

**DISTRICT BOARD OF TRUSTEES
PENSACOLA STATE COLLEGE
WSRE-TV STATION**

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

**DISTRICT BOARD OF TRUSTEES
PENSACOLA STATE COLLEGE
WSRE-TV STATION**

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees - Pensacola State College
WSRE-TV Station
Pensacola, Florida

We have audited the accompanying combined balance sheets of WSRE-TV Station (the Station), a public telecommunications entity locally owned and licensed to the District Board of Trustees, Pensacola State College (the College), as of June 30, 2011 and 2010, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audits 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Station's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Station, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report December 14, 2011 on our consideration of the Station's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

Our audits were conducted for the purpose of forming opinions on the combined financial statements taken as a whole. The Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the combined financial statements. The Schedule of Functional Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

O'Sullivan Creel, LLP

December 14, 2011

WSRE-TV Station
A Public Telecommunications Entity Operated by the
District Board of Trustees, Pensacola State College

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

OVERVIEW

Management's discussion and analysis of WSRE-TV Station's ("Station") combined financial statements provides an overview of the Station's financial activities for the years ended June 30, 2011 and 2010. Management has prepared the combined financial statements and the related footnote disclosures along with the accompanying management discussion and analysis. Responsibility for the completeness and fairness of this information rests with management. The management discussion and analysis contains the financial activities of the Station combined with the WSRE-TV Foundation, Inc. (its direct-support organization) for both the fiscal 2010-11 and 2009-2010 years, and should be read in conjunction with the accompanying combined financial statements.

The following activities are included in the basic combined financial statements:

- **WSRE-TV STATION** – The Station is a viewer-supported public media entity locally owned and licensed to the District Board of Trustees of Pensacola State College ("College"), Pensacola, Florida. In June of 2010, the College's Board of Trustees approved a name change from Pensacola Junior College to Pensacola State College, pursuant to Section 1001.60(2)(b), Florida Statutes. The Station has operated as a non-commercial public television station regulated by the Federal Communications Commission under licensure to the District Board of Trustees of the College since 1968. The Station's over-the-air digital television broadcast area encompasses Northwest Florida and South Alabama and serves to further the mission of the College to bring educational and informative programs and services to the local communities in those areas. The Station is an affiliated member of the nationwide network of public television stations known as the Public Broadcasting Service (PBS). The Station broadcasts four digital streams 24 hours a day, seven days a week over the air and via cable and satellite systems.
- **WSRE-TV FOUNDATION, INC.** ("Foundation") - The Foundation, a 501(c)(3) tax exempt entity formed in 1991, functions as a direct-support organization of Pensacola State College authorized under Florida Statutes to provide support and foster the activities, operations and capital needs of the Station. The Foundation contributed 32% and 35% of the Station's operating revenue in 2011 and 2010, respectively. The Foundation operates under the governance of a 27-member Board of Directors comprised of local business and community leaders. The Foundation reports its financial activities to the State of Florida as a component unit of the College, and issues separately audited annual financial statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial and non-financial considerations that impact the activities of the Station and the Foundation and which should be considered by the reader include:

- Trends in Federal appropriations for public broadcasting
- Trends in State funding both to Pensacola State College (a portion of its operational budget consists of state funding to support Station operations) and to the Station directly (in the form of Community Service and other grants)
- National, statewide and local economic conditions that affect corporate and individual philanthropy
- Technological and regulatory changes occurring within the broadcast/public media industry

2011 HIGHLIGHTS

- The Station's financial position remained strong during fiscal year 2011, with operating revenues of \$4.9 million, comparable to the 2010 level of \$4.7 million. Revenue generated from the Foundation continued to be well diversified, including memberships and contributions, broadcast uplink services, program grants, studio rentals and special events. These were supplemented by various program grants supporting the Station's productions, activities and outreach efforts in the community.
- Continuation of operating grants from the Corporation for Public Broadcasting and the Florida Department of Education, matching equipment grants, and funding from Pensacola State College provided a sound basis of operational support for the Station in 2011. The Station did experience a reduction in its 2010 funding from the State of Florida due to reductions in state program budgets as the 2009 economic downturn worsened. Grants to the Station from the Florida Department of Education were reduced 11% in 2009, with an additional 30% reduction including elimination of funding for the Station's Sightline (Radio Reading) service in 2010. This reduction was offset with Federal Stimulus (American Recovery and Reinvestment Act - "ARRA") funding, replacing approximately half of the State cuts, and funding continued at this level through June 30, 2011. In June of 2011, the Station was notified that state community service grant funding for public television and public radio through the Florida Department of Education was eliminated by the Governor from the state budget for fiscal year 2011-12. Through personnel and budgetary adjustments, the Station was able to absorb this unexpected shortfall in state funding with minimal impact to services provided to the public.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

- To mitigate the reductions in state funding, several Station operational areas were re-organized, and a reduction in force resulted in the elimination of five positions at the end of 2011. Several successful fundraising efforts by the WSRE Foundation helped to garner additional operational funds as well. These included very successful Wine & Food Classic events both in Pensacola and Destin, complimented with a Ladies Tea held in May. In anticipation of possible federal and state funding reductions, the Foundation planned and executed a major giving initiative in 2010-11, *EnvisionIt!*, for the purposes of equipment replacement, future programs and services, and contributions to the Foundation's Endowment Fund. In spite of significant economic recessionary trends in the United States and in Northwest Florida, the Foundation's revenues from special events and donations continued to hold steady in 2011, and pledges totaling \$714,915 were made toward the *EnvisionIt!* Campaign. During 2010, the Foundation was also the beneficiary of a major bequest from a long-time donor, and was able to obtain local support to extend the Sightline through 2010-2011. In spite of significant economic recessionary trends in the United States and in northwest Florida, the Foundation's revenues from its pledge drives, special events and operating grants continued to hold steady in 2011.
- 2011 saw an increase in efforts toward greater local program production, with the addition of *In Your Own Backyard*, continued growth of *Conversations with Jeff Weeks*, a third season of *Studio Amped*, and completion of a signature documentary for the Station, *Lighthouses of the Gulf Coast: Sand Island to St. Marks*. These new programs complemented the Station's continuing lineup of locally-produced programs such as *AWARE*, *Pensacola State Perspectives*, *Legislative Review*, and *Rally*. These local programs joined the wide range of high-quality PBS programs featuring children's programming, arts and culture, history, science and public affairs that the Station is proud to deliver to viewers. New grant funding was received from the Corporation for Public Broadcasting (CPB) Oil Spill Collaborative, in which WSRE partnered with stations from Louisiana, Mississippi, and Alabama to provide continuing news coverage of the 2010 BP oil spill in the Gulf of Mexico. The culmination of the CPB-funded Ready to Learn initiative in September of 2010 was offset by the award of a private foundation grant for this program and will provide for continuation of existing services and expansion into Okaloosa and Walton counties over the next three years.
- Operating expense exceeded operating revenue for both 2011 and 2010 due primarily to the significant levels of depreciation expense recognized on the Station's buildings and equipment purchased in the last few years as the broadcast infrastructure for full power digital transmission was completed and the Station's production facility was expanded significantly. Revenue funding the purchases is recognized in the year the assets are acquired as non-operating Capital Grants and Donations, but the corresponding equipment expense is recognized as operating expense through charges to depreciation

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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

over the life of the assets. The effect of the recording of depreciation as an operating expense on the Station’s Net Operating Income/Loss is shown below:

| | 2011 | 2010 |
|--------------------------------------|--------------|--------------|
| Net operating loss as reported | \$ (615,353) | \$ (566,891) |
| Depreciation | 731,259 | 690,649 |
| Adjusted net operating income (loss) | \$ 115,906 | \$ 123,758 |

Review of the Station’s Cash Flow Statement in conjunction with the Income Statement and Balance Sheet is important as it provides additional information regarding the Station’s operations.

