and E Bldgs.)			
Architect	169,526	166,688	2,838
Construction Manager	1,699,830	1,394,847	304,983
West Campus Perimeter Road			
Construction Manager	427,707	324,552	103,155
Performing Arts Educational Center - Wesley Chapel			
Architect	115,832	43,833	71,999
Total	\$ 4,040,459	\$ 2,541,030	\$ 1,499,429

13. 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 \$200 million 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.

14. 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, 2016, the accumulated credits to the College's account were \$857,011.

15. Functional Distribution of Operating Expenses

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 18,891,572
Academic Support	6,541,532
Student Services	8,850,157
Institutional Support	7,755,176
Operation and Maintenance of Plant	7,157,170
Scholarships and Waivers	10,412,642
Auxiliary Enterprises	5,199,411
Depreciation	7,962,270
Total Operating Expenses	\$ 72,769,930

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]
7/1/2011	\$ -	\$ 247,625	\$ 247,625	0%	\$ 20,411,244	1.2%
7/1/2013	-	503,668	503,668	0%	22,491,507	2.2%
7/1/2015	-	415,618	415,618	0%	24,892,425	1.7%

Note: (1) The OPEB actuarial valuation used the projected unit credit method for the 2011 and 2013 valuations and the entry age normal actuarial cost method for the 2015 valuation to estimate the actuarial accrued liability.

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

	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.061694177%	0.057753781%	0.048670666%
College's proportionate share of the FRS net pension liability	\$ 7,968,630	\$ 3,523,830	\$ 8,378,388
College's covered-employee payroll (2)	\$ 20,352,962	\$ 19,151,209	\$ 17,241,785
College's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	39.15%	18.40%	48.59%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	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 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

	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 1,744,156	\$ 1,504,156	\$ 1,265,053
FRS contributions in relation to the contractually required contribution	(1,744,156)	(1,504,156)	(1,265,053)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -
College's covered-employee payroll (2)	\$ 20,407,660	\$ 20,352,962	\$ 19,151,209
FRS contributions as a percentage of covered-employee payroll	8.55%	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 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>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.079448582%	0.073779618%	0.066630531%
College's proportionate share of the HIS net pension liability	\$ 8,102,506	\$ 6,898,574	\$ 5,801,064
College's covered-employee payroll (2)	\$ 25,914,778	\$ 23,635,469	\$ 21,039,301
College's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.27%	29.19%	27.57%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	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>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 354,702	\$ 303,702	\$ 252,744
HIS contributions in relation to the contractually required HIS contribution	(354,702)	(303,702)	(252,744)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -
College's covered-employee payroll (2)	\$ 26,407,053	\$ 25,914,778	\$ 23,635,469
HIS contributions as a percentage of covered-employee payroll	1.34%	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.

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$415,618 decreased by 17.5 percent from the July 1, 2013, liability of \$503,668 primarily due to:

- Demographic assumptions (rates of termination, mortality, disability, and retirement) were revised to be consistent with those used for the FRS.
- The assumed rates of participation in the Plan were adjusted to reflect current experience.
- The assumed per capita costs of healthcare were updated.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised to reflect recent experience.
- The general payroll growth rate and salary scale assumptions were revised to be consistent with the rates used the FRS.
- The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal in anticipation of new disclosure requirements developed by the Governmental Accounting Standards Board.

2. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.80 percent.



Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL STATE OF FLORIDA

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



Phone: (850) 412-2722
Fax: (850) 488-6975

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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, 2016, 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 1, 2017, 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 this report 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 1, 2017