

PENSACOLA STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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- Notes: (1) Board member served beyond the end of term, May 31, 2011.
 (2) Board member served beyond the end of term, May 31, 2010.
 (3) Position remained vacant from April 1, 2012, through June 30, 2012.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Joan E. Valle, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent College records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pensacola State College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports 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 reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pensacola State College and of its aggregate discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year 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 a report on our consideration of Pensacola State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
February 19, 2013

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, 2012, 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 financial activity of the College for the fiscal years ended June 30, 2012, and June 30, 2011, and its component units, the Pensacola State College Foundation, Inc., for the fiscal years ended December 31, 2011, and December 31, 2010, and the WSRE-TV Foundation, Inc., for the fiscal years ended June 30, 2012, and June 30, 2011.

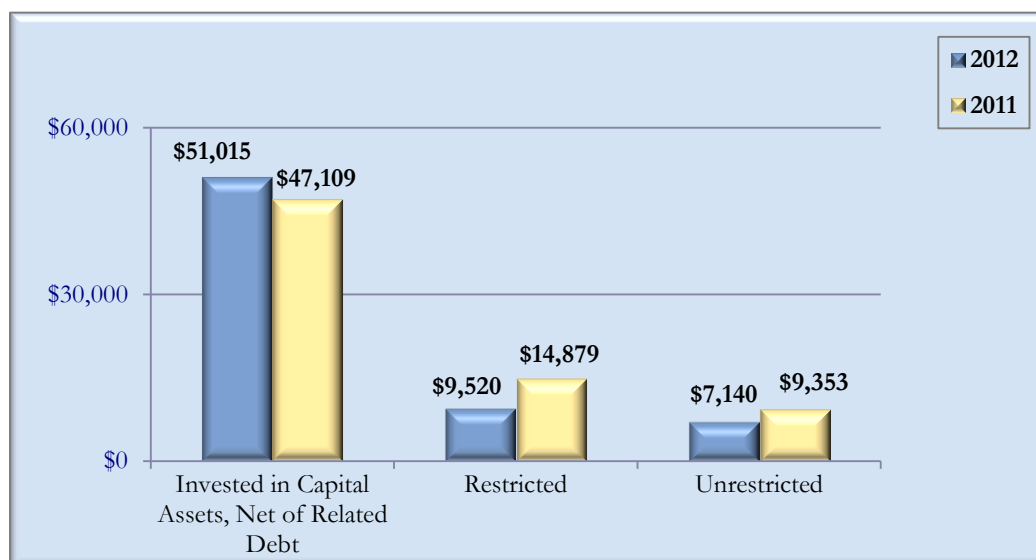
FINANCIAL HIGHLIGHTS

The College's assets totaled \$80.9 million at June 30, 2012. This balance reflects a \$5 million, or 5.8 percent, decrease as compared to the 2010-11 fiscal year, resulting from a reduction in the amounts due from other governmental agencies of \$7.6 million. While assets decreased, liabilities decreased by a lesser amount of \$1.3 million, or 9.1 percent, totaling \$13.3 million at June 30, 2012, compared to \$14.6 million at June 30, 2011. As a result, the College's net assets decreased by \$3.7 million, resulting in a year-end balance of \$67.7 million.

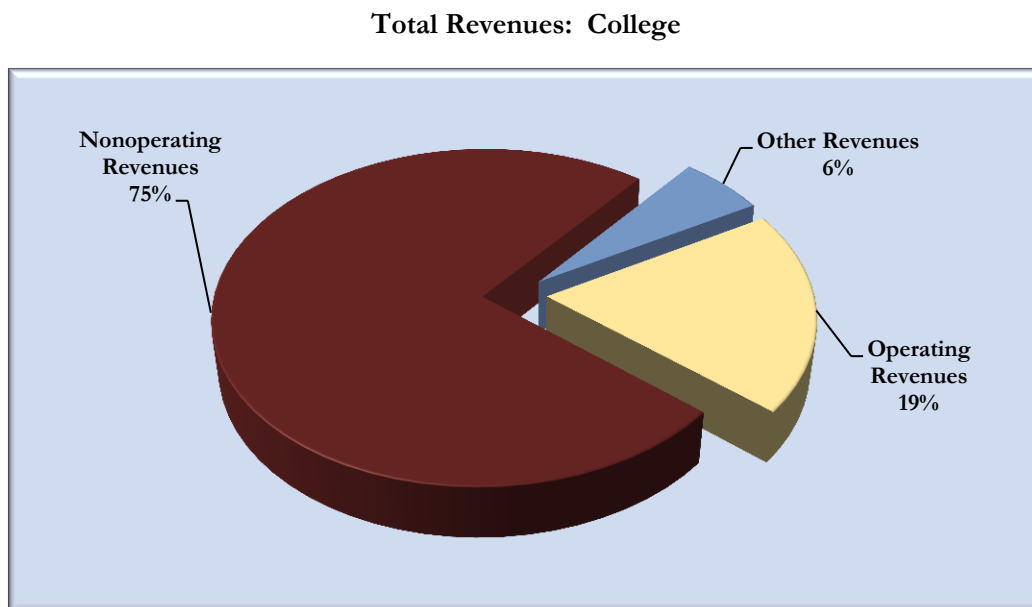
The College's operating revenues totaled \$15.4 million for the 2011-12 fiscal year, representing a 4.1 percent decrease as compared to the 2010-11 fiscal year due mainly to a decrease in grants and contracts and other operating revenue. Operating expenses totaled \$83.3 million for the 2011-12 fiscal year, representing an increase of 3.4 percent as compared to the 2010-11 fiscal year due mainly to increases in expenditures for materials and supplies.

