



AUDITOR GENERAL
DAVID W. MARTIN, CPA



PASCO-HERNANDO COMMUNITY COLLEGE

Financial Audit

For the Fiscal Year Ended June 30, 2007

During the audit period, the President of the College was Dr. Katherine M. Johnson. Members of the College's Board of Trustees who served during the audit period are listed below:

<u>Board Member</u>	<u>County</u>
S.K. Rao Musunuru, Vice-Chair to 7-17-06, Chair from 7-18-06	Pasco
Irvin Homer, Vice-Chair from 7-18-06	Hernando
Jeanne M. Gavish, Chair to 7-17-06	Hernando
Phillip H. Chestnut to 6-18-07	Pasco
John S. Church	Hernando
Deborah G. Kilgore	Hernando
Judy R. Parker	Pasco
Thomas Weightman	Pasco
Karen Wells	Pasco
Gary L. Worthley from 6-19-07	Pasco

PASCO-HERNANDO COMMUNITY COLLEGE

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EXECUTIVE SUMMARY

The audit of the financial statements of Pasco-Hernando Community College for the fiscal year ended June 30, 2007, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the College, a component unit of the State of Florida, and a determination as to whether management complied with applicable laws, rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the College is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the College's financial statements:

- We found that the College's financial statements presented fairly, in all material respects, the financial positions of the College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- No significant deficiencies are noted in our report on the College's internal control over financial reporting.
- The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Elba M. Guzik, CPA, and supervised by Janice Priolo, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pasco-Hernando Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, as shown on pages 17 through 37. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for this entity, is based solely upon 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pasco-Hernando Community College and of its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the Pasco-Hernando Community College Foundation, Inc. (Foundation), a component unit of the College, changed from the Financial Accounting Standards Board to the Governmental Accounting Standards Board financial reporting model. This affects the comparability of amounts reported on the financial statements for the discretely presented component unit columns for the 2006-07 fiscal year with amounts reported for the 2005-06 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of Pasco-Hernando Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 16 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
March 17, 2008



DAVID W. MARTIN, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Pasco-Hernando Community College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to 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. Other auditors 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, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
March 17, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2007, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

The MD&A contains the financial activities of the College and its component unit, the Pasco-Hernando Community College Foundation, Inc. (Foundation). To better distinguish the activities of the College and the Foundation within the primary government, the financial information relating to the Foundation is separately identified.

FINANCIAL HIGHLIGHTS

The College's financial position remained strong at June 30, 2007, with total assets of \$90.2 million and liabilities of \$5.2 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, are \$85 million. This is a 14.1 percent increase over the 2005-06 fiscal year's net assets of \$74.5 million.

The 2006-07 fiscal year operating budget increased 15.5 percent over the 2005-06 fiscal year operating budget. To maintain flexibility within a budget, it is prudent budgeting strategy to maintain personnel costs at a level not to exceed 80 percent of the College's operating budget. College personnel costs represent 75.9 percent of the total proposed budget for the 2006-07 fiscal year compared to the 2005-06 fiscal year where the College personnel costs represented 75.6 percent of the total proposed budget. State funding of the College for the 2006-07 fiscal year increased from the 2005-06 appropriation amount by approximately \$3.4 million. In addition, there was an increase in credit course tuition fees of 2.5 percent even though the College did experience relatively flat enrollments.

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 assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

- Pasco-Hernando Community College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Pasco-Hernando Community College Foundation, Inc. (Component Unit) – The Foundation was organized for the sole purpose of fund-raising to support the programs and activities of the College and, in particular, student scholarships. This entity receives, holds, invests, and administers charitable contributions and makes expenditures for the benefit of the College. 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. Effective for the College's 2006-07 fiscal year, the Foundation changed from the Financial Accounting Standards Board to the Governmental Accounting Standards Board financial reporting model. This affects the comparability of amounts reported between current and prior year reporting periods.

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

One of the most important questions asked about the College's finances is, "Is Pasco-Hernando Community College as a whole, better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Pasco-Hernando Community College's operating results.

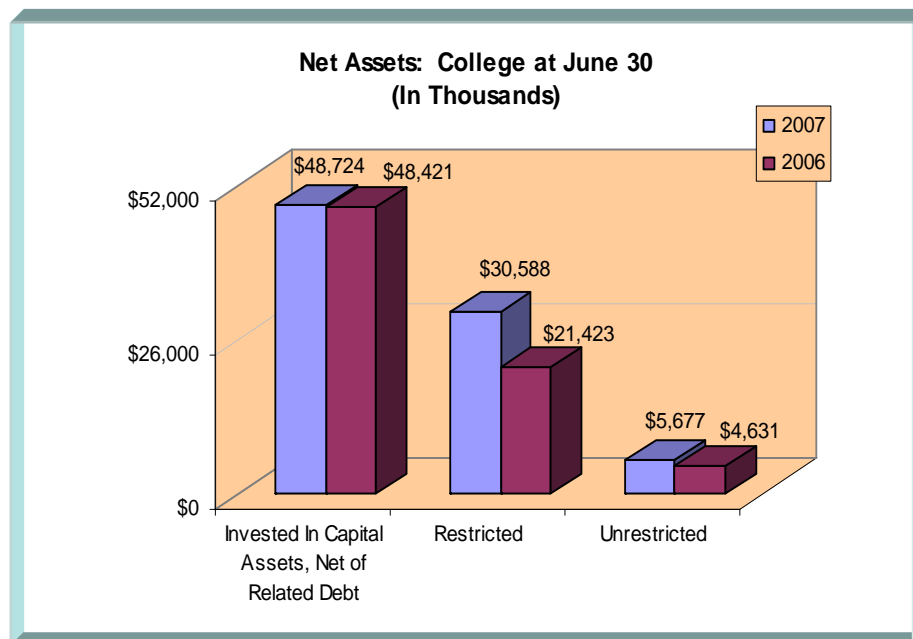
These two statements report Pasco-Hernando Community College's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