- In 2009, the Station completed the FCC-mandated conversion of its broadcast infrastructure from analog to high definition digital format for its broadcast operations. During the year the Station’s analog signal was terminated and a fourth digital program stream added. The Station’s migration toward fully integrated high definition digital studio production begun in 2010 was completed in 2011 through a federal grant received from the Department of Commerce’s Public Telecommunications Facilities Program, providing funding for 50% of the \$800,000 project cost. State matching funds for \$146,866 were also received in 2011 toward this project. Completion of this project has enabled the Station to raise the quality of its local production capability to the highest technological standards and maximize the Station’s investment over the last 10 years in its digital infrastructure.

The following sections provide information about the various combined financial statements, including condensed summary combined financial statements for the current and past fiscal years.

THE FINANCIAL STATEMENTS

This report consists of three basic combined financial statements. The *Balance Sheet*, the *Statement of Revenues, Expenses and Changes in Net Assets* and the *Statement of Cash Flows* provide a comprehensive financial picture of the Station’s financial health. The statements are prepared using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector organizations. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or payments made. The Station also classifies revenue and expenses as operating and non-operating, and recognizes donor pledges as receivable when pledges are formalized, net of estimated uncollectible pledges.

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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

The *Balance Sheet* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information in a way that helps the reader determine if the Station is in a better position from one year to the next and allows the reader to analyze the information over long periods of time. In the *Balance Sheet*, the difference between assets and liabilities, i.e., net assets, is one way to measure the Station’s financial solvency or health at the close of the fiscal year. Over time, increases and decreases in the Station’s net assets are one indicator of whether its financial health is improving or deteriorating. The *Statement of Revenues, Expenses and Changes in Net Assets* summarizes the components of these increases and decreases for the year(s) being reported upon. If revenues and other support exceed expenses, the result is an increase in net assets. If the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as a measurement of the Station’s profitability for a given year. The *Statement of Cash Flows* provides details regarding the sources and uses of cash during the year(s) being reported upon.

BALANCE SHEET

The *Balance Sheet* presents the assets, liabilities, and net assets of the Station as of the end of the fiscal year. Its purpose is to present to the readers of the combined financial statements a fiscal snapshot of the Station at a certain point in time. This statement allows the reader to determine assets available to continue the Station’s activities in the short-term (“Current Assets”) and the long term (“Noncurrent Assets”) and to ascertain the amounts due vendors and others that represent claims to those assets (“Current” and “Noncurrent” Liabilities).

The difference between Assets and Liabilities is designated as “Net Assets”. Within the *Balance Sheet*, Net Assets are divided into three major categories. The first category, *Invested in Capital Assets*, represents the Station’s investment (net of depreciation) in property, plant and equipment available for future operations. *Restricted Net Assets* represents the net funds available for expenditure by the Station for specific purposes or periods as determined by donors, grantors or other external entities, and includes the Foundation’s Capital Campaign contributions and Endowment contributions. The final category is *Unrestricted Net Assets*, representing assets that are available for any lawful purpose of the Station.

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|---------------------|-----------------------------|-----------------------------|
| Assets | | |
| Current | \$ 2,668,252 | \$ 2,901,885 |
| Noncurrent | 460,312 | 268,984 |
| Investments | 1,106,592 | 979,331 |
| Capital assets, net | <u>7,604,278</u> | <u>8,190,888</u> |
| Total Assets | <u>\$ 11,839,434</u> | <u>\$ 12,341,088</u> |

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
|---|-----------------------------|-----------------------------|
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Current | \$ 1,427,303 | \$ 1,575,368 |
| Noncurrent | <u>262,344</u> | <u>246,520</u> |
| Total Liabilities | 1,689,647 | 1,821,888 |
| Net Assets: | | |
| Invested in capital assets | 7,604,278 | 8,190,888 |
| Restricted | 1,075,128 | 727,892 |
| Unrestricted | <u>1,470,381</u> | <u>1,600,420</u> |
| Net Assets | <u>10,149,787</u> | <u>10,519,200</u> |
| Total Liabilities and Net Assets | <u>\$ 11,839,434</u> | <u>\$ 12,341,088</u> |

The decrease seen in Current Assets reflects a decrease in unrestricted cash from operating activities, offset with an increase in restricted cash received through donations to the EnvisionIt! Campaign. Included also is a decrease in accounts receivable reflecting a higher than usual balance at June 30, 2010 due to billings outstanding for the Station's uplink services (in high demand during May and June related to the BP Oil Spill), and from grant reimbursements due from the federal government for the Station's HD production equipment project (completed during 2011). The increase in Noncurrent Assets reflects the addition of pledges receivable related to the EnvisionIt! Campaign. The increase in Investments reflects market gains in the Foundation's portfolio during 2011. The decrease in Capital Assets and Net Assets Invested in Capital Assets reflects depreciation expense in excess of the cost of new capital assets purchased in 2011. (See Footnote E, page 28).

Current Liabilities are comprised primarily of grant receipts that are recorded as deferred revenue until the monies are expended for the purposes authorized. Non-current Liabilities reflect deferred compensation (annual and sick leave earned and available to employees). The change in deferred compensation is detailed in Footnote G, page 29. The Foundation maintains an open line of credit for \$100,000 with a local financial institution, which was not utilized in either 2010-2011 or 2009-2010. The Station did not utilize loans, cash advances or any other formalized debt during 2010-11 or 2009-2010.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Changes in total net assets as presented on the *Balance Sheet* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of this statement is to present the operating revenues generated by the Station, the Station's operating expenses incurred during the year, and all non-operating revenue used to support the Station's

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

operation. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Station. These activities include the acquisition and/or production of program material for public broadcast, the broadcast of program content via over-the-air signal, cable, satellite and internet distribution, complementary programmatic educational and community outreach services, and provision of broadcast/production services to others.

Major sources of operating revenue are grants from the State of Florida and the Corporation for Public Broadcasting, direct support from the licensee (Pensacola State College), contributions from viewers and members, contracted services to others, and indirect and inkind support from the licensee and others. These components are detailed on the *Statement of Revenues, Expenses, and Changes in Net Assets* on page 14.