Net assets represent the residual interest in the College's assets after deducting liabilities. The College's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2011-12 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net 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:

- Pensacola State College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Pensacola State College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. This component unit provides funding and services to support and foster the pursuit of higher education at the College.
- WSRE-TV Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. This component unit provides funding and services to support and foster the activities, operations, and capital needs of WSRE-TV, a public telecommunications station owned and operated by the College.

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 Pensacola State College as a whole, better 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 Pensacola State College's operating results.

These two statements report Pensacola State 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 and are presented 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 units for the respective fiscal years ended is shown in the following table:

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

	College		Component Units (1)	
	6-30-12	6-30-11	2012	2011
Assets				
Current Assets	\$ 22,565	\$ 31,174	\$ 9,334	\$ 9,965
Capital Assets, Net	52,915	49,269	24	40
Other Noncurrent Assets	<u>5,447</u>	<u>5,470</u>	<u>10,473</u>	<u>10,324</u>
Total Assets	<u>80,927</u>	<u>85,913</u>	<u>19,831</u>	<u>20,329</u>
Liabilities				
Current Liabilities	5,912	6,912	488	517
Noncurrent Liabilities	<u>7,340</u>	<u>7,660</u>	<u>81</u>	<u>83</u>
Total Liabilities	<u>13,252</u>	<u>14,572</u>	<u>569</u>	<u>600</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	51,015	47,109	24	40
Restricted	9,520	14,879	16,595	17,361
Unrestricted	<u>7,140</u>	<u>9,353</u>	<u>2,643</u>	<u>2,328</u>
Total Net Assets	<u>\$ 67,675</u>	<u>\$ 71,341</u>	<u>\$ 19,262</u>	<u>\$ 19,729</u>
Decrease in Net Assets	<u>\$ (3,666)</u>	-5.1%	<u>\$ (467)</u>	-2.4%

Note: (1) For the 2012 year, the amounts reported are for the fiscal year ended June 30, 2012, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2011, for the Pensacola State College Foundation, Inc. For the 2011 year, the amounts reported are for the fiscal year ended June 30, 2011, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2010, for the Pensacola State College Foundation, Inc.

Current assets decreased primarily as a result of Public Education Capital Outlay dollars that were due to the College at June 30, 2011, that were subsequently received and expended. Capital assets increased due to the purchase of land adjacent to the Milton Campus as well as the completion of the construction of the South Santa Rosa Center (SSRC). Current liabilities decreased primarily due to the payment of amounts due to vendors. Restricted net assets decreased primarily due to the use of funds to complete the SSRC. Unrestricted net assets decreased primarily due to the use of funds for the Milton land purchase, general renovation and repair projects, and multi-campus signage.

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

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

	College		Component Units (1)	
	6-30-12	6-30-11	2012	2011
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 11,157	\$ 11,316	\$	\$
Federal Grants and Contracts	2,021	1,789		
State and Local Grants and Contracts	29	345		
Nongovernmental Grants and Contracts	382	483		
Sales and Services of Educational Departments	916	952		
Auxiliary Enterprises	619	573		
Other Operating Revenues	321	645	2,544	3,777
Total Operating Revenues	15,445	16,103	2,544	3,777
Less, Operating Expenses	83,257	80,489	3,418	3,444
Operating Income (Loss)	(67,812)	(64,386)	(874)	333
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	33,082	33,230		
Other Nonoperating Revenues	26,531	29,284	356	1,724
Nonoperating Expenses	(113)	(120)		(49)
Net Nonoperating Revenues	59,500	62,394	356	1,675
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(8,312)	(1,992)	(518)	2,008
State Capital Appropriations	1,698	4,191		
Capital Grants, Contracts, Gifts, and Fees	2,948	2,873		
Additions to Permanent Endowments			51	95
Increase (Decrease) in Net Assets	(3,666)	5,072	(467)	2,103
Net Assets, Beginning of Year	71,341	66,269	19,729	17,626
Net Assets, End of Year	\$ 67,675	\$ 71,341	\$ 19,262	\$ 19,729