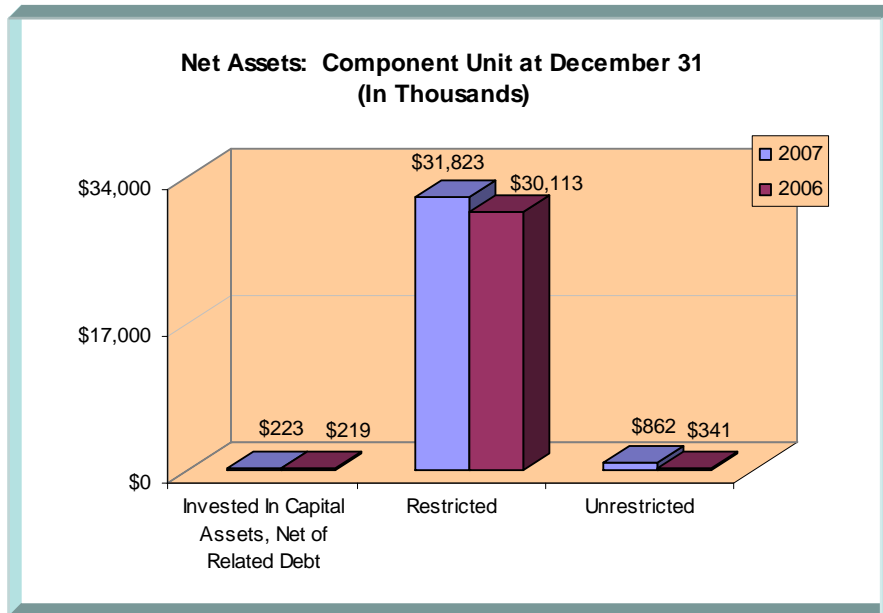
	Assets, Liabilities, and Net Assets at (In Thousands)			
	College		Component Unit	
	6-30-07	6-30-06	12-31-06	12-31-05
Assets				
Current Assets	\$ 34,362	\$ 24,250	\$ 2,036	\$ 6,454
Capital Assets, Net	48,892	48,634	167	163
Other Noncurrent Assets	6,971	5,789	30,930	24,249
Total Assets	90,225	78,673	33,133	30,866
Liabilities				
Current Liabilities	2,849	2,009	225	193
Noncurrent Liabilities	2,387	2,189		
Total Liabilities	5,236	4,198	225	193
Net Assets				
Invested in Capital Assets, Net of Related Debt	48,724	48,421	223	219
Restricted	30,588	21,423	31,823	30,113
Unrestricted	5,677	4,631	862	341
Total Net Assets	\$84,989	\$74,475	\$32,908	\$30,673
Increase in Net Assets	\$10,514	14.1%	\$ 2,235	7.3%

The College’s comparative net assets, by category, at June 30, 2007, and June 30, 2006, are shown in the following graph:



The College’s current and noncurrent assets totaled \$34.4 and \$55.9 million at June 30, 2007, respectively, compared to \$24.3 and \$54.4 million at June 30, 2006, respectively, an increase of \$10.1 and \$1.5 million, respectively. The primary reason for the increase in current and noncurrent assets was an increase in Public Education Capital Outlay allocations and in Restricted Cash and Cash Equivalents in the amount of \$8.3 and \$1.2 million, respectively. In comparing the College’s net assets to the Foundation, the College has a greater percentage of capital assets while the Foundation has a greater percentage of restricted net assets.

The Foundation’s comparative net assets by category at December 31, 2006, and December 31, 2005, are shown in the following graph:



The statement of revenues, expenses, and changes in net assets presents the College’s operating results as well as nonoperating revenues and expenses. This section presents the revenues earned and the expenses incurred during the 2006-07 fiscal year. Operating revenues are composed primarily of student tuition and fees, Federal, state, and local grants and contracts and auxiliary service activities. Student tuition and fees, net of scholarship allowances, totaled \$5.9 million, or 52.6 percent of total operating revenues, in the 2006-07 fiscal year. GASB Statement No. 35 requires that State appropriations, gifts, and other significant recurring revenues, funds Colleges typically rely on to fulfill their missions, be reported as nonoperating revenue. As a result, operating expenses generally exceed operating revenues with the difference being offset by nonoperating revenues, i.e., State funding. In the 2006-07 fiscal year, State appropriations funded approximately 70 percent of the College’s operating budget. Therefore, nonoperating revenues and expenses are significant components in determining an increase or decrease to total net assets.

