

PENSACOLA STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2013



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, 2013.
(2) Board member served beyond the end of term, May 31, 2010.
(3) Position remained vacant from April 1, 2012, through June 30, 2013.

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 Christy L. Johnson, 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) 412-2869.

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) 412-2722; 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, 2013. 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. The results of our operational audit of the College are included in our report No. 2014-036.

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

Report on the 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, 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.

Other Reporting Required by Government Auditing Standards

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* in considering Pensacola State College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 4, 2014

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, 2013, 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, 2013, and June 30, 2012, and its component units, the Pensacola State College Foundation, Inc., for the fiscal years ended December 31, 2012, and December 31, 2011, and the WSRE-TV Foundation, Inc., for the fiscal years ended June 30, 2013, and June 30, 2012.

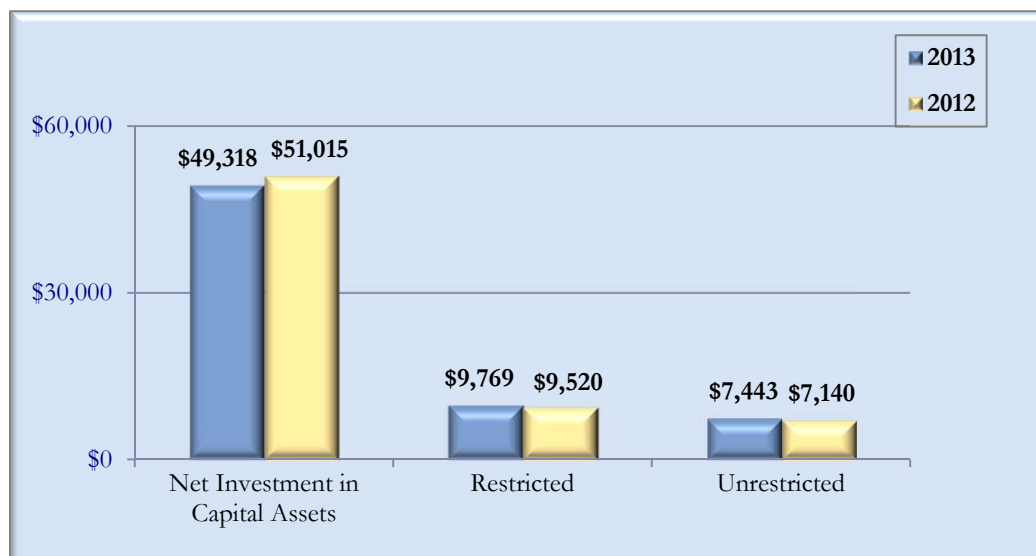
FINANCIAL HIGHLIGHTS

The College's assets totaled \$79.8 million at June 30, 2013. This balance reflects a \$1.1 million, or 1.4 percent, decrease as compared to the 2011-12 fiscal year, resulting mainly from a reduction in the amounts due from other governmental agencies of \$837 thousand, or 15.2 percent. While assets decreased, liabilities essentially remained the same, totaling \$13.3 million at June 30, 2013. As a result, the College's net position decreased by \$1.1 million, resulting in a year-end balance of \$66.5 million at June 30, 2013.

The College's operating revenues totaled \$16.1 million for the 2012-13 fiscal year, representing an increase of 4.2 percent as compared to the 2011-12 fiscal year due mainly to an increase in revenue from student tuition and fees resulting from increased tuition fees per credit hour. Operating expenses totaled \$79.7 million for the 2012-13 fiscal year, representing a decrease of 4.3 percent as compared to the 2011-12 fiscal year due mainly to a decrease in expenditures for materials and supplies.

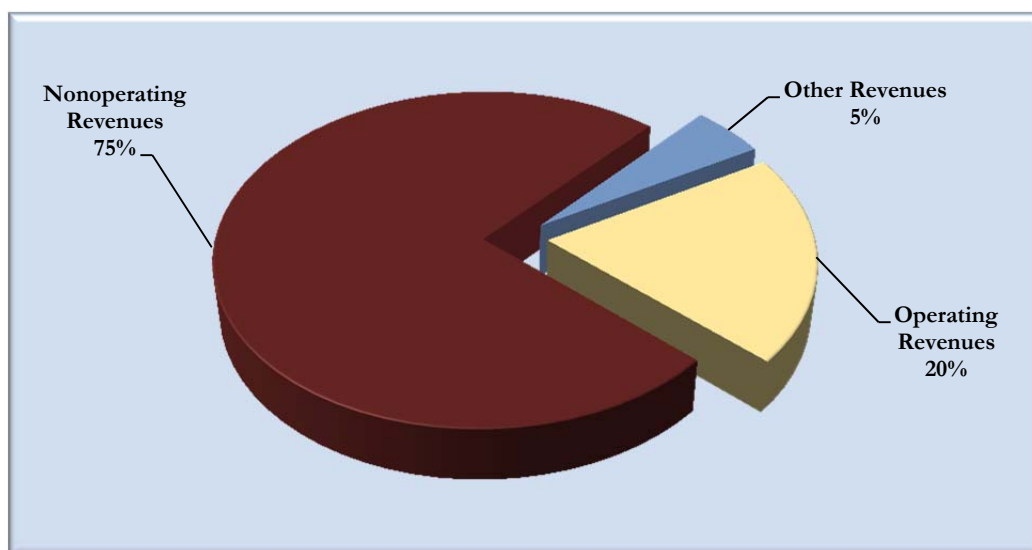
Net position represents the residual interest in the College's assets after deducting liabilities. The College's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2012-13 fiscal year:

Total Revenues: College



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. 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 POSITION

The statement of net position reflects the assets and liabilities of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets less liabilities equals net position, which is one indicator of the College's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College's financial condition.

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

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

	College		Component Units (1)	
	6-30-13	6-30-12	2013	2012
Assets				
Current Assets	\$ 22,178	\$ 22,565	\$ 10,229	\$ 9,334
Capital Assets, Net	50,943	52,915	15	24
Other Noncurrent Assets	6,712	5,447	10,534	10,473
Total Assets	79,833	80,927	20,778	19,831
Liabilities				
Current Liabilities	6,408	5,912	240	488
Noncurrent Liabilities	6,895	7,340	236	81
Total Liabilities	13,303	13,252	476	569
Net Position				
Net Investment in Capital Assets	49,318	51,015	15	24
Restricted	9,769	9,520	18,412	16,595
Unrestricted	7,443	7,140	1,875	2,643
Total Net Position	\$ 66,530	\$ 67,675	\$ 20,302	\$ 19,262

Note: (1) For the 2013 year, the amounts reported are for the fiscal year ended June 30, 2013, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2012, for the Pensacola State College Foundation, Inc. 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.

Total assets decreased \$1.1 million due to a decrease in depreciable capital assets resulting from the recognition of current year depreciation expense. This decrease was partially offset by an increase in other noncurrent assets resulting from an increase in restricted cash and cash equivalents related to accumulating student capital improvement fees which will eventually be used to purchase a new phone system for buildings 2, 5, and 6, and for the renovation of building 2.

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

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

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

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

	College		Component Units (1)	
	6-30-13	6-30-12	2013	2012
Operating Revenues	\$ 16,101	\$ 15,445	\$ 2,439	\$ 2,544
Less, Operating Expenses	79,701	83,257	3,370	3,418
Operating Loss	(63,600)	(67,812)	(931)	(874)
Net Nonoperating Revenues	58,846	59,500	1,931	356
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(4,754)	(8,312)	1,000	(518)
Other Revenues	3,609	4,646	40	51
Net Increase (Decrease) In Net Position	(1,145)	(3,666)	1,040	(467)
Net Position, Beginning of Year	67,675	71,341	19,262	19,729
Net Position, End of Year	<u>\$ 66,530</u>	<u>\$ 67,675</u>	<u>\$ 20,302</u>	<u>\$ 19,262</u>

Note: (1) For the 2013 year, the amounts reported are for the fiscal year ended June 30, 2013, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2012, for the Pensacola State College Foundation, Inc. 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.

Operating Revenues

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

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

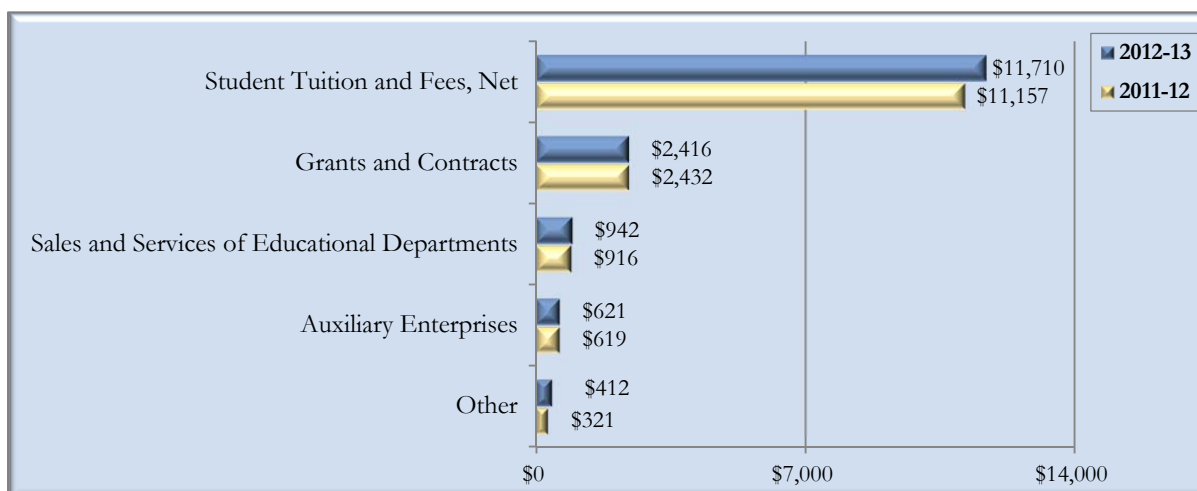
Operating Revenues
For the Fiscal Years Ended
(In Thousands)