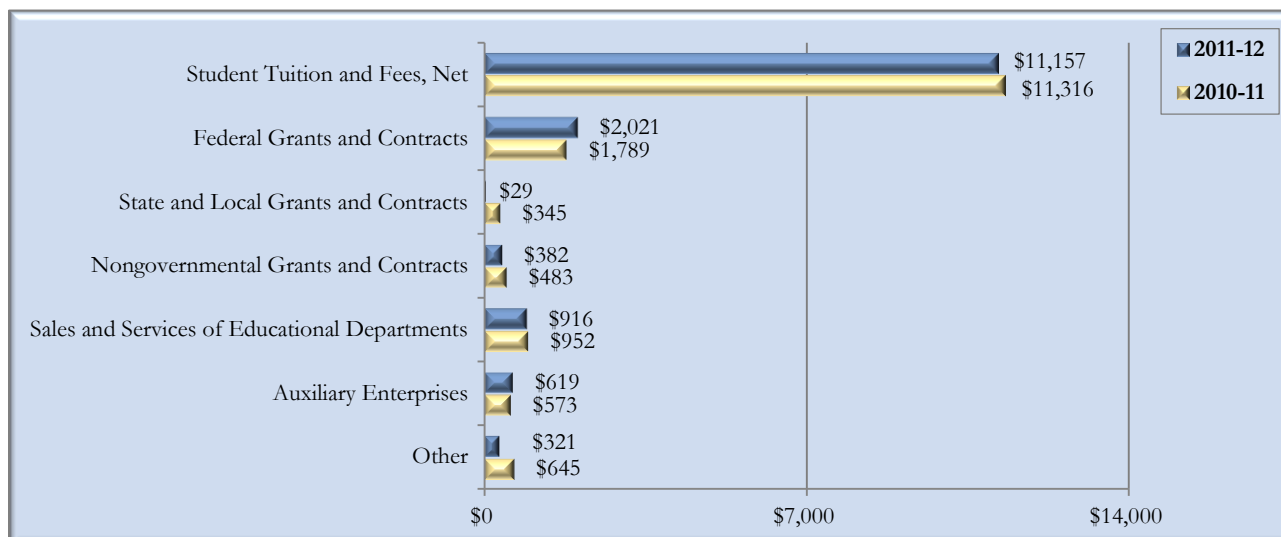
Note: (1) For the 2012 year, the amounts reported are for the fiscal year ended June 30, 2012, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2011, for the Pensacola State College Foundation, Inc. For the 2011 year, the amounts reported are for the fiscal year ended June 30, 2011, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2010, for the Pensacola State College Foundation, Inc.

Operating Revenues

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

The following chart presents the College's operating revenues for the 2011-12 and 2010-11 fiscal years:

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



College operating revenue changes were primarily the result of a decrease in State grants received from the Corporation for Public Broadcasting and a decrease in other operating revenues primarily due to a decrease in rental income from the use of College facilities.

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 units for the respective fiscal years ended are presented in the following table:

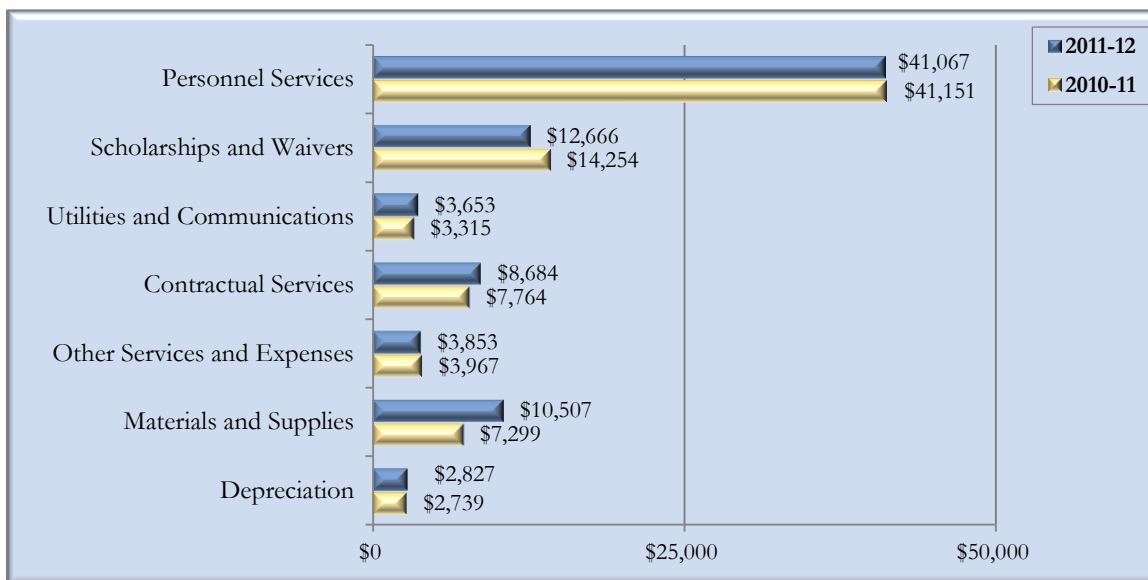
**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Units (1)	
	6-30-12	6-30-11	2012	2011
Operating Expenses				
Personnel Services	\$ 41,067	\$ 41,151	\$	\$
Scholarships and Waivers	12,666	14,254	821	862
Utilities and Communications	3,653	3,315	16	23
Contractual Services	8,684	7,764	465	363
Other Services and Expenses	3,853	3,967	1,849	1,940
Materials and Supplies	10,507	7,299	252	233
Depreciation	2,827	2,739	15	23
Total Operating Expenses	\$ 83,257	\$ 80,489	\$ 3,418	\$ 3,444

Note: (1) For the 2012 year, the amounts reported are for the fiscal year ended June 30, 2012, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2011, for the Pensacola State College Foundation, Inc. For the 2011 year, the amounts reported are for the fiscal year ended June 30, 2011, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2010, for the Pensacola State College Foundation, Inc.