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

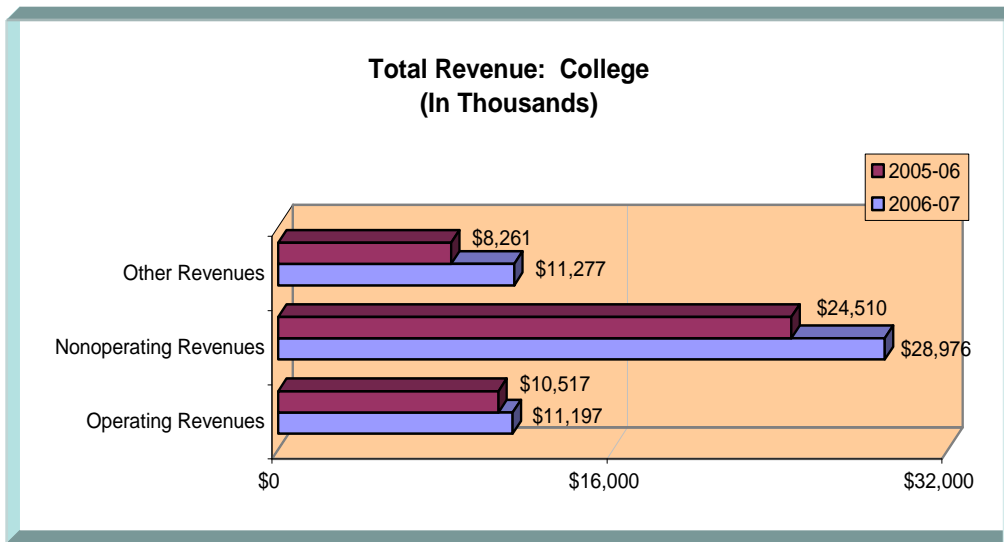
	College		Component Unit	
	6-30-07	6-30-06	12-31-06	12-31-05
Operating Results for the Fiscal Years Ended (In Thousands)				
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 5,887	\$ 5,959	\$	\$
Federal Grants and Contracts	921	676		
State and Local Grants and Contracts	438	693	403	441
Nongovernmental Grants and Contracts	954	524	403	2,738
Sales and Services of Educational Departments	9	9		
Auxiliary Enterprises, Net of Scholarship Allowances	2,735	2,405		
Other Operating Revenues	253	251	300	269
Total Operating Revenues	11,197	10,517	1,106	3,448
Less, Operating Expenses	40,866	37,120	1,254	1,220
Operating Income (Loss)	(29,669)	(26,603)	(148)	2,228
Nonoperating Revenues (Expenses)				
State Appropriations	19,740	16,359		
Other Nonoperating Revenues	9,236	8,151	3,351	957
Nonoperating Expenses	(20)	(24)		
Net Nonoperating Revenues	28,956	24,486	3,351	957
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
Capital Appropriations	10,250	7,601		
Capital Grants, Contracts, Gifts, and Fees	947	660		
Other Revenues	80			
Additions to Permanent Endowments			1,215	206
Increase in Net Assets	10,564	6,144	4,418	3,391
Net Assets, Beginning of Year	74,475	68,350	30,673	27,282
Adjustment to Beginning Net assets	(50)	(19)	(2,183)	
Net Assets, Beginning of Year, as Restated	74,425	68,331	28,490	27,282
Net Assets, End of Year	\$84,989	\$74,475	\$32,908	\$30,673

Operating Revenues

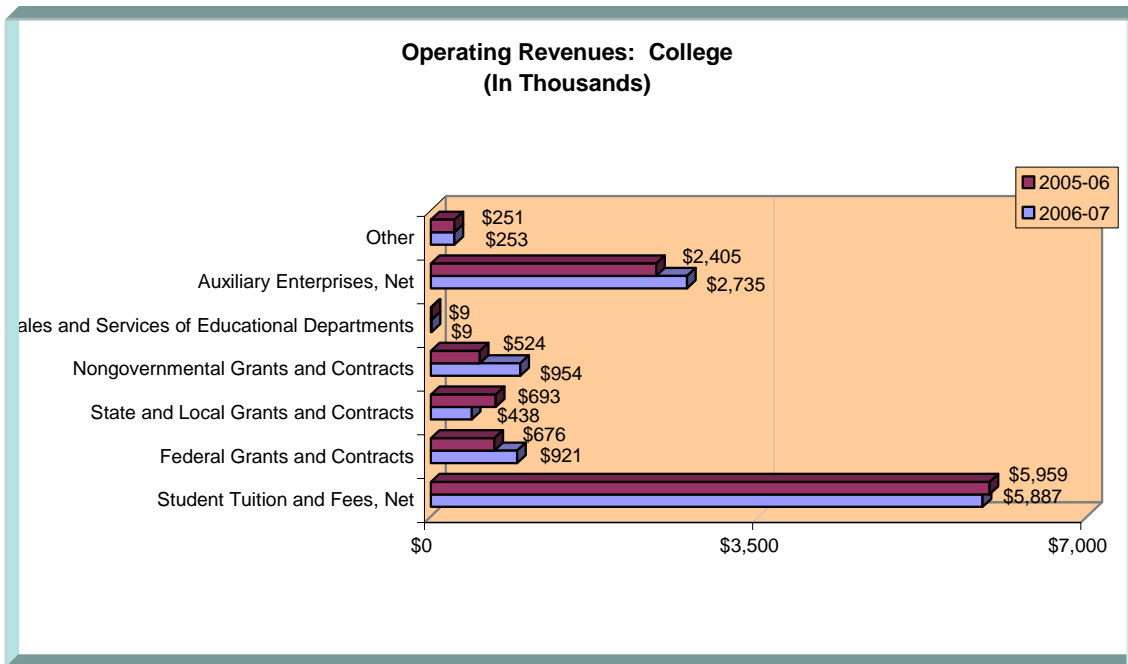
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

College

The following chart presents the College’s revenues by source for the 2006-07 and 2005-06 fiscal years:



The following chart presents the College’s operating revenues for the 2006-07 and 2005-06 fiscal years:



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

- An increase of 2.5 percent in the tuition rate for the 2006-07 fiscal year, as authorized by the State Legislature, was primarily responsible for the increase of \$.8 million in gross student tuition and fees revenue before scholarship allowances. Capital improvement fees increased by \$.3 million, or 66.7 percent, this was due to an increase in capital improvement fee in accordance with Senate Bill 670.
- Of the \$11.2 million operating revenues, auxiliary enterprises comprised of \$2.7 million, or 24.4 percent, while Federal grants and contracts accounted for \$.9 million, or 8.2 percent, and State, local and private

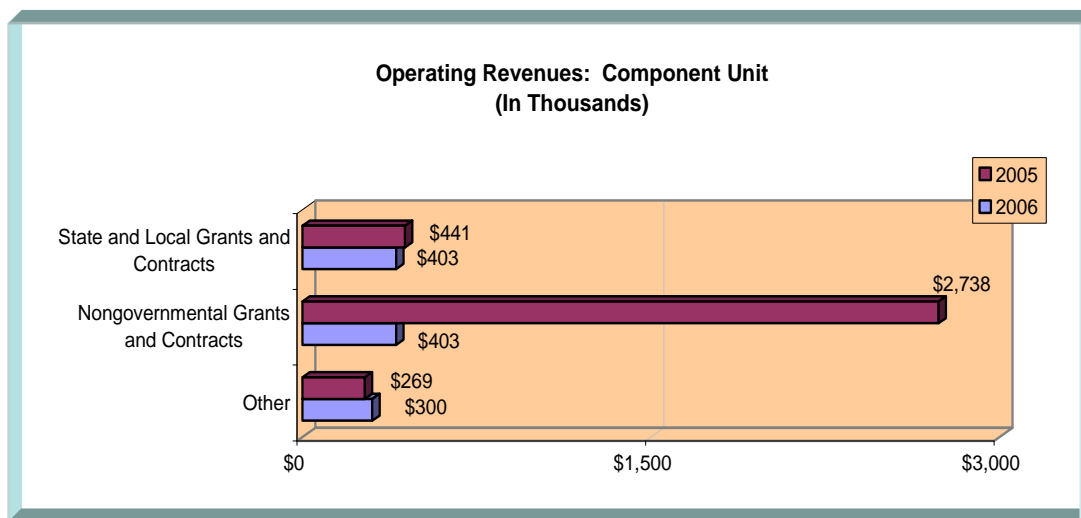
grants and contracts totaled \$1.4 million, or 12.4 percent. The campus bookstore accounted for the largest percentage of the auxiliary revenues.