Summarized *Statements of Revenues, Expenses and Changes in Net Assets* for the Station for the years ended June 30, 2011 and 2010 follow.

| | FOR THE YEAR ENDED | |
|--|-----------------------------|-----------------------------|
| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
| Operating Revenues | | |
| Revenues | \$ 4,894,054 | \$ 4,749,824 |
| Expenses | <u>5,509,407</u> | <u>5,316,715</u> |
| Net Operating Loss | (615,353) | (566,891) |
| Non-operating Revenue | | |
| Net investment income | 25,915 | 28,225 |
| Gain (loss) on investments | 109,579 | 62,411 |
| Gain on sale of capital assets | <u>--</u> | <u>2,675</u> |
| Net Non-operating Revenue | 135,494 | 93,311 |
| Capital Grants | <u>110,446</u> | <u>548,100</u> |
| Increase (decrease) in Net Assets | (369,413) | 74,520 |
| Net Assets, Beginning of Year | <u>10,519,200</u> | <u>10,444,680</u> |
| Net Assets, End of Year | <u>\$ 10,149,787</u> | <u>\$ 10,519,200</u> |

Operating revenue for 2011 exceeded 2010 levels primarily due to revenue related to the EnvisionIt! major giving initiative during 2011. As noted previously, operating expense includes the recognition of depreciation expense, which comprises a major component of the Station's net operating loss each year.

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Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities. Also shown separately are donations and grants received for the acquisition of capital assets. Non-operating revenue consists of investment income, which decreased from 2010 levels due to continuing interest rate declines. Non-operating income/expense also includes "mark to market" adjustments in the value of the Station's investment portfolio as of June 30, 2011 and 2010 of \$109,579 and \$62,411, respectively. The increase in capital grants and donations reflects funding for the Station's HD studio upgrade project mentioned earlier.

STATEMENT OF CASH FLOWS

The final statement presented is the *Statement of Cash Flows*. The *Statement of Cash Flows* presents detailed information about the cash activity of the Station during the year and shows the change in cash resulting from different types of activities:

- Operating flows (Net cash used by operating activities)
- Capital and related financing activities (Cash used for the acquisition and construction of capital and related items)
- Investing activities
- Non-capital financing activities (Cash received and spent for non-operating, non-investing and non-capital financing purposes)

The information below is consolidated to show the total net increase in cash for the years ended June 30, 2011 and 2010. As part of the detailed statement on page 15, a reconciliation is provided to show how Operating Income(Loss) as shown on the *Statement of Revenues, Expenses and Changes in Net Assets* is related to the net cash generated or consumed by operations. The difference occurs because of the use of accrual accounting to report Operating Income(Loss). Operating Income(Loss) for the year will reflect revenues earned but not collected in cash as of the end of the year, and will not include cash received that will be recognized as income in a future period as it is earned. Operating Income(Loss) will also reflect expenses incurred but not paid as of the end of the year, and will not include cash paid in advance for expenses that properly belong to future periods. The most common example of this is the purchase of capital assets, in which the cash used to purchase equipment is reflected in the *Statement of Cash Flows* in the year of purchase, but the operating expense for the use of the equipment is recognized by allocating a portion of that original cost as "depreciation expense" to each year's Operating Expense over the future periods benefited. Thus Operating Income(Loss) may be more or less than Net Cash Provided by Operating Activities.

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The Statement is helpful to readers because it shows the Station's ability to generate cash required for its operations and payment of obligations in a timely fashion. It also provides information as to the decisions made by management as to the use of cash available. Summarized *Statements of Cash Flows* for the years ended June 30, 2011 and 2010 follow.

| | FOR THE YEAR ENDED | |
|--|-----------------------------|-----------------------------|
| | <u>JUNE 30, 2011</u> | <u>JUNE 30, 2010</u> |
| Cash Provided (Used) By: | | |
| Operating Activities | \$ (24,770) | \$ 250,450 |
| Capital and Related Financing Activities | 33,278 | (72,953) |
| Investing Activities | <u>13,303</u> | <u>213,557</u> |
| Net Increase (Decrease) in Cash | 21,811 | 391,054 |
| Cash, Beginning of Year | <u>2,143,255</u> | <u>1,752,201</u> |
| Cash, End of Year | <u>\$ 2,165,066</u> | <u>\$ 2,143,255</u> |

The use of cash for capital activities includes continuing investment in digital production equipment. Cash activity reflecting a reallocation of the Foundation's investment portfolio during the year is detailed further on page 15.

FINANCIAL STATEMENTS

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BALANCE SHEETS
Fiscal Years Ended June 30, 2011 and 2010

| ASSETS | 2011 | 2010 |
|---|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash | \$ 1,718,534 | \$ 1,890,485 |
| Restricted cash | 446,532 | 252,770 |
| Certificates of deposit | 3,000 | 7,989 |
| Accounts receivable | 187,568 | 556,388 |
| Real estate held for sale | 30,000 | 30,000 |
| Promises to give (net of allowance for uncollectible promises to give of \$15,617 and \$2,050) | 146,151 | 31,047 |
| Prepaid assets | 136,467 | 133,206 |
| Total current assets | 2,668,252 | 2,901,885 |
| NONCURRENT ASSETS | | |
| Promises to give (net of allowance for uncollectible promises to give of \$29,365 and \$540) | 265,312 | 8,984 |
| Prepaid lease | 195,000 | 260,000 |
| Investments | 1,106,592 | 979,331 |
| Capital assets, net | 7,604,278 | 8,190,888 |
| Total noncurrent assets | 9,171,182 | 9,439,203 |
| Total assets | \$ 11,839,434 | \$ 12,341,088 |
| LIABILITIES & NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 27,852 | \$ 244,801 |
| Accrued liabilities | 33,442 | 117,569 |
| Compensated absences | 8,288 | -- |
| Deferred revenue | 1,357,721 | 1,212,998 |
| Total current liabilities | 1,427,303 | 1,575,368 |
| NONCURRENT LIABILITIES | | |
| Compensated absences | 262,344 | 246,520 |
| NET ASSETS | | |
| Invested in capital assets | 7,604,278 | 8,190,888 |
| Restricted | 1,075,128 | 727,892 |
| Unrestricted | 1,470,381 | 1,600,420 |
| Total net assets | 10,149,787 | 10,519,200 |
| Total liabilities and net assets | \$ 11,839,434 | \$ 12,341,088 |

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
For the years ended June 30, 2011 and 2010

| OPERATING REVENUES | 2011 | 2010 |
|---|----------------------|----------------------|
| Operating grants | \$ 1,448,375 | \$ 1,272,660 |
| Direct support - Pensacola State College | 1,194,175 | 1,292,617 |
| Contributions and program underwriting | 1,039,058 | 841,309 |
| Use of facilities and other indirect administrative support from Pensacola State College | 811,833 | 791,828 |
| Inkind support | 206,265 | 209,135 |
| Sales and services | 162,469 | 318,040 |
| Other operating revenues | 31,879 | 24,235 |
| Total operating revenues | <u>4,894,054</u> | <u>4,749,824</u> |
| OPERATING EXPENSES | | |
| Program services | | |
| Programming and production | 2,810,011 | 2,728,036 |
| Broadcasting | 1,367,927 | 1,286,872 |
| Total program services | <u>4,177,938</u> | <u>4,014,908</u> |
| Supporting services | | |
| Fundraising and development | 604,465 | 635,703 |
| Management and general | 727,004 | 666,104 |
| Total supporting services | <u>1,331,469</u> | <u>1,301,807</u> |
| Total operating expenses | <u>5,509,407</u> | <u>5,316,715</u> |
| Net operating loss | (615,353) | (566,891) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income (net) | 25,915 | 28,225 |
| Gain (Loss) on investments | 109,579 | 62,411 |
| Gain on sale of capital assets | -- | 2,675 |
| | <u>135,494</u> | <u>93,311</u> |
| Loss before capital grants and donations | (479,859) | (473,580) |
| CAPITAL GRANTS AND DONATIONS | | |
| Increase (decrease) in net assets | (369,413) | 74,520 |
| NET ASSETS | | |
| Beginning of year | 10,519,200 | 10,444,680 |
| End of year | <u>\$ 10,149,787</u> | <u>\$ 10,519,200</u> |

The accompanying notes are an integral part of these financial statements.