The following chart presents the College's operating expenses for the 2011-12 and 2010-11 fiscal years:

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



College operating expense increases were primarily in material and supplies resulting from the purchase of equipment for the South Santa Rosa and Century Centers, which began holding classes in January 2012, and exterior upgrades at the Warrington Campus.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital 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 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses): College (In Thousands)

	2011-12	2010-11
State Noncapital Appropriations	\$33,082	\$33,230
Federal and State Student Financial Aid	23,055	23,072
Gifts and Grants	3,358	6,115
Investment Income	64	53
Other Nonoperating Revenues	54	44
Loss on Disposal of Capital Assets	(5)	
Interest on Capital Asset-Related Debt	(108)	(120)
Net Nonoperating Revenues	\$59,500	\$62,394

Nonoperating revenues and expenses decreased by \$2.9 million, or 4.6 percent, due primarily to a reduction in State noncapital appropriations and a decrease in gifts and grants due to a reduction in Federal American Reinvestment and Recovery Act (ARRA) funding.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
State Capital Appropriations	\$ 1,698	\$ 4,191
Capital Grants, Contracts, Gifts, and Fees	2,948	2,873
Total	\$ 4,646	\$ 7,064

Other revenues decreased by \$2.4 million, or 34.2 percent, primarily due to reductions in Public Education Capital Outlay appropriations.

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 2011-12 and 2010-11 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College
(In Thousands)

	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (65,629)	\$ (61,940)
Noncapital Financing Activities	60,581	61,545
Capital and Related Financing Activities	4,404	3,183
Investing Activities	<u>84</u>	<u>68</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(560)	2,856
Cash and Cash Equivalents, Beginning of Year	<u>21,073</u>	<u>18,217</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,513</u></u>	<u><u>\$ 21,073</u></u>

Major sources of funds came from State noncapital appropriations (\$33.1 million), Federal and State student financial aid (\$23.8 million), and net student tuition and fees (\$11 million). Major uses of funds were for payments to employees (\$33.7 million), payments to suppliers (\$24 million), and payments for scholarships (\$12.7 million).

Cash and cash equivalents decreased by \$0.6 million, or 2.7 percent, primarily due to an increase in cash outflows for operating activities related to campus renovations and an increase in cash flows from capital and related financing due to the receipt of Public Education Capital Outlay for construction projects completed during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$110.2 million in capital assets, less accumulated depreciation of \$57.3 million, for net capital assets of \$52.9 million. Depreciation charges for the current fiscal year totaled \$2.8 million. The following table summarizes the College's capital assets at June 30:

Capital Assets, Net at June 30: College
(In Thousands)

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 12,659	\$ 11,039
Buildings	73,264	63,251
Other Structures and Improvements	10,695	10,658
Furniture, Machinery, and Equipment	13,525	13,712
Artwork	117	106
Construction in Progress	<u> </u>	<u>5,945</u>
Total	<u>110,260</u>	<u>104,711</u>
Less, Accumulated Depreciation:		
Buildings	36,250	34,670
Other Structures and Improvements	9,151	8,860
Furniture, Machinery, and Equipment	<u>11,944</u>	<u>11,912</u>
Total Accumulated Depreciation	<u>57,345</u>	<u>55,442</u>
Capital Assets, Net	<u><u>\$ 52,915</u></u>	<u><u>\$ 49,269</u></u>

The College had \$0.4 million in construction commitments at June 30, 2012. The commitments are for projects related to the exterior upgrades and master planning at the Warrington Campus. State appropriations together with local funds are expected to finance the construction, renovation, and purchase of land and facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$1.9 million in long-term debt outstanding versus \$2.2 million at the end of the prior fiscal year, a decrease of 13.6 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, there were no bond sales and debt repayments totaled \$368 thousand for principal and interest. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Pensacola State College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a decrease in State funding, or level funding at best, is anticipated in the 2012-13 fiscal year. In response to the uncertainty in State appropriations, the Board of Trustees increased the tuition rate 5 percent to take effect beginning with the Fall 2012 term. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Business Affairs, Pensacola State College, 1000 College Boulevard, Pensacola, Florida 32504.

BASIC FINANCIAL STATEMENTS

PENSACOLA STATE COLLEGE A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2012

	College	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 13,488,469	\$ 2,513,905
Restricted Cash and Cash Equivalents	2,177,364	536,044
Investments		758,715
Restricted Investments		5,117,032
Accounts Receivable, Net	897,306	65,884
Notes Receivable, Net	144,018	
Due from Other Governmental Agencies	5,501,230	
Due from Component Unit	56,433	
Prepaid Expenses	298,169	107,447
Other Assets	1,600	235,370
Total Current Assets	22,564,589	9,334,397
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,847,683	
Investments		586,475
Restricted Investments	123,611	9,055,626
Prepaid Expenses	421,460	
Other Noncurrent Assets	54,496	830,271
Depreciable Capital Assets, Net	40,138,851	24,444
Nondepreciable Capital Assets	12,775,826	
Total Noncurrent Assets	58,361,927	10,496,816
TOTAL ASSETS	\$ 80,926,516	\$ 19,831,213
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 860,633	\$ 231,066
Salary and Payroll Taxes Payable	1,401,021	
Retainage Payable	129,023	
Deferred Revenue	2,660,105	257,339
Deposits Held for Others	181,435	
Long-Term Liabilities - Current Portion:		
Bonds Payable	275,000	
Compensated Absences Payable	404,601	
Total Current Liabilities	5,911,818	488,405
Noncurrent Liabilities:		
Bonds Payable	1,625,000	
Compensated Absences Payable	5,714,870	
Other Long-term Liabilities		80,744
Total Noncurrent Liabilities	7,339,870	80,744
TOTAL LIABILITIES	13,251,688	569,149