- Sales and services of educational activities and other operating revenues comprised 2.3 percent of total operating revenues.

Component Unit

The Foundation’s operating revenues totaled \$1.1 million, the greatest portion was derived from State and local grants and contracts and nongovernmental grants and contracts. Foundation revenues exceeded expenses during fiscal year ended December 31, 2006, resulting in net assets increasing by \$2.2 million to \$32.9 million. Nonoperating revenues for the Foundation consist of investment income, which included a substantial net unrealized gain on investments of approximately \$4 million and a realized gain of \$2.2 million due to the repositioning of the portfolio.

The following chart presents the Foundation’s revenues by source for the fiscal year ended December 31, 2006, and December 31, 2005:



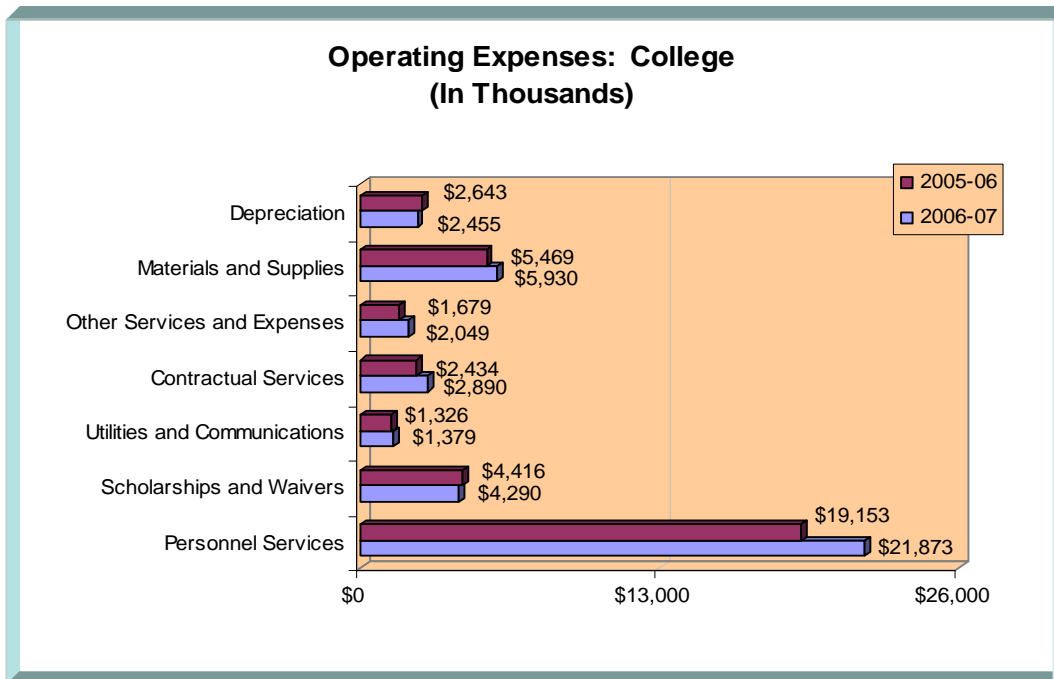
Operating Expenses

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 assets and has displayed the functional classification in the notes to financial statements.

Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

Operating Expenses	College		Component Unit	
	6-30-07	6-30-06	12-31-06	12-31-05
	Personnel Services	\$ 21,873	\$ 19,153	\$ 172
Scholarships and Waivers	4,290	4,416	890	795
Utilities and Communications	1,379	1,326		
Contractual Services	2,890	2,434	106	155
Other Services and Expenses	2,049	1,679	10	96
Materials and Supplies	5,930	5,469	71	15
Depreciation	2,455	2,643	5	3
Total Operating Expenses	\$ 40,866	\$ 37,120	\$ 1,254	\$ 1,220

The following chart presents the College’s operating expenses for the 2006-07 and 2005-06 fiscal years:



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

- Personnel services expenditures for the 2006-07 fiscal year totaled \$21.9 million. This amount includes an average of a 4 percent annual salary increase for full-time employees, longevity increases for instructional and noninstructional employees, 20 new full-time positions, and increases in retirement and health insurance costs.
- Materials and supplies were utilized to support program initiatives and enhancements.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, 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 2006-07 and 2005-06 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
State Appropriations	\$ 19,740	\$ 16,359
Gifts and Grants	8,454	7,637
Investment Income	782	507
Other Nonoperating Revenues		7
Interest on Capital Asset-Related Debt	<u>(20)</u>	<u>(24)</u>
Net Nonoperating Revenues	<u><u>\$ 28,956</u></u>	<u><u>\$ 24,486</u></u>

Total net nonoperating revenues for the College increased by \$4.5 million compared to the prior fiscal year, representing a 18.3 percent increase. State appropriations for the 2006-07 fiscal year were \$19.7 million, or 68 percent of total nonoperating revenues of \$29 million; and represents an increase of \$3.4 million compared to prior fiscal year. Gifts and grants for the 2006-07 fiscal year include Federal and State grants and contracts amounting to \$8.5 million, or 29.2 percent of total nonoperating revenues. Federal Pell grants account for the greatest portion of gifts and grants revenue. Other State grants include Bright Futures and Florida Student Assistance Grants. Investment income totaled \$.8 million, or 2.7 percent. This is an increase of \$.3 million in investment income for the 2006-07 fiscal year and is reflective of the economic market.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2006-07 and 2005-06 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
Capital Appropriations	\$ 10,250	\$ 7,601
Capital Grants, Contracts, Gifts, and Fees	947	660
Other Revenues	<u>80</u>	
Total	<u><u>\$ 11,277</u></u>	<u><u>\$ 8,261</u></u>

Capital appropriations primarily consisted of \$10.3 million of State Public Education Capital Outlay funds received during the 2006-07 fiscal year for new buildings and renovations. Unexpended capital appropriations are carried over into the subsequent fiscal year.