WSRE-TV Station
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STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from operating grants | \$ 1,593,168 | \$ 1,381,339 |
| Cash receipts from Pensacola State College | 1,253,020 | 1,235,942 |
| Cash receipts from contributions and program underwriting | 667,626 | 852,504 |
| Cash receipts from sales and services to others | 237,628 | 258,167 |
| Cash receipts from other operating revenue | 31,879 | 24,235 |
| Cash payments to employees | (1,541,132) | (1,443,136) |
| Cash payments for operating expenses | (2,266,959) | (2,054,579) |
| Net cash flows from operating activities | <u>(24,770)</u> | <u>254,472</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital grants, gifts, and allocations received | 345,192 | 316,030 |
| Purchase of capital assets | (311,914) | (388,983) |
| Net cash flows from capital and related financing activities | <u>33,278</u> | <u>(72,953)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (337,194) | (1,073,921) |
| Sale of investments | 322,938 | 1,251,209 |
| Payments for investment management | (4,419) | (4,022) |
| Dividends/interest proceeds | 31,978 | 36,269 |
| Net cash flows from investing activities | <u>13,303</u> | <u>209,535</u> |
| NET INCREASE IN CASH | 21,811 | 391,054 |
| CASH AT BEGINNING OF YEAR | <u>2,143,255</u> | <u>1,752,201</u> |
| CASH AT END OF YEAR | <u>\$ 2,165,066</u> | <u>\$ 2,143,255</u> |
| RECONCILIATION TO BALANCE SHEET | | |
| Cash | \$ 1,718,534 | \$ 1,890,485 |
| Restricted Cash | 446,532 | 252,770 |
| | <u>\$ 2,165,066</u> | <u>\$ 2,143,255</u> |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (615,353) | \$ (566,891) |
| Adjustments to reconcile to net cash provided (used) by operating activities | | |
| Depreciation | 731,259 | 690,649 |
| Uncollectible pledges/accounts receivable | 42,392 | 10,177 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 134,074 | (120,535) |
| Promises to give | (413,905) | 4,936 |
| Prepaid assets | 61,739 | 44,023 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (49,684) | 45,384 |
| Accrued liabilities | (84,127) | 32,271 |
| Deferred revenue | 144,723 | 108,748 |
| Compensated absences | 24,112 | 5,710 |
| Total adjustments | <u>590,583</u> | <u>821,363</u> |
| Net cash flows from operating activities | <u>\$ (24,770)</u> | <u>\$ 254,472</u> |

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NOTE A - ORGANIZATION AND OPERATIONS

WSRE-TV Station (Station) is a non-commercial, viewer-supported broadcast entity regulated by the Federal Communications Commission, operating under licensure to the District Board of Trustees, Pensacola State College, Pensacola Florida, (College). The College is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and governed by Florida Statutes and Rules of the Florida State Board of Education. The Station's over-the-air television broadcast area encompasses Northwest Florida and South Alabama and serves to further the mission of the College to bring educational and informative programs and services to the local communities in those areas. The Station is an affiliated member of the nationwide network of public television stations known as the Public Broadcasting Service (PBS). The Station broadcasts four digital streams 24 hours a day, seven days a week.

The accompanying combined financial statements include the activity of the WSRE-TV Foundation, Inc., (Foundation), a nonprofit corporation established in 1991 which functions as a direct support organization under Florida statute to the College for the benefit of the Station. The Foundation is the designated custodian of funds received from the Station's various fund-raising activities. Such funds are expended by the Foundation pursuant to written disbursement requests of the Station. Significant inter-organizational transactions have been eliminated during combination of the Station and the Foundation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying combined financial statements follows:

1. Basis of Presentation and Accounting

The Station is engaged in business type activities only for purposes of reporting under Governmental Accounting Standards Board (GASB) Statement No. 34. Therefore, only the financial statements required for enterprise funds are required to be presented. The Station's combined financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

1. Basis of Presentation and Accounting -- (Continued)

When both restricted and unrestricted resources are available for use, it is the Station's policy to use restricted resources first, then unrestricted resources as they are needed.

2. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Station considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

3. Accounts Receivable

Accounts receivable primarily consist of grant receivables due from governmental agencies and receivables due from third parties for contracted services provided by the Station and are considered to be fully collectible. Accordingly, no provision has been made for uncollectible amounts. Any amounts that become uncollectible are written off using the direct write-off method. Historically, differences between receivables and amounts collected have been insignificant.

4. Capital Assets

Capital assets represent buildings and equipment acquired for the operation of the Station. Assets are owned by the College for the use of the Station and by the Foundation. Capital assets purchased (including assets acquired through grants and contracts where the grantor retains a reversionary interest) costing \$5,000 or more are recorded at cost and depreciated over their estimated useful lives. Donated assets are recorded at estimated fair market value at the date of receipt. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|--|--------------|
| Buildings | 40 |
| Structures & improvements | 10 - 25 |
| Studio, broadcast, and other equipment | 3 - 7 |

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

5. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: *invested in capital assets, restricted, and unrestricted net assets*. *Invested in capital assets*, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets (there is no outstanding debt related to these assets at this time). *Restricted net assets* consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, or from laws, regulations and enabling legislation, including self-imposed legal mandates. *Unrestricted net assets* consist of all other net assets not included in the above categories and which are available for the support of the Station's operations.

6. Revenues and Expenses

Operating revenues and expenses consist of those resulting from the ongoing principal operations of the Station. These activities include the acquisition and/or production of program material for public broadcast, the broadcast of program content via over-the-air signal, cable, satellite and internet distribution, complementary programmatic educational and community outreach services, and provision of broadcast/production services to others.

Sources of operating revenue are grants from the State of Florida and the Corporation for Public Broadcasting, direct support from the licensee (the College), contributions from viewers and members, contracted services to others, and indirect and in-kind support from the licensee and others. Allocations from the College are recorded as revenue in the *Statement of Revenues, Expenses and Changes in Net Assets* when expenditures are recorded. Unconditional promises to give (pledges) that are measurable are recorded as revenue after being discounted to the anticipated net present value of the future cash flows, and are reported net of an allowance for estimated uncollectible pledges. Contributed materials, supplies, facilities and property are recorded at their fair market value at the date of donation as unrestricted revenue unless restricted by the donor. Grants are recorded as deferred revenue until the monies are expended for the purposes authorized. Program production grants are reported as deferred revenue until the program is broadcast.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

6. Revenues and Expenses -- (Continued)

Program rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities, endowment contributions and donations and grants received for the acquisition of capital assets.

7. In-Kind Contributions

Donated services and materials are reflected as both revenue and an equal amount of expense in the combined financial statements at the estimated fair value of such contributions.

8. Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect amounts reported in the combined financial statements. Actual results could differ from those estimates.