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	<u>College</u>	<u>Component Units</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 51,014,677	\$ 24,444
Restricted:		
Nonexpendable:		
Endowment		9,153,228
Expendable:		
Grants and Loans	669,878	
Capital Projects	8,810,080	
Debt Service	39,991	
Other		7,441,140
Unrestricted	<u>7,140,202</u>	<u>2,643,252</u>
Total Net Assets	<u>67,674,828</u>	<u>19,262,064</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 80,926,516</u>	<u>\$ 19,831,213</u>

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

PENSACOLA STATE 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, 2012

	College	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$12,763,477	\$ 11,157,385	\$
Federal Grants and Contracts	2,021,105	
State and Local Grants and Contracts	29,261	
Nongovernmental Grants and Contracts	382,303	
Sales and Services of Educational Departments	916,061	
Auxiliary Enterprises	618,949	
Other Operating Revenues	320,291	2,544,336
Total Operating Revenues	15,445,355	2,544,336
EXPENSES		
Operating Expenses:		
Personnel Services	41,067,022	
Scholarships and Waivers	12,665,472	821,519
Utilities and Communications	3,653,445	15,602
Contractual Services	8,684,051	464,531
Other Services and Expenses	3,852,510	1,849,787
Materials and Supplies	10,507,357	252,075
Depreciation	2,827,303	15,366
Total Operating Expenses	83,257,160	3,418,880
Operating Loss	(67,811,805)	(874,544)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	33,081,544	
Federal and State Student Financial Aid	23,054,439	
Gifts and Grants	3,358,078	
Investment Income	64,490	356,222
Other Nonoperating Revenues	53,755	(119)
Loss on Disposal of Capital Assets	(5,241)	
Interest on Capital Asset-Related Debt	(107,700)	
Net Nonoperating Revenues	59,499,365	356,103
Loss Before Other Revenues, Expenses, Gains, or Losses	(8,312,440)	(518,441)
State Capital Appropriations	1,698,137	
Capital Grants, Contracts, Gifts, and Fees	2,948,029	
Additions to Permanent Endowments		51,216
Total Other Revenues	4,646,166	51,216
Decrease in Net Assets	(3,666,274)	(467,225)
Net Assets, Beginning of Year	71,341,102	19,729,289
Net Assets, End of Year	\$ 67,674,828	\$ 19,262,064

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

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 10,977,933
Grants and Contracts	2,769,973
Payments to Suppliers	(24,043,052)
Payments for Utilities and Communications	(3,653,445)
Payments to Employees	(33,730,603)
Payments for Employee Benefits	(7,452,761)
Payments for Scholarships	(12,665,472)
Loans Issued to Students	(979,583)
Collection on Loans to Students	945,507
Auxiliary Enterprises	618,949
Sales and Service of Educational Departments	916,061
Other Receipts	667,549
Net Cash Used by Operating Activities	<u>(65,628,944)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	33,081,544
Federal and State Student Financial Aid	23,842,506
Federal Direct Loan Program Receipts	2,703,354
Federal Direct Loan Program Disbursements	(2,793,471)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,746,986
Net Cash Provided by Noncapital Financing Activities	<u>60,580,919</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	8,533,375
Capital Grants and Gifts	2,915,529
Proceeds from Sale of Capital Assets	48,514
Purchases of Capital Assets	(6,725,463)
Principal Paid on Capital Debt	(260,000)
Interest Paid on Capital Debt	(107,700)
Net Cash Provided by Capital and Related Financing Activities	<u>4,404,255</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,388
Investment Income	82,343
Net Cash Provided by Investing Activities	<u>83,731</u>
Net Decrease in Cash and Cash Equivalents	(560,039)
Cash and Cash Equivalents, Beginning of Year	<u>21,073,555</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,513,516</u></u>

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (67,811,805)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	2,827,303
Changes in Assets and Liabilities:	
Receivables, Net	(263,512)
Other Assets	281,342
Accounts Payable	(1,056,270)
Deferred Revenue	362,358
Deposits Held for Others	48,689
Compensated Absences Payable	<u>(17,049)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (65,628,944)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING ACTIVITIES	
Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 16,546
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 5,241

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

**PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Pensacola State 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 Florida Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the District correspond with those of Escambia and Santa Rosa counties.

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

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following component units are included within the College's reporting entity:

- The Pensacola State College Foundation, Inc.: This organization provides funding and services to support and foster the pursuit of higher education at the College.
- The WSRE-TV Foundation, Inc.: This organization provides funding and services to support and foster the activities, operations, and capital needs of WSRE-TV, a public telecommunications station operated by the College.

The College's component units are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The audited financial statements for each component unit are available to the public at the College. The financial data reported on the accompanying financial statements for the Pensacola State College Foundation, Inc., was derived from audited financial statements for the fiscal year ended December 31, 2011. The financial data reported on the accompanying financial statements for the WSRE-TV Foundation, Inc., was derived from audited financial statements for the fiscal year ended June 30, 2012. Additional condensed financial statements for the College's component units are included in a subsequent note.

The College's component units, as described above, are also direct-support organizations, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, are financially accountable to the College. The component units are managed independently, outside the College's budgeting process, and their powers generally are vested in a governing board pursuant to various State statutes. The component units receive, hold, invest, and administer property, and make expenditures to or for the benefit of the College.