Capital grants, gifts, and fees increased by \$.3 million compared to prior fiscal year due primarily to an increase in the capital improvement fee from \$3 to \$5.

THE STATEMENT OF CASH FLOWS

Another way to assess the financial health of an institution is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

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

A summary of the College’s cash flows for the 2006-07 and 2005-06 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College (In Thousands)		
	<u>2006-07</u>	<u>2005-06</u>
Cash Provided (Used) by:		
Operating Activities	\$ (25,922)	\$ (24,330)
Noncapital Financing Activities	28,194	23,996
Capital and Related Financing Activities	293	2,918
Investing Activities	<u>755</u>	<u>505</u>
Net Increase in Cash and Cash Equivalents	3,320	3,089
Cash and Cash Equivalents, Beginning of Year	<u>13,123</u>	<u>10,034</u>
Cash and Cash Equivalents, End of Year	<u>\$ 16,443</u>	<u>\$ 13,123</u>

Major sources of funds came from State appropriations (\$19.7 million), net student tuition and fees (\$6 million), grants and contracts (\$2.3 million), and bookstore receipts (\$2.9 million).

The \$3.3 million increase in cash and cash equivalents is primarily due to an increase in capital appropriations, State noncapital appropriations, tuitions and fees, and grants and contracts. Cash flow from operating activities was primarily from tuition and fees, gifts and grants, and auxiliary enterprises. Net cash increase provided by noncapital financing activities amounted to approximately \$4.2 million for the 2006-07 fiscal year and was provided mainly through an increase in State appropriations. Capital appropriations decreased from fiscal year 2005-06 to fiscal year 2006-07, because there was no new large capital projects completed during the fiscal year. The major sources of cash used by operating activities include payments to employees (\$21.4 million), payments to suppliers (\$10.9 million), and scholarships (\$4.3 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2007, the College had \$76.5 million in capital assets, less accumulated depreciation of \$27.7 million, for net capital assets of \$48.9 million. Depreciation charges for the current fiscal year totaled \$2.5 million. The following table summarizes the College's capital assets for the 2006-07 fiscal year:

Capital Assets: College (In Thousands)				
Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 1,648	\$	\$	\$ 1,648
Buildings	61,330	237		61,567
Other Structures and Improvements	7,515	520		8,035
Furniture, Machinery, and Equipment	2,681	540	104	3,117
Assets Under Capital Leases	268	6		274
Construction in Progress	389	1,515		1,904
Total	73,831	2,818	104	76,545
Less, Accumulated Depreciation:				
Buildings	17,494	1,514		19,008
Other Structures and Improvements	5,599	454		6,053
Furniture, Machinery, and Equipment	1,998	432		2,430
Assets Under Capital Leases	107	55		162
Total Accumulated Depreciation	25,198	2,455		27,653
Capital Assets, Net	\$ 48,633	\$ 363	\$ 104	\$ 48,892

Capital asset additions during the current fiscal year included the following:

- Building additions consisted of multiple projects completed this year that were primarily funded by Public Education Capital Outlay funds. These building additions consisted of renovations at the West Campus J Building, the Performing Arts Center Fire Sprinkler System and the West Campus Child Care Center for a total of \$.2 million.
- Other structures and improvements additions consisted of the West Campus Sidewalk Lighting (\$.5 million).
- Furniture, machinery, and equipment additions consisted of technology equipment, mainly consisting of computers, computer related equipment and audio visual equipment and the purchase of furniture educational equipment and grounds and office equipment.
- Construction in progress additions included the North Campus Gym Remodeling (\$.1 million), the West Campus Soffit and Guardrail Repair (\$1 million), and an addition of the West Campus University Center (\$.3 million).

The College has construction contract commitments totaling \$11.7 million to be satisfied in the coming years. Large projects primarily include the West Campus University Center Building Renovation and the new Spring Hill Campus. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, neither the College nor the Foundation had any outstanding bonded debt.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Pasco-Hernando Community College's economic condition is closely tied to the growing economy of the State of Florida. The volatility of the stock market and the general conditions of the United States economy has a direct effect on Florida's tourism-dependent economy. Sales tax and lottery revenues are Florida's principal means of funding education.

The proposed fiscal year 2007-08 budget is conservatively based on the premise of sustaining current enrollment. The College increased credit course tuition fees by 5 percent beginning with the Spring 2008 term for the 2007-08 fiscal year as approved during the legislative special session in October 2007. The standard fee for a Postsecondary Adult Education (PSAV) course was increased by 5 percent as approved by the General Appropriations Act effective for the Fall 2007 term. The scheduled increase in State appropriations of 7.3 percent (\$1.4 million) was reduced in November 2007 by \$.6 million, partially offset by nonrecurring restorations of \$.08 million, and a nonrecurring State appropriation of \$.2 million. During the legislative regular session in March 2008, State appropriations were reduced by an additional \$.4 million due to the States continued declining collection/projection of sales tax revenues. The College has experienced continued enrollment growth during the Fall (9.2 percent) and Spring terms (10.7 percent) resulting in an increase of student fees of \$.8 million, which has allowed the College to sustain current operations without reductions to the originally approved operating budget.

The additional State appropriation and increase in tuition revenue provided funding for a 4 percent annual salary increase for full-time faculty and staff, longevity increases for eligible employees, anticipated employee health insurance premium increases, utility and insurance increases.