	College		Component Units (1)	
	6-30-13	6-30-12	2013	2012
Student Tuition and Fees, Net	\$ 11,710	\$ 11,157	\$	\$
Grants and Contracts	2,416	2,432		
Sales and Services of Educational Departments	942	916		
Auxiliary Enterprises	621	619		
Other	412	321	2,439	2,544
Total Operating Revenues	<u>\$ 16,101</u>	<u>\$ 15,445</u>	<u>\$ 2,439</u>	<u>\$ 2,544</u>

Note: (1) For the 2013 year, the amounts reported are for the fiscal year ended June 30, 2013, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2012, for the Pensacola State College Foundation, Inc. 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.

The following chart presents the College's operating revenues for the 2012-13 and 2011-12 fiscal years:

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



College operating revenue changes were primarily the result of additional collections in student tuition and fees net of scholarship allowances.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The College has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the College and its component units for the respective fiscal years ended:

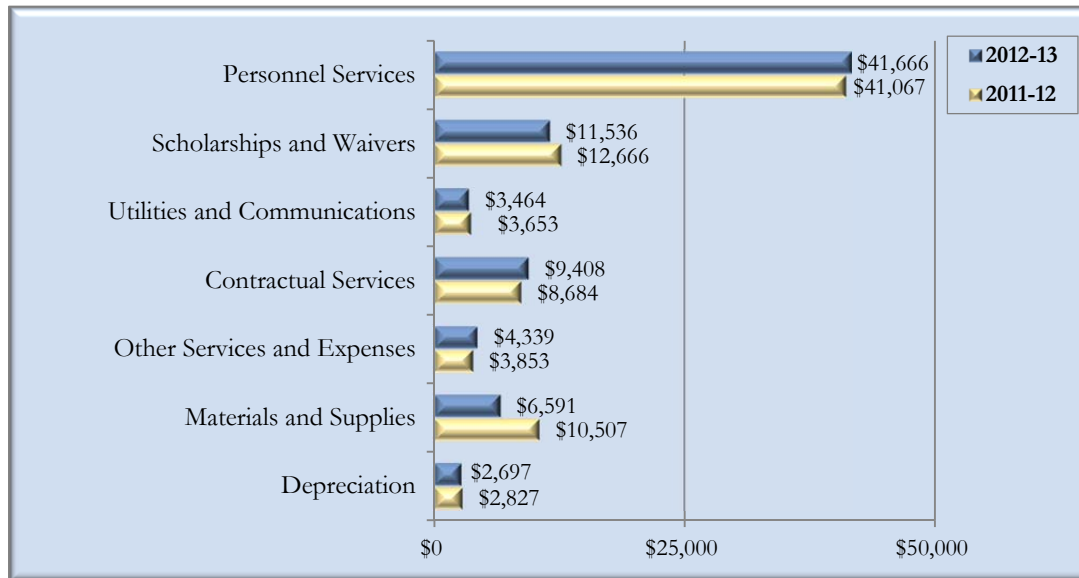
**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Units (1)	
	6-30-13	6-30-12	2013	2012
Personnel Services	\$ 41,666	\$ 41,067	\$	\$
Scholarships and Waivers	11,536	12,666	768	821
Utilities and Communications	3,464	3,653	19	16
Contractual Services	9,408	8,684	349	465
Other Services and Expenses	4,339	3,853	2,061	1,849
Materials and Supplies	6,591	10,507	164	252
Depreciation	2,697	2,827	9	15
Total Operating Expenses	\$ 79,701	\$ 83,257	\$ 3,370	\$ 3,418

Note: (1) For the 2013 year, the amounts reported are for the fiscal year ended June 30, 2013, for the WSRE-TV Foundation, Inc., and for the fiscal year ended December 31, 2012, for the Pensacola State College Foundation, Inc. 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.