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

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

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

The College follows GASB pronouncements and FASB pronouncements issued on or before November 30, 1989, unless FASB pronouncements conflict with GASB pronouncements. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has the option to elect to apply all pronouncements of FASB issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

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

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

The statement of net 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. To the extent that these resources are used to pay student charges, the College records a scholarship allowance against tuition and fees.

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

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash with the State Board of Administration (SBA) Florida PRIME investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SBA Florida PRIME investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2012, the College and the WSRE-TV Foundation, Inc., reported as cash equivalents \$3,055,317 and \$139,386, respectively, in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 38 days as of June 30, 2012. 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

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 to 25 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Office Machines, and Educational Equipment – 5 years
 - Furniture, Mainframe Computer Equipment, and Television Equipment – 7 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable and compensated absences payable that are not scheduled to be paid within the next fiscal year.

2. INVESTMENTS

The College's Board of Trustees had not adopted a written investment policy. Therefore, pursuant to Section 218.415(17), Florida Statutes, the College is authorized to invest in the Florida PRIME investment pool, administered by the State Board of Administration (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College's investments at June 30, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 83,620
State Board of Administration Debt Service Accounts	<u>39,991</u>
Total College Investments	<u>\$ 123,611</u>

**PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2012, the College and WSRE-TV Foundation, Inc., reported investments at fair value of \$83,620 and \$5,593, respectively, in Fund B. Investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2012. WAL measures the sensitivity of Fund B to interest rate changes. The investments in Fund B are unrated.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$39,991 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education (SBE) for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Units' Investments

Investments reported for the component units are reported at fair value as follows:

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investment Type	Average	Credit	Fair Value		
	Maturity	Quality	Pensacola State College Foundation, Inc. 12-31-11	WSRE-TV Foundation, Inc. 6-30-12	Total
Debt Obligations and Mutual Funds:					
Government National Mortgage Association II Modified Pass Thru Pool #26442	September 2028	(1)	\$ 1,208	\$	\$ 1,208
PIMCO All Asset Fund	7.9 Years	Baa	821,781		821,781
PIMCO Low Duration Fund	3.7 Years	AA		72,553	72,553
PIMCO Total Return Fund	6.9 Years	AA-	1,802,305	146,859	1,949,164
Vanguard Fixed Income Securities Inflation Protected Securities	9.4 Years	AAA	1,402,224		1,402,224
Vanguard Short-Term Investment-Grade Fund	2.5 Years	A	589,564		589,564
Federated Total Return Bond Fund	6.0 Years	A+		265,623	265,623
Equities, Equity Mutual Funds, and Other Investments					
Lazard Emerging Markets	(1)	(1)	60,349		60,349
Daily Valued Stock Index Fund	(1)	(1)	3,625,599		3,625,599
SMAM Government/Credit Index Fund	(1)	(1)	1,806,590		1,806,590
International Stock Index Fund	(1)	(1)	1,237,714		1,237,714
Small CAP Stock Index Fund	(1)	(1)	1,745,676		1,745,676
Vanguard Dividend Growth Fund	(1)	(1)	1,302,167		1,302,167
Federated Government Obligations	(1)	(1)		79,072	79,072
ICM Small Company Portfolio	(1)	(1)		22,440	22,440
American Europacific Growth Fund A	(1)	(1)		36,256	36,256
Harbor International Fund	(1)	(1)		36,097	36,097
Leuthold Asset Allocation Fund	(1)	(1)		19,332	19,332
Munder Midcap Core Growth Fund	(1)	(1)		33,790	33,790
Sentinel Common Stock Fund Class I	(1)	(1)		320,106	320,106
Sentinel Small Company Fund	(1)	(1)		22,348	22,348
Vanguard Emerging Markets Stock Index Fund	(1)	(1)		28,671	28,671
Victory Established Value Fund	(1)	(1)		33,931	33,931
SBA Fund B Surplus Funds Trust Fund	(2)	(2)		5,593	5,593
Total Component Units' Investments			\$ 14,395,177	\$ 1,122,671	\$15,517,848

Notes: (1) Investment disclosures are not required for these investments.

(2) SBA FUND B disclosures are detailed on page 21.

Interest Rate Risk: Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Pensacola State College Foundation, Inc.'s investment in the PIMCO All Asset Fund had an average effective duration of 4.7 years. The PIMCO Total Return Fund had an average effective duration of 7 years. Vanguard Fixed Income Securities Inflation Protected Securities had an average effective duration of 8.4 years. Vanguard Short-Term Investment-Grade Fund had an average effective duration of 2.2 years. The Government National Mortgage Association II Modified Pass Thru Pool #26442 has a maturity date of September 20, 2028.

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The WSRE-TV Foundation, Inc.'s investment in the Federated Total Return Bond Fund held an average rating of A+ and had 98 percent of its holdings rated B or better. The average duration was 6 years with a weighted average price of 108.44 percent of par. The PIMCO Low Duration Fund held an average rating of AA and had 98 percent of its holdings rated B or better. The effective average duration was 2.80 years and the weighted average price was 104.76 percent of par. The PIMCO Total Return Fund held an average rating of AA- and the effective average duration was 4.82 years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Pensacola State College Foundation, Inc.'s investment policy permits investment in equities listed on a national exchange and bonds issued in United States dollars. Uses of leverage in an account (margin or derivative securities that increase risk) are prohibited as an investment. Cash should be transitional or held for the purpose of providing liquidity to meet the Foundation's cash flow requirements. This includes commercial paper with an A-1 or P-1 rating at the time of initial investment and money market funds. Mutual funds consisted of PIMCO All Asset Fund and PIMCO Total Return Fund which held an average rating of Baa and AA- respectively and Vanguard Fixed Income Securities Inflation Protected Securities and Vanguard Short-Term Investment-Grade Fund which held an average rating of AAA and A respectively.