For the 2007-08 fiscal year, the College projected student fee revenues of \$8.3 million based on an anticipated enrollment of 4,588 fee-paying FTE. The proposed fiscal year 2007-08 budget was conservatively based on the premises of sustaining current enrollment until such time as the College experiences more consistent growth patterns. The College continues to implement cost-saving measures to reduce expenses and increase net assets as a preventative measure to offset potential State funding reduction while insuring the continuation of current operations.

REQUESTS FOR INFORMATION

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

FINANCIAL SECTION

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2007

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 8,525,255.79	\$ 1,010,799.00
Restricted Cash and Cash Equivalents	1,027,543.93	
Investments		25,046.00
Accounts Receivable, Net	410,684.46	104,122.00
Notes Receivable, Net		518,876.00
Due from Other Governmental Agencies	23,377,936.06	358,260.00
Due from Component Unit/College	113,959.85	112.00
Inventories	509,867.08	
Prepaid Expenses	341,564.30	18,428.00
Other Assets	55,190.00	
Total Current Assets	34,362,001.47	2,035,643.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,889,849.32	
Investments		10,108,984.00
Restricted Investments		20,714,353.00
Due from Other Governmental Agencies		50,664.00
Depreciable Capital Assets, Net	45,339,886.97	82,356.00
Nondepreciable Capital Assets	3,551,877.88	84,294.00
Other Assets	81,801.00	56,256.00
Total Noncurrent Assets	55,863,415.17	31,096,907.00
TOTAL ASSETS	\$ 90,225,416.64	\$ 33,132,550.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 572,494.82	\$ 31,987.00
Salary and Payroll Taxes Payable	1,539,855.05	
Retainage Payable	82,841.81	
Due to Other Governmental Agencies	1,171.64	
Due to Component Unit/College	140.00	115,989.00
Deferred Revenue	15,499.69	26,096.00
Deposits Held for Others	392,163.48	50,664.00
Long-Term Liabilities - Current Portion:		
Capital Leases Payable	55,841.84	
Compensated Absences Payable	189,428.52	
Total Current Liabilities	2,849,436.85	224,736.00
Noncurrent Liabilities:		
Capital Leases Payable	111,522.50	
Compensated Absences Payable	2,275,430.60	
Total Noncurrent Liabilities	2,386,953.10	
TOTAL LIABILITIES	5,236,389.95	224,736.00

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2007

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 48,724,400.51	\$ 222,906.00
Restricted:		
Nonexpendable:		
Endowment		19,423,042.00
Expendable:		
Grants and Loans	394,215.37	6,693,564.00
Scholarships	211,246.43	5,706,688.00
Capital Projects	29,982,574.29	
Unrestricted	5,676,590.09	861,614.00
Total Net Assets	84,989,026.69	32,907,814.00
TOTAL LIABILITIES AND NET ASSETS	\$ 90,225,416.64	\$ 33,132,550.00

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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$3,727,661.04	\$ 5,886,867.45	\$
Federal Grants and Contracts	920,948.02	
State and Local Grants and Contracts	437,888.81	402,810.00
Nongovernmental Grants and Contracts	954,445.44	403,163.00
Sales and Services of Educational Departments	8,610.00	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,220,063.29	2,735,121.61	
Other Operating Revenues	253,142.62	300,181.00
Total Operating Revenues	11,197,023.95	1,106,154.00
EXPENSES		
Operating Expenses:		
Personnel Services	21,872,826.17	172,500.00
Scholarships and Waivers	4,289,629.02	889,978.00
Utilities and Communications	1,378,371.72	
Contractual Services	2,890,287.11	106,012.00
Other Services and Expenses	2,049,229.15	9,989.00
Materials and Supplies	5,930,345.07	70,749.00
Depreciation	2,454,985.65	4,704.00
Total Operating Expenses	40,865,673.89	1,253,932.00
Operating Loss	(29,668,649.94)	(147,778.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	19,739,704.00	
Gifts and Grants	8,453,926.65	
Investment Income	782,206.40	748,970.00
Net Unrealized and Realized Gain On Investments		2,601,890.00
Interest on Capital Asset-Related Debt	(20,226.05)	
Net Nonoperating Revenues	28,955,611.00	3,350,860.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(713,038.94)	3,203,082.00
Capital Appropriations	10,250,294.03	
Capital Grants, Contracts, Gifts, and Fees	946,296.07	
Other Revenues	80,288.90	
Additions to Permanent Endowments		1,214,884.00
Total Other Revenues	11,276,879.00	1,214,884.00
Increase in Net Assets	10,563,840.06	4,417,966.00
Net Assets, Beginning of Year	74,475,076.52	30,672,587.00
Adjustment to Beginning Net Assets	(49,889.89)	(2,182,739.00)
Net Assets, Beginning of Year, as Restated	74,425,186.63	28,489,848.00
Net Assets, End of Year	\$ 84,989,026.69	\$ 32,907,814.00

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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 5,984,183.66
Grants and Contracts	2,268,798.91
Payments to Suppliers	(10,879,169.53)
Payments for Utilities and Communications	(1,378,371.72)
Payments to Employees	(17,243,416.53)
Payments for Employee Benefits	(4,191,505.46)
Payments for Scholarships	(4,289,629.02)
Auxiliary Enterprises	2,930,349.57
Sales and Service of Educational Departments	8,610.00
Other Receipts	868,018.88
	(25,922,131.24)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	19,739,704.00
Gifts and Grants Received for Other Than Capital or Endowment Purposes	8,453,926.65
	28,193,630.65
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	2,011,964.99
Capital Grants and Gifts	946,296.07
Proceeds from Sale of Capital Assets	80,288.90
Purchases of Capital Assets	(2,674,029.95)
Principal Paid on Capital Debt and Leases	(50,880.79)
Interest Paid on Capital Debt and Leases	(20,226.05)
	293,413.17
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	782,206.40
Accrued Interest	(27,696.67)
	754,509.73
Net Increase in Cash and Cash Equivalents	3,319,422.31
Cash and Cash Equivalents, Beginning of Year	13,123,226.73
	\$ 16,442,649.04
Cash and Cash Equivalents, End of Year	\$ 16,442,649.04

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2007**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (29,668,649.94)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,454,985.65
Changes in Assets and Liabilities:	
Receivables, Net	249,314.20
Inventories	(9,308.20)
Other Assets	50,823.36
Accounts Payable	644,376.58
Deferred Revenue	3,991.22
Deposits Held for Others	136,085.36
Compensated Absences Payable	216,250.53
	216,250.53
NET CASH USED BY OPERATING ACTIVITIES	\$ (25,922,131.24)

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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Pasco-Hernando Community College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Community Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Pasco and Hernando Counties.