9. Income Taxes

The Foundation is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. The Foundation is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles. With few exceptions, the Foundation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2008.

10. Advertising

Advertising costs are expensed as incurred and were \$40,056 and \$54,788 for the years ended June 30, 2011 and 2010, respectively.

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NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

11. Functional Allocation of Expenses

The costs of various programs and activities have been summarized on a functional basis in the combined financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

12. Events Occurring After Reporting Date

The Station has evaluated events and transactions that occurred between June 30, 2011 and December 14, 2011, which is the date that the combined financial statements were available to be issued, for possible recognition or disclosure in the combined financial statements.

13. Reclassifications

Certain reclassifications have been made to the 2010 combined financial statements to conform to the 2011 presentation.

NOTE C - CASH AND INVESTMENTS

The Foundation has an investment policy which provides guidelines for the investment of Foundation assets. The objectives of the Foundation's policy are to assure the preservation of capital, provide a reasonable rate of return, and to provide liquidity and growth of assets to meet the operational and capital needs of the Station. Allowable long-term investments include debt and equity securities; allowable short-term investments of cash may include overnight repurchase agreements, State Board of Administration (SBA) Florida PRIME investments (formerly the Local Government Investment Pool (LGIP), Money Market funds, and bank-insured certificates of deposit. Prohibited investments include margin or derivative securities, and investments greater than 5% with any one issuer (except, in the case of U.S. Government bonds). Funds on deposit from grantors with the College are held in a demand deposit account and are invested overnight in repurchase agreements.

The amount reported as unrestricted cash consists of cash on hand, cash in demand accounts, money market funds, the SBA Florida PRIME investment account and overnight repurchase agreements.

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NOTE C - CASH AND INVESTMENTS -- (Continued)

1. Cash

At year end the carrying amounts of the Station's bank deposits held in the accounts of the College were \$997,664 and \$1,047,709 as of June 30, 2011 and 2010, respectively. These accounts are held by qualified public depositories under Chapter 280, Florida Statutes. As such, these deposits are considered to be fully insured.

At June 30, 2011 and 2010, the Foundation's cash and money funds held in bank and brokerage accounts before deposits in transit and outstanding checks were \$490,562 and \$291,161, respectively. Brokerage account funds are subject to custodial credit risk - the risk that the deposits might not be recovered if the financial institution becomes insolvent. The Foundation does not have a policy prohibiting investment due to custodial credit risk, however, as of June 30, 2011 and 2010, the balances in the cash and money market funds were FDIC or SIPC insured. The Foundation also invests in overnight repurchase agreements; these balances at June 30, 2011 and 2010 were \$533,000 and \$645,000, respectively, and were entirely collateralized by government agency securities. The concentration of credit risk, interest rate risk, and foreign currency risk requirements do not apply to the Foundation's cash and cash equivalent balances.

Cash invested with the SBA represents the Foundation's participation in Florida PRIME, which is authorized by Section 218.415(17), Florida Statutes. Florida PRIME operates under investment guidelines established by Section 215.47, Florida Statutes. The Foundation's investments in Florida PRIME, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at amortized cost. Ownership of specific investments with the SBA is not specifically identifiable by governmental entity. The Florida Auditor General performs an operational audit of activities and investments of the SBA. As of June 30, 2011 and 2010, the Foundation's balances in Florida PRIME were \$137,617 and \$135,066, respectively.

In 2007, a restructuring of the LGIP assets resulted in the creation of a "Fund B Surplus Funds Trust Fund" (Fund B). Assets assigned to Fund B from the LGIP were of higher risk and longer maturity than those remaining in the LGIP. A proportional share of each depositor's LGIP balance was transferred to Fund B, and restrictions placed upon the availability of funds to depositors. Through the end of June 2011, the Foundation has received 83.0% of its original balance returned through distributions into its Florida PRIME account.

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NOTE C - CASH AND INVESTMENTS -- (Continued)

1. Cash -- (Continued)

Fund B is accounted for as a fluctuating Net Asset Value pool; the market value of the Foundation's investment in this pool at June 30, 2011 was \$6,438. The book balance of these assets was \$8,154, reflecting an unrealized loss in value as of June 30, 2011 of \$1,716. The Fund B portion of the Foundation's balances in the SBA accounts is classified as non-current and included in the Investments total on the Balance Sheet (see Note C.2 below).

Since Florida PRIME and Fund B are similar to money market funds where shares are owned in the fund rather than the actual underlying investments, disclosures for foreign currency risk are not applicable. In addition, there are no security lending activities for these funds as the Foundation does not own the underlying shares. The SBA's interpretation of GASB Statement No. 40 is that information related to credit risk and interest rate risk are applicable to the SBA accounts as noted below:

Credit Quality: Florida PRIME is rated by Standard and Poors, and carries an AAAM rating for 2011 and 2010. Fund B is not rated by a nationally recognized statistical rating agency.

Interest Rate Risk: The weighted average days to maturity (WAM) of Florida PRIME's investment portfolio was 31.5 days at June 30, 2011 and 46 days at June 30, 2010. 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 is relevant as an assessment of the sensitivity of Florida PRIME's investments to interest rate changes.

The weighted average life (WAL) of Fund B at June 30, 2011 and 2010 is subject to the maturity date, or earlier liquidation, if prudent, of the collateral securities underlying each of the fund holdings. Liquidation will be contingent upon future market conditions and other factors, and may or may not coincide with the maturity dates(s) of the underlying securities. The securities held in Fund B at June 30, 2011 resulted from completed or pending workouts of four remaining issuers.

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NOTE C - CASH AND INVESTMENTS -- (Continued)

1. Cash -- (Continued)

Restricted cash consists of funds received from donors for remaining digital television conversion costs and other equipment related purchases, endowment contributions to further WSRE operations in the future, and gifts and grants from donors restricted for a specific purpose.

2. Investments

In January of 2008, pursuant to actions of the Foundation Board of Directors, the endowment monies of the Foundation were placed with an external investment manager for investment in accordance with the Foundation's investment policy. These funds were directed to be invested to provide long-term growth of the corpus, with a balanced allocation among equity securities, fixed income securities and cash. The initial funds transferred for investment totaled \$1,125,000.

Investments held by the Foundation at June 30, 2011 are reported at fair market value as determined by level one inputs (valuation based on unadjusted quoted prices for identical assets or liabilities in active markets), as shown in the following table:

| <u>Investment Type</u> | <u>Maturity</u> | <u>Fair Market Value</u> |
|--|-----------------|--------------------------|
| Federated Government Obligations | n/a | \$ 60,106 |
| <u>Certificates of Deposit</u> | | |
| Bank Hapoalim B M (.45%) | 7-29-11 | 3,000 |
| <u>Equities</u> | | |
| ICM Small Company Portfolio | | 21,689 |
| American Europacific Growth Fund A | | 38,408 |
| Harbor International Fund | | 38,731 |
| Leuthold Asset Allocation Fund | | 27,016 |
| Munder Midcap Core Growth Fund | | 32,843 |
| Sentinel Common Stock Fund Class I | | 302,319 |
| Sentinel Small Company Fund | | 21,860 |
| Sentinel Mid Cap Value Fund | | 32,823 |
| Vanguard Emerging Markets Stock Index Fund | | 28,026 |

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NOTE C - CASH AND INVESTMENTS -- (Continued)