The WSRE-TV Foundation, Inc.'s investment policy provides that cash and cash equivalents not exceed 25 percent of investable assets, equities not exceed 60 percent, and fixed income not exceed 75 percent. The investment portfolio at June 30, 2012, meets the policy guidelines.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Investments of the Pensacola State College Foundation, Inc., are held by Synovus Trust Company, N.A., of Birmingham, Alabama, at its sub-custodian, The Bank of New York Mellon. At December 31, 2011, the Foundation's cash balances before outstanding checks totaled approximately \$1.78 million of which \$1.76 million was insured by the FDIC.

The WSRE Foundation, Inc.'s policy does not address custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the component unit's investment in a single issuer.

The Pensacola State College Foundation, Inc.'s investment policy provides that investments should produce maximum total return consistent with prudent risk limits. To achieve this policy, the Foundation uses targets of 45 to 75 percent in equities, 25 to 55 percent in bonds, 5 to 25 percent in small capitalization equities, no more than 20 percent in international equities, and no more than 5 percent in a diversified portfolio of noninvestment grade bonds. The investments at December 31, 2011, meet the investment policy guidelines.

**PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The WSRE-TV Foundation, Inc., did not have any investments at June 30, 2012, in which over 5 percent of the total investment portfolio derived from one issuer, excluding U.S. Government and U.S. Government agency-backed securities.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments and grant reimbursements due from third parties. These receivables are reported net of a \$228,160 allowance for doubtful accounts.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under the College's short-term loan programs and are reported net of a \$47,518 allowance for doubtful notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$4,162,950 of Public Education Capital Outlay allocations due from the State for construction, remodeling, and renovation of College facilities.

6. DUE FROM COMPONENT UNIT

The \$56,433 reported as due from component unit consists of amounts owed to the College by the Pensacola State College Foundation, Inc., for scholarships and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2012. The Pensacola State College Foundation, Inc.'s financial statements are reported for the fiscal year ended December 31, 2011. Accordingly, while the College reported an amount as due from component unit on the statement of net assets, no amount is reported by the component unit as due to the College.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 11,039,001	\$ 1,620,125	\$	\$ 12,659,126
Artwork	105,600	11,100		116,700
Construction in Progress	5,944,784		5,944,784	
Total Nondepreciable Capital Assets	\$ 17,089,385	\$ 1,631,225	\$ 5,944,784	\$ 12,775,826
Depreciable Capital Assets:				
Buildings	\$ 63,251,155	\$ 10,012,661	\$	\$ 73,263,816
Other Structures and Improvements	10,658,277	36,936		10,695,213
Furniture, Machinery, and Equipment	13,712,139	737,165	924,018	13,525,286
Total Depreciable Capital Assets	87,621,571	10,786,762	924,018	97,484,315
Less, Accumulated Depreciation:				
Buildings	34,670,063	1,580,295		36,250,358
Other Structures and Improvements	8,859,819	291,531		9,151,350
Furniture, Machinery, and Equipment	11,912,297	955,477	924,018	11,943,756
Total Accumulated Depreciation	55,442,179	2,827,303	924,018	57,345,464
Total Depreciable Capital Assets, Net	\$ 32,179,392	\$ 7,959,459	\$	\$ 40,138,851

8. DEFERRED REVENUE

Deferred revenue includes restricted grants and contracts and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2012, the College reported the following amounts as deferred revenue:

Description	Amount
Restricted Grants and Contracts	\$ 1,956,146
Student Tuition and Fees	672,459
Other Deferred Revenue	31,500
Total Deferred Revenue	\$ 2,660,105

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, include bonds payable and compensated absences payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 2,160,000	\$	\$ 260,000	\$ 1,900,000	\$ 275,000
Compensated Absences Payable	6,136,520	1,066,828	1,083,877	6,119,471	404,601
Total Long-Term Liabilities	\$ 8,296,520	\$ 1,066,828	\$ 1,343,877	\$ 8,019,471	\$ 679,601

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration (SBA) administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2005B	\$ 1,800,000	5	2018
Series 2009A	100,000	4 - 5	2019
Total	\$ 1,900,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2013	\$ 275,000	\$ 94,850	\$ 369,850
2014	285,000	81,250	366,250
2015	305,000	67,000	372,000
2016	320,000	51,750	371,750
2017	340,000	35,750	375,750
2018-2019	375,000	19,500	394,500
Total	\$ 1,900,000	\$ 350,100	\$ 2,250,100

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$6,119,471. The current portion of the compensated absences liability, \$404,601, was determined by calculating percentages using the actual payout for sick and annual leave for the last eleven fiscal years divided by the previous fiscal year's total compensated absences balance. The percentages were then averaged, and the resulting percentage was applied to the June 30, 2012, compensated absences liability to determine the current portion.