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended December 31, 2006.

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.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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 the Governmental Accounting Standards Board (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 Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
- Notes to Financial Statements

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

The College's component unit uses the 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.

The College follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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 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 considered a nonoperating expense.

The statement of net assets 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 assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash held with the State Treasury and State Board of Administration. For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the State Treasury Special Purpose Investment Account (SPIA) and State Board of Administration Local Government Surplus Funds Trust Fund 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.

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

At June 30, 2007, the College reported as cash equivalents at fair value \$8,924,868.40 of moneys held in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 3.21 years at June 30, 2007. 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 investment pool are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2007, the College reported as cash equivalents at fair value \$5,769,085.23 of moneys held in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The College's investments in the Local Government Surplus Funds Trust Fund, 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 SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign credit risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2007.

Capital Assets. College capital assets consist of land; buildings; other structures and improvements; furniture, machinery, and equipment; assets under capital leases; and construction in progress. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

2. REPORTING CHANGE

Effective for the College’s 2006-07 fiscal year, the College’s discretely presented component unit changed from the Financial Accounting Standards Board (FASB) to the Government Accounting Standards Board (GASB) financial reporting model. This affects the comparability of amounts reported on the financial statements for the discretely presented component unit columns for the 2006-07 fiscal year with amounts reported for the 2005-06 fiscal year.

3. PRIOR PERIOD ADJUSTMENTS

Adjustments to beginning net assets are reported in accordance with FASB Statement No. 154. The following is a summary of adjustments to beginning net assets reported in the statement of revenues, expenses, and changes in net assets to correct prior year accounting errors:

Description	College	Component Unit
To Decrease Beginning Net Asset Balance for Prior Year Overstatement of Capital Assets	\$ 49,282.56	\$
To Decrease Beginning Net Asset Balance to Show Cumulative Effect of Change from FASB to GASB Reporting Model		2,182,739.00
To Increase Beginning Net Asset Balance for Other Prior Year Accounting Errors	607.33	
Total	\$ 49,889.89	\$ 2,182,739.00

4. INVESTMENTS

Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education 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

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College reported no investments at June 30, 2007, as surplus funds were invested in the State Treasury Special Purpose Investment Account and State Board of Administration Local Government Surplus Funds Trust Fund investment pools, which are reported as cash and cash equivalents.

Component Unit Investments

Investments held by the Pasco-Hernando Community College Foundation, Inc. (Foundation), at December 31, 2006, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
U.S. Government Obligations	\$ 2,690,575
Federal Agency Obligations	4,901,736
Corporate Bonds and Notes	1,437,360
Asset-Backed Securities	517,571
Mortgage-Backed Securities	586,788
Stocks and Other Equity Securities	10,787,071
Equity Mutual Funds	9,927,282
Total Component Unit Investments	<u><u>\$ 30,848,383</u></u>

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

- *Interest Rate Risk:* Interest rate risk is the risk that changing interest rates will adversely affect the fair value of an investment. The Foundation’s investment policy, as a means of mitigating this risk, calls for maintaining significant balances in cash equivalents and other short term investments 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</u>	<u>Fair Value</u>	<u>Investment Matures (In Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Government Obligations	\$ 2,690,575	\$	\$ 1,266,351	\$ 1,424,224	\$
Federal Agency Obligations	4,901,736		615,461	909,072	3,377,203
Corporate Bonds and Notes	1,437,360	25,046	939,508	311,594	161,212
Asset-Backed Securities	517,571		327,955	78,414	111,202
Mortgage-Backed Securities	586,788				586,788
Equity Mutual Funds	9,927,282	9,927,282			
Total	<u><u>\$ 20,061,312</u></u>	<u><u>\$ 9,952,328</u></u>	<u><u>\$ 3,149,275</u></u>	<u><u>\$ 2,723,304</u></u>	<u><u>\$ 4,236,405</u></u>

**PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

- *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 chance that the bond issuer will 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 Moody’s and BBB by Standard & Poor’s. In addition, if investments are downgraded below the minimum rating, the security must be sold within 10 trading days. At December 31, 2006, the Foundation’s fixed income securities (excluding United States government obligations) were rated as follows:

Investment	Fair Value	Ratings	
		Standard & Poor's	Moody's
Federal Agency Obligations	\$4,901,736	AAA	Aaa
Corporate Bonds and Notes	1,437,360	BBB - AAA	A3 - Aaa
Asset-Backed Securities	517,571	AAA	Aaa
Mortgage-Backed Securities	586,788	AAA	Aaa
Total	\$7,443,455		

- *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 FDIC per banking institution. Custodial credit risk for investments will be mitigated by prohibiting investment in securities that are not eligible for depository trust company holding. The Foundation’s fixed income securities are registered in the Foundation’s name 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

PASCO-HERNANDO COMMUNITY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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, 2006, 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.

5. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for 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 \$120,058.29 allowance for uncollectible accounts.

6. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$23,227,156 of Public Education Capital Outlay allocations due from the State to the College for construction of College facilities.

7. DUE FROM AND TO COMPONENT UNIT/COLLEGE

The amount due from component unit consists of amounts owed to the College by the Foundation for scholarships, student aid, and agreements to support a portion of the College's programs. The College's financial statements are reported for the fiscal year ended June 30, 2007. The College's component unit has a fiscal year ending other than June 30. Accordingly, amounts reported by the College as due from and to the component unit on the statement of net assets do not agree with amounts reported by the component unit as due from and to the College.