2. Investments -- (Continued)

| <u>Investment Type</u> | <u>Maturity</u> | <u>Fair Market Value</u> |
|---|--|----------------------------|
| <u>Fixed Income</u> | | |
| Federated Total Return Bond Fund | Avg maturity 7.5 years Avg quality A+ | 273,226 |
| Pimco Funds Low Duration | Avg maturity 2.7 years Avg quality A+ | 74,820 |
| Pimco Total Return | Avg maturity 6.1 years Avg quality A+ | 148,287 |
| State Board of Administration Local Government Pool Fund B (not rated) | | 6,438 |
| Total Investments | | <u>\$ 1,109,592</u> |
| Short Term Investments | | \$ 3,000 |
| Long Term Investments | | 1,106,592 |
| Total Investments | | <u>\$ 1,109,592</u> |

Investments held by the Foundation at June 30, 2010 are reported at fair market value, as shown in the following table:

| <u>Investment Type</u> | <u>Maturity</u> | <u>Fair Market Value</u> |
|------------------------------------|-----------------|--------------------------|
| CB&T Money Market Account | n/a | \$ 80,648 |
| <u>Certificates of Deposit</u> | | |
| American Express Bank (.5%) | 9-30-10 | 7,989 |
| <u>Equities</u> | | |
| ICM Small Company Portfolio | | 11,520 |
| American Europacific Growth Fund A | | 23,075 |
| Harbor International Fund | | 23,345 |
| Lazard Emerging Markets | | 15,689 |
| Leuthold Asset Allocation Fund | | 23,456 |
| Munder Midcap Core Growth Fund | | 17,275 |

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NOTE C - CASH AND INVESTMENTS -- (Continued)

2. Investments -- (Continued)

| <u>Investment Type</u> | <u>Maturity</u> | <u>Fair Market Value</u> |
|---|---|--------------------------|
| <u>Equities -- (Continued)</u> | | |
| Sentinel Common Stock Fund Class I | | 184,067 |
| Sentinel Small Company Fund | | 12,153 |
| Sentinel Mid Cap Value Fund | | 16,917 |
| <u>Fixed Income</u> | | |
| Federated Total Return Bond Fund | Avg maturity 6.2 years Avg quality A | 309,665 |
| Pimco Funds Low Duration | Avg maturity 2.9 years Avg quality AA- | 84,161 |
| Pimco Total Return | Avg maturity 6.6 years Avg quality AA- | 170,822 |
| State Board of Administration Local Government Pool Fund B (not rated) | | 6,538 |
| Total Investments | | <u>\$ 987,320</u> |
| Short Term Investments | | 7,989 |
| Long Term Investments | | 979,331 |
| Total Investments | | <u>\$ 987,320</u> |

Credit Risk

The investment policy guidelines provide for a general portfolio allocation in which cash funds or equivalents (90 days or less) will generally not exceed 25% of investable assets; equity investments will not exceed 60%, and fixed income investments generally will not exceed 75%. The investment portfolio at June 30, 2011 meets the policy guidelines, with equities representing 49%, fixed income representing 45% and cash representing 6%. The investment portfolio was also within policy guidelines at June 30, 2010.

Custodial Credit Risk

At June 30, 2010, the balance in the CB&T money market account was collateralized by the reserves of the Columbus Bank & Trust Company, which are comprised of U.S. Government bonds.

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NOTE C - CASH AND INVESTMENTS -- (Continued)

2. Investments -- (Continued)

Concentration of Credit Risk

There were no investments at June 30, 2011 and 2010 in which over 5% of the total investment portfolio was derived from one issuer, excluding US government and US government agency-backed securities.

Interest Rate Risk

The Foundation's fixed income portfolio at June 30, 2011 and 2010 consisted of mutual funds and investment in Fund B of the State Board of Administration (SBA).

As provided by Morningstar, at June 30, 2011 the Federated Total Return Bond Fund held an average rating of A+ and had 99% of its holdings rated B or better. The average duration was 5.1 years and the average maturity was 7.5 years, with a weighted average price of 107.02% of par. At June 30, 2010, the Federated Total Return Bond Fund held an average rating of A and had 99% of its holdings rated B or better. The average duration was 4.3 years and the average maturity was 6.2 years, with a weighted average price of 105.58% of par.

At June 30, 2011, the PIMCO Low Duration Fund held an average rating of A+ and had 96% of its holdings rated B or better. Effective average duration of this fund was 1.87 years, the effective average maturity was 2.73 years, and the weighted average price was 102.754% of par. At June 30, 2010, the PIMCO Low Duration Fund held an average rating of AA- and had 99% of its holdings rated B or better. Effective average duration of this fund was 2.2 years, the effective average maturity was 2.9 years, and the weighted average price was 100.54% of par.

At June 30, 2011, the PIMCO Total Return Fund an average rating of A+ and had 96% of its holdings rated B or better. Effective average duration of this fund was 4.37 years, the effective average maturity was 6.07 years, and the weighted average price was 102.740% of par. At June 30, 2010, the PIMCO Total Return Fund held an average rating of AA- and had 99% of its holdings rated B or better. Effective average duration of this fund was 4.8 years, the effective average maturity was 6.6 years, and the weighted average price was 103.20% of par.

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NOTE C - CASH AND INVESTMENTS -- (Continued)

2. Investments -- (Continued)

Interest Rate Risk -- (Continued)

SBA Fund B is not rated, and is valued at 79% of book value (\$8,154), or \$6,438 at June 30, 2011. At June 30, 2010, Fund B was valued at 63% of book value (\$10,313), or \$6,538. As investments in this fund mature, the proportionate shares owned by the Foundation are transferred to the Foundation's Florida PRIME account. As it is the SBA's intent to hold these investments to maturity, the interest rate risk from this investment is minimal.

NOTE D - PROMISES TO GIVE

Unconditional promises to give at June 30, 2011 and 2010 consist of the following:

| | | |
|---|-------------------|------------------|
| | <u>2011</u> | <u>2010</u> |
| Promises to give | \$ 474,612 | \$ 43,597 |
| Less present value discount | <u>(18,167)</u> | <u>(976)</u> |
| | 456,445 | 42,621 |
| Less allowance for uncollectible promises | <u>(44,982)</u> | <u>(2,590)</u> |
| Net collectable promises to give | <u>\$ 411,463</u> | <u>\$ 40,031</u> |
| Amounts due in: | | |
| Less than one year | \$ 146,151 | \$ 31,047 |
| One to four years | <u>265,312</u> | <u>8,984</u> |
| | <u>\$ 411,463</u> | <u>\$ 40,031</u> |

A three percent allowance for uncollectible promises to give has been provided for years one through three for the Foundation's Capital Campaign, and a ten percent allowance for the uncollectible promises to give related to the Foundation's 40th Legacy Society benefitting the Foundation Endowment and from the Foundation's 2011 EnvisionIt! Campaign.