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

**PENSACOLA STATE COLLEGE
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JUNE 30, 2012**

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 106 retirees received postemployment healthcare benefits. The College provided required contributions of \$96,088 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$571,084.

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

PENSACOLA STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 38,314
Amortization of Unfunded Actuarial Accrued Liability	<u>40,796</u>
Annual Required Contribution	79,110
Interest on Net OPEB Obligation	(1,491)
Adjustment to Annual Required Contribution	<u>1,243</u>
Annual OPEB Cost (Expense)	78,862
Contribution Toward the OPEB Cost	<u>(96,088)</u>
Decrease in Net OPEB Obligation	(17,226)
Net OPEB Contributions (Asset), Beginning of Year	<u>(37,270)</u>
Net OPEB Contributions (Asset), End of Year (1)	<u><u>\$ (54,496)</u></u>

Note: (1) Included in Other Noncurrent Assets on the Statement of Net Assets

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset) as of June 30, 2012, and for the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 28,097	461.9%	\$ (46,140)
2010-11	54,661	83.8%	(37,270)
2011-12	78,862	121.8%	(54,496)

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$1,223,867 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$1,223,867 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$24,529,439 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5 percent.

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

**PENSACOLA STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial cost method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent pre-Medicare and 8.5 percent Medicare for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years for pre-Medicare and 6 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

10. RETIREMENT PROGRAMS

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or at any age after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

**PENSACOLA STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the Investment Plan.

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$2,373,621, \$2,687,341, and \$1,955,818, respectively, which were equal to the required contributions for each fiscal year.

There were 62 College participants in the Investment Plan during the 2011-12 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$189,424, which was equal to the required contribution for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. 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 College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for 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 college contributes, on behalf

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

of the participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 27 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$103,907, and employee contributions totaled \$39,359 for the 2011-12 fiscal year.

11. CONSTRUCTION COMMITMENTS

The College's construction commitments at June 30, 2012, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Warrington Exterior and Master Planning:			
Consultant	\$ 257,299	\$ 253,841	\$ 3,458
Construction Observer	49,328	24,664	24,664
Contractor	1,774,350	1,394,787	379,563
Total	\$ 2,080,977	\$ 1,673,292	\$ 407,685

12. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million to February 29, 2012, and up to \$90 million from March 1, 2012. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

13. 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

PENSACOLA STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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	\$ 29,750,997
Public Services	2,838,438
Academic Support	4,909,950
Student Services	6,928,846
Institutional Support	11,471,172
Operation and Maintenance of Plant	11,864,982
Scholarships and Waivers	12,665,472
Depreciation	<u>2,827,303</u>
Total Operating Expenses	<u>\$ 83,257,160</u>

14. COMPONENT UNITS

The College has two component units as discussed in note 1. These component units represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

	Direct-Support Organizations		Total
	Pensacola State College Foundation, Inc.	WSRE-TV Foundation, Inc.	
Condensed Statement of Net Assets			
Assets:			
Current Assets	\$ 7,921,110	\$ 1,413,287	\$ 9,334,397
Capital Assets, Net		24,444	24,444
Other Noncurrent Assets	9,206,618	1,265,754	10,472,372
Total Assets	17,127,728	2,703,485	19,831,213
Liabilities:			
Current Liabilities	146,166	342,239	488,405
Noncurrent Liabilities	80,744		80,744
Total Liabilities	226,910	342,239	569,149
Net Assets:			
Invested in Capital Assets		24,444	24,444
Restricted	16,051,771	542,597	16,594,368
Unrestricted	849,047	1,794,205	2,643,252
Total Net Assets	\$ 16,900,818	\$ 2,361,246	\$ 19,262,064
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	\$ 1,442,226	\$ 1,102,110	\$ 2,544,336
Operating Expenses	(2,200,165)	(1,218,715)	(3,418,880)
Operating Loss	(757,939)	(116,605)	(874,544)
Net Nonoperating Revenues	338,626	17,477	356,103
Other Revenues	51,216		51,216
Decrease in Net Assets	(368,097)	(99,128)	(467,225)
Net Assets, Beginning of Year	17,268,915	2,460,374	19,729,289
Net Assets, End of Year	\$ 16,900,818	\$ 2,361,246	\$ 19,262,064

15. RELATED PARTY TRANSACTIONS

The College leases a portion of a College-owned building complex known as the College Centre, together with adjacent parking areas, to the Pensacola State College Foundation, Inc. (Foundation). The leased property is used by the Foundation as apartments for students on athletic scholarships and for coaches or counselors assigned by the College to supervise and counsel the student athletes. The lease requires the Foundation to make annual payments of \$36,000 to the College. At the option of the Foundation, the lease is renewable for one-year terms through the 2015-16 fiscal year.

**PENSACOLA STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 744,307	\$ 744,307	0%	\$ 29,274,729	2.5%
7/1/2009		1,078,469	1,078,469	0%	26,620,835	4.1%
7/1/2011		1,223,867	1,223,867	0%	24,529,439	5.0%

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

**PENSACOLA STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$1,223,867 was significantly higher than the July 1, 2009, liability of \$1,078,469 due to:

- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate healthcare costs between ages.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.



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

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

We have audited the financial statements of Pensacola State College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the College's basic financial statements, 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 aggregate discretely presented component units 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 opinion 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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 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*.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 19, 2013