8. INVENTORIES

Inventories consist of items for resale by the campus bookstore and central stores, 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.

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9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 1,647,698.67	\$	\$	\$ 1,647,698.67
Construction in Progress	389,372.37	1,514,806.84		1,904,179.21
Total Nondepreciable Capital Assets	\$ 2,037,071.04	\$ 1,514,806.84	\$	\$ 3,551,877.88
Depreciable Capital Assets:				
Buildings	\$ 61,330,055.53	\$ 236,896.08	\$	\$ 61,566,951.61
Other Structures and Improvements	7,515,319.64	519,974.53		8,035,294.17
Furniture, Machinery, and Equipment	2,681,237.00	539,476.87	104,172.45	3,116,541.42
Assets Under Capital Lease	268,433.57	5,424.96		273,858.53
Total Depreciable Capital Assets	71,795,045.74	1,301,772.44	104,172.45	72,992,645.73
Less, Accumulated Depreciation:				
Buildings	17,493,781.96	1,513,885.55		19,007,667.51
Other Structures and Improvements	5,599,060.57	453,400.82		6,052,461.39
Furniture, Machinery, and Equipment	1,997,557.14	432,656.31		2,430,213.45
Assets Under Capital Lease	107,373.44	55,042.97		162,416.41
Total Accumulated Depreciation	25,197,773.11	2,454,985.65		27,652,758.76
Total Depreciable Capital Assets, Net	\$ 46,597,272.63	\$ (1,153,213.21)	\$ 104,172.45	\$ 45,339,886.97

10. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2007, includes a capital lease and compensated absences.

Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Leases Payable	\$ 212,820.17	\$ 5,424.96	\$ 50,880.79	\$ 167,364.34	\$ 55,841.84
Compensated Absences Payable	2,248,608.59	641,546.10	425,295.57	2,464,859.12	189,428.52
Total Long-Term Liabilities	\$ 2,461,428.76	\$ 646,971.06	\$ 476,176.36	\$ 2,632,223.46	\$ 245,270.36

Capital Leases Payable. Copier equipment in the amount of \$273,858.53 is being acquired under capital lease agreements. The imputed interest rate is 10.62 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2007, are as follows:

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Fiscal Year Ending June 30	Amount
2008	\$ 71,106.84
2009	71,106.84
2010	53,750.04
Total Minimum Payments	195,963.72
Less, Amount Representing Interest	28,599.38
Present Value of Minimum Payments	\$ 167,364.34

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 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, 2007, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$2,464,859.12. Of this amount, \$189,428.52 is considered a current liability as this is the amount expected to be paid in the coming fiscal year, and represents payments for employees in the final year of the Deferred Retirement Option Program.

11. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the College are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

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A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the 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 State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$801,543, \$876,364, and \$1,203,018, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. College employees already participating in the State Community College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment

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choices. There were 40 College participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$161,492.33.

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

State Community College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible community college instructors and administrators. The Program is designed to aid community colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for six 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 community college contributes, on behalf of the participant, 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the community college to the participant's annuity account.

There were 25 College participants during the 2006-07 fiscal year. Required employer contributions made to the Program totaled \$147,375.14.

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12. CONSTRUCTION COMMITMENTS

The College's construction commitments at June 30, 2007, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
West Campus University Center Building Renovation:			
Architect	\$ 532,540.00	\$ 409,628.79	\$ 122,911.21
Construction Manager	8,594,038.00		8,594,038.00
North Campus Gym Remodeling:			
Architect	457,969.00	118,337.42	339,631.58
Construction Manager	51,711.00		51,711.00
Spring Hill Campus: New Campus:			
Architect	2,029,868.00	30,145.31	1,999,722.69
West Campus Soffit Replacement:			
Architect	77,401.00	72,439.92	4,961.08
Construction Manager	985,448.00	810,519.84	174,928.16
West Campus Guardrail Replacement:			
Architect	32,390.00	25,912.00	6,478.00
Construction Manager	443,760.00	54,829.14	388,930.86
Total	<u>\$ 13,205,125.00</u>	<u>\$ 1,521,812.42</u>	<u>\$ 11,683,312.58</u>

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 Community Colleges Risk Management Consortium, which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public community colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide community college risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$115 million. Insurance coverage obtained through the Consortium included health and hospitalization, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Health and hospitalization, life, dental, and long-term disability coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

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14. CAPITAL CREDITS

The College participated 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, 2007, the accumulated credits to the College's account were \$543,996.31.

15. LITIGATION

The College is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the College's legal counsel and management, should not materially affect the College's financial position.

16. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the Community College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college's apportionment considering the following components: base budget, which includes the State appropriation to the Community College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

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The following is a summary of State revenue sources and amounts:

<u>Source</u>	<u>Amount</u>
Community College Program Fund	\$ 17,279,853.00
Gross Receipts Tax (Public Education Capital Outlay)	10,046,396.00
Education Enhancement Trust Fund (Lottery)	2,062,755.00
Florida Student Assistance Grants	1,226,657.00
Bright Futures Scholarship Program	972,582.67
Restricted Contracts and Grants	557,109.65
Performance Based Incentives	397,096.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	203,898.03
Other State Sources	5,545.55
Total	<u><u>\$ 32,751,892.90</u></u>

17. 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 assets 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	\$ 11,815,370.00
Public Services	2,713.52
Academic Support	4,095,280.51
Student Services	4,768,162.91
Institutional Support	5,372,065.08
Operation and Maintenance of Plant	4,466,757.12
Scholarships and Fellowships	4,289,629.02
Depreciation	2,454,985.65
Auxiliary Enterprises	3,600,710.08
Total Operating Expenses	<u><u>\$ 40,865,673.89</u></u>

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18. SUBSEQUENT EVENT

As discussed in note 1, at June 30, 2007, the Pasco-Hernando Community College had \$5,769,085.23 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the College and the State Board of Administration. The College had \$1,915,909.82 invested in the Pool as of March 17, 2008.