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NOTE E - CAPITAL ASSETS

Capital assets consist of the following as of and for the years ended June 30, 2011 and 2010:

| | 2011 | | | |
|---|----------------------|---------------------|----------------|---------------------|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Depreciable assets: | | | | |
| Building | \$ 8,597,577 | \$ -- | \$ -- | \$8,597,577 |
| Studio, broadcast, and other equipment | <u>8,445,220</u> | <u>144,649</u> | <u>276,376</u> | <u>8,313,493</u> |
| Total depreciable capital assets | <u>17,042,797</u> | <u>144,649</u> | <u>276,376</u> | <u>16,911,070</u> |
| Less accumulated depreciation for: | | | | |
| Building | \$ 2,217,983 | \$ 209,287 | \$ -- | \$ 2,427,270 |
| Studio, broadcast, and other equipment | <u>6,633,926</u> | <u>521,972</u> | <u>276,376</u> | <u>6,879,522</u> |
| Total accumulated depreciation | <u>8,851,909</u> | <u>731,259</u> | <u>276,376</u> | <u>9,306,792</u> |
| Net depreciable assets | <u>\$ 8,190,888</u> | <u>\$ (586,610)</u> | <u>\$ --</u> | <u>\$ 7,604,278</u> |

| | 2010 | | | |
|---|----------------------|---------------------|----------------|---------------------|
| | Beginning Balance | Additions | Deletions | Ending Balance |
| Depreciable assets: | | | | |
| Building | \$ 8,597,577 | \$ -- | \$ -- | \$ 8,597,577 |
| Studio, broadcast, and other equipment | <u>8,716,897</u> | <u>556,248</u> | <u>827,925</u> | <u>8,445,220</u> |
| Total depreciable capital assets | <u>17,314,474</u> | <u>556,248</u> | <u>827,925</u> | <u>17,042,797</u> |
| Less accumulated depreciation for: | | | | |
| Building | \$ 2,008,696 | \$ 209,287 | \$ -- | \$ 2,217,983 |
| Studio, broadcast, and other equipment | <u>6,980,489</u> | <u>481,362</u> | <u>827,925</u> | <u>6,633,926</u> |
| Total accumulated depreciation | <u>8,989,185</u> | <u>690,649</u> | <u>827,925</u> | <u>8,851,909</u> |
| Net depreciable assets | <u>\$ 8,325,289</u> | <u>\$ (134,401)</u> | <u>\$ --</u> | <u>\$ 8,190,888</u> |

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NOTE F - PREPAID LEASE

In 2001, the Station entered into an operating lease for 160 acres of land improved with a transmitter building and a transmission tower. Under the terms of the lease the Station made a prepaid base rent payment of \$1,000,000. This prepaid rent is being recognized over the lease term of 15 years or \$65,000 per year.

NOTE G - COMPENSATED ABSENCES AND POSTEMPLOYMENT BENEFITS

Station 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 amount for accrued annual leave includes the employer's share of the Florida Retirement System and FICA contributions.

Changes in compensated absences for the year ended June 30, 2011 were as follows:

| | |
|--------------------------|-------------------|
| Balance at July 1, 2010 | \$ 246,520 |
| Additions | 108,701 |
| Deletions | <u>(84,589)</u> |
| Balance at June 30, 2011 | <u>\$ 270,632</u> |

The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits provided through the Florida Community College Risk Management Consortium and life benefits through purchased commercial insurance. The College contributes to a cost-sharing multiple-employer defined benefit plan administered by the Consortium for postemployment health care benefits and is a single-employer defined benefit program for life benefits. Station employees, as employees of the College, are eligible to receive these benefits. As the amount of the Station's proportionate share of the College's unfunded amortized actuarial accrued liability and the annual normal cost are immaterial for both 2011 and 2010, no liability or expense for the related annual required contribution has been recorded in the station's combined financial statements for this period.

WSRE-TV Station
A Public Communications Entity Operated by the
District Board of Trustees, Pensacola State College
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE H - COLLEGE SUPPORT

In addition to state appropriations and other direct support totaling \$1,194,175 for the operation of the Station, imputed indirect costs such as general administration, facility operations and maintenance, and other overhead costs for the benefit of the Station totaled \$811,833 for the year ended June 30, 2011. Comparable amounts for the year ended June 30, 2010 were direct support of \$1,292,617 and indirect support of \$791,828. These donated facilities and administrative support are recorded as revenue and expense in the accompanying combined financial statements. These indirect expenses for 2011 and 2010, respectively, are distributed functionally as follows:

| | 2011 | 2010 |
|------------------------------|------------|------------|
| Programming and Production | \$ 450,951 | \$ 451,421 |
| Broadcasting | 141,377 | 128,708 |
| Fund Raising and Development | 69,560 | 63,734 |
| Management and General | 149,945 | 147,965 |
| Total Expenses | \$ 811,833 | \$ 791,828 |

NOTE I - IN-KIND CONTRIBUTIONS

In-kind contributions consist of donated services and support primarily from the State of Florida and local businesses. The following is a summary of in-kind contribution revenue and expenses by functional category for the fiscal years ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|--------------------------------------|------------|------------|
| <u>In-Kind Contributions Revenue</u> | \$ 206,265 | \$ 209,135 |
| <u>In-Kind Contributions Expense</u> | | |
| Programming and Production | \$ 129,890 | \$ 142,986 |
| Broadcasting | 12,033 | 14,621 |
| Fundraising and Development | 34,840 | 14,507 |
| Management and General | 29,502 | 37,021 |
| Total Expenses | \$ 206,265 | \$ 209,135 |

WSRE-TV Station
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NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE J - DEFERRED REVENUE

Cash advances received through community service grants from the Corporation for Public Broadcasting and from the Florida Department of Education are recorded as deferred revenue when received and revenues are recognized when expenditures of the grant funds are incurred. Other deferred revenue is recorded from restricted gifts and grants received that are not recognized until expenditures are made as stipulated by the donors/grantors.

NOTE K - RELATED PARTIES

The Station is licensed to the District Board of Trustees of the College. All full-time, permanent employees of the Station are employees of the College and are eligible for participation in all employee benefit programs of the College.

In prior years, the Foundation has transferred funds to the PJC Foundation for aggregation with other College donations for matching grant funds from the Florida Academic Improvement Trust Fund. There were no transfers made in 2011 or 2010 for this purpose. Unspent funds, including matching portions appropriated by the State of Florida, are available for future expenditure for equipment needs of the Station. Remaining balances from prior year's transfers and matching awards available to the Station were \$57,358 and \$53,300 as of June 30, 2011 and 2010, respectively.

NOTE L - CONCENTRATIONS OF RISK

The Station's operations are funded by federal and state community service grants, cash and in-kind contributions from individuals and businesses in the Northwest Florida area, sales of production and broadcast services and by in-kind services and facilities provided by the College. The Station's ability to continue to operate at current levels is dependent on continued funding from these sources. In June of 2011, the Station was notified that state community service grant funding for public television and radio through the Florida Department of Education was eliminated by the Governor from the state budget for fiscal year 2011-12. Through personnel and budgetary adjustments, the Station was able to absorb this unexpected shortfall in state funding with minimal impact to services provided to the public.

WSRE-TV Station
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District Board of Trustees, Pensacola State College
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE M - RISK MANAGEMENT

The Station 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 through a self-insured program and the Florida Community Colleges Risk Management Consortium (Consortium).

The Consortium 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 reinsures through commercial insurance for claims in excess of specified amounts. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health and hospitalization, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Employee group life insurance is provided to Station employees through commercial insurance purchased by the College. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

General liability and property coverage for the Foundation are provided through purchased commercial insurance with minimum deductibles for each line of coverage.

NOTE N - SUPPLEMENTAL NON CASH FLOW INFORMATION

Cash flows from capital and related financing activities for the year ended June 30, 2010 does not include the purchases of approximately \$167,000 of capital assets as the corresponding invoices were included in accounts payable at June 30, 2010 and therefore did not have an impact on cash flows for the period.

The Station paid \$20,300 and \$93,730 for taxes for the years ended June 30, 2011 and 2010, respectively.

ADDITIONAL INFORMATION

**A Public Telecommunications Entity Operated by the
District Board of Trustees, Pensacola Junior College
SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011 with comparative totals for 2010**

| | Program Services | | | Supporting Services | | | 2011 Total Expenses | 2010 Total Expenses |
|--------------------------------------|----------------------------------|---------------------|---------------------|-----------------------------------|------------------------------|---------------------|---------------------------|---------------------------|
| | Programming and Production | Broadcasting | Total | Fundraising and Development | Management and General | Total | | |
| | | | | | | | | |
| 1. Personnel Expense | | | | | | | | |
| a. Salaries | \$ 540,728 | \$ 242,207 | \$ 782,935 | \$ 124,382 | \$ 201,885 | \$ 326,267 | 1,109,202 | 1,125,655 |
| b. Payroll taxes | 35,937 | 17,684 | 53,621 | 9,428 | 14,632 | 24,060 | 77,681 | 78,642 |
| c. Fringe benefits | 155,837 | 55,348 | 211,185 | 29,722 | 62,211 | 91,933 | 303,118 | 276,820 |
| TOTAL PERSONNEL EXPENSES | 732,502 | 315,239 | 1,047,741 | 163,532 | 278,728 | 442,260 | 1,490,001 | 1,481,117 |
| 2. Operating Expense | | | | | | | | |
| a. Rent | 3,105 | 107,743 | 110,848 | 12,671 | 69 | 12,740 | 123,588 | 116,781 |
| b. Utilities | 134,909 | 129,177 | 264,086 | 5,095 | 33,925 | 39,020 | 303,106 | 320,398 |
| c. Memberships and subscriptions | 384 | 47 | 431 | -- | 3,134 | 3,134 | 3,565 | 2,338 |
| d. Repair & maintenance | 10,657 | 65,694 | 76,351 | 10,740 | 4,987 | 15,727 | 92,078 | 45,047 |
| e. Professional services | -- | -- | -- | 165 | 67,924 | 68,089 | 68,089 | 40,841 |
| f. Travel | 1,990 | 1,837 | 3,827 | 2,988 | 12,498 | 15,486 | 19,313 | 38,644 |
| g. Pledge Premiums | 150 | -- | 150 | 56,161 | -- | 56,161 | 56,311 | 55,518 |
| h. Program acquisitions/license fees | 501,819 | -- | 501,819 | 40,329 | -- | 40,329 | 542,148 | 532,978 |
| i. Programming affinity group fees | 141,688 | 17 | 141,705 | -- | 29,227 | 29,227 | 170,932 | 170,792 |
| j. Program traffic expense | 58,527 | 567 | 59,094 | -- | -- | -- | 59,094 | 25,198 |
| k. Videotape/storage media | 18,872 | -- | 18,872 | -- | -- | -- | 18,872 | 16,936 |
| l. Minor equipment purchases | 36,549 | 60,602 | 97,151 | 285 | 11,762 | 12,047 | 109,198 | 106,539 |
| m. Hospitality | 2,721 | 37 | 2,758 | 8,712 | 3,248 | 11,960 | 14,718 | 13,258 |
| n. Contracted labor | 59,788 | 40,302 | 100,090 | 81,629 | 36,826 | 118,455 | 218,545 | 192,907 |
| o. Software | 18,553 | 5,461 | 24,014 | -- | 40 | 40 | 24,054 | 5,799 |
| p. Insurance | -- | 13,449 | 13,449 | -- | 4,557 | 4,557 | 18,006 | 26,220 |
| q. Honoraria fees | -- | -- | -- | -- | -- | -- | -- | -- |
| r. Supplies | 42,808 | 28,896 | 71,704 | 11,405 | 4,000 | 15,405 | 87,109 | 44,379 |
| s. Freight and postage | 2,136 | 908 | 3,044 | 13,058 | 1,022 | 14,080 | 17,124 | 16,377 |
| t. Communication | 7,326 | 5,438 | 12,764 | 2,105 | 8,366 | 10,471 | 23,235 | 18,493 |
| u. Printing | 4,895 | 72 | 4,967 | 23,326 | 2,553 | 25,879 | 30,846 | 43,062 |
| v. Advertising | 35,266 | -- | 35,266 | 1,849 | 2,941 | 4,790 | 40,056 | 54,788 |
| w. Taxes | -- | 27,045 | 27,045 | -- | 477 | 477 | 27,522 | 83,744 |
| x. Other Services | 134,943 | 7,595 | 142,538 | 47,267 | 1,973 | 49,240 | 191,778 | 150,846 |
| y. Bank fees | 64 | 20 | 84 | 10,185 | 574 | 10,759 | 10,843 | 10,617 |
| z. Depreciation | 279,518 | 404,371 | 683,889 | 8,644 | 38,726 | 47,370 | 731,259 | 690,649 |
| aa. Bad debt expense | -- | -- | -- | (81) | -- | (81) | (81) | 11,486 |
| TOTAL OPERATING EXPENSES | 1,496,668 | 899,278 | 2,395,946 | 336,533 | 268,829 | 605,362 | 3,001,308 | 2,834,635 |
| TOTAL DIRECT EXPENSES | 2,229,170 | 1,214,517 | 3,443,687 | 500,065 | 547,557 | 1,047,622 | 4,491,309 | 4,315,752 |
| IN-KIND: | | | | | | | | |
| Florida Dept. of Education | -- | 12,033 | 12,033 | -- | 21,652 | 21,652 | 33,685 | 33,933 |
| Donated materials and services | 129,890 | -- | 129,890 | 34,840 | 7,850 | 42,690 | 172,580 | 175,202 |
| TOTAL IN-KIND | 129,890 | 12,033 | 141,923 | 34,840 | 29,502 | 64,342 | 206,265 | 209,135 |
| INDIRECT: | | | | | | | | |
| Pensacola State College | 450,951 | 141,377 | 592,328 | 69,560 | 149,945 | 219,505 | 811,833 | 791,828 |
| TOTAL INDIRECT | 450,951 | 141,377 | 592,328 | 69,560 | 149,945 | 219,505 | 811,833 | 791,828 |
| TOTAL EXPENSES | \$ 2,810,011 | \$ 1,367,927 | \$ 4,177,938 | \$ 604,465 | \$ 727,004 | \$ 1,331,469 | \$ 5,509,407 | \$ 5,316,715 |

See independent auditor's report.

**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**

Board of Trustees - Pensacola State College
WSRE-TV Station
Pensacola, Florida

We have audited the combined financial statements of WSRE-TV Station (the Station), a public telecommunications entity operated by the District Board of Trustees, Pensacola State College, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Station's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Station's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Station's internal control over financial reporting.

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 entity's combined financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Station's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of combined 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management and state awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

O'Sullivan Creel, LLP

December 14, 2011