The following chart presents the College's operating expenses for the 2012-13 and 2011-12 fiscal years:

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



College operating expenses decreased primarily in materials and supplies. In the prior fiscal year, the College's materials and supplies expense was greater than usual with the opening of both the South Santa Rosa and Century Centers and the 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, Federal and State student financial aid, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

**Nonoperating Revenues (Expenses): College
(In Thousands)**

	2012-13	2011-12
State Noncapital Appropriations	\$ 33,282	\$ 33,082
Federal and State Student Financial Aid	21,623	23,055
Gifts and Grants	3,902	3,358
Investment Income	91	64
Other Nonoperating Revenues	94	54
Loss on Disposal of Capital Assets	(51)	(5)
Interest on Capital Asset-Related Debt	(95)	(108)
Net Nonoperating Revenues	\$ 58,846	\$ 59,500

Net nonoperating revenues decreased primarily in Federal Student Financial Aid revenues due to a decrease in Federal Pell grants awarded.

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 2012-13 and 2011-12 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College		
(In Thousands)		
	<u>2012-13</u>	<u>2011-12</u>
State Capital Appropriations	\$ 440	\$ 1,698
Capital Grants, Contracts, Gifts, and Fees	<u>3,169</u>	<u>2,948</u>
Total	<u>\$ 3,609</u>	<u>\$ 4,646</u>

Other revenues decreased by \$1 million, or 22.3 percent, primarily due to reductions in Public Education Capital Outlay appropriations.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. The 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.

The following summarizes the College's cash flows for the 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows: College		
(In Thousands)		
	<u>2012-13</u>	<u>2011-12</u>
Cash Provided (Used) by:		
Operating Activities	\$ (61,153)	\$ (65,629)
Noncapital Financing Activities	59,228	60,581
Capital and Related Financing Activities	3,774	4,404
Investing Activities	<u>94</u>	<u>84</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,943	(560)
Cash and Cash Equivalents, Beginning of Year	<u>20,513</u>	<u>21,073</u>
Cash and Cash Equivalents, End of Year	<u>\$ 22,456</u>	<u>\$ 20,513</u>

Major sources of funds came from State noncapital appropriations (\$33.3 million), Federal and State Student Financial Aid (\$21.9 million), and net student tuition and fees (\$11.7 million). Major uses of funds were for payments to employees (\$34.5 million), payments to suppliers (\$20 million), and payments for scholarships (\$11.5 million).

Cash and cash equivalents increased \$1.9 million, or 9.5 percent, primarily because less was paid out to suppliers due to the completion of South Santa Rosa and Century Centers in the prior year. In addition, the College paid \$6.7 million to purchase capital assets in the prior year, mainly for South Santa Rosa Center, as compared to \$865 thousand in the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the College had \$110.4 million in capital assets, less accumulated depreciation of \$59.5 million, for net capital assets of \$50.9 million. Depreciation charges for the current fiscal year totaled \$2.7 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2013</u>	<u>2012</u>
Land	\$ 12,680	\$ 12,659
Artwork	117	117
Construction in Progress	4	
Buildings	35,466	37,014
Other Structures and Improvements	1,320	1,544
Furniture, Machinery, and Equipment	1,356	1,581
Capital Assets, Net	<u>\$ 50,943</u>	<u>\$ 52,915</u>

CAPITAL EXPENSES AND COMMITMENTS

Although there were no major capital expenses through June 30, 2013, the College had \$1.6 million in construction commitments for two projects at June 30, 2013. The major commitment is for the interior renovation of Building 36 at the Warrington Campus.

	<u>Amount (In Thousands)</u>
Total Committed	\$ 1,560
Completed to Date	<u>(497)</u>
Balance Committed	<u>\$ 1,063</u>

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

DEBT ADMINISTRATION

As of June 30, 2013, the College had \$1.6 million in long-term debt outstanding as compared to \$1.9 million at the end of the prior fiscal year, a decrease of 15.8 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2012-13 fiscal year, there were no bond sales and debt repayments totaled \$370 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

The 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 modest increase in State noncapital funding is anticipated in the 2013-14 fiscal year. In response to prior year decreases in State appropriations, the Board of Trustees increased the tuition rate 5 percent beginning with the Fall 2012 term. The College did not increase the tuition rate for the 2013-14 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from the increase in tuition rates was necessary to maintain its present level of services into the 2013-14 fiscal year.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, or other required supplementary information and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President 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 POSITION June 30, 2013

	College	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 14,238,571	\$ 720,020
Restricted Cash and Cash Equivalents	1,799,992	2,126,815
Investments		562,620
Restricted Investments		6,455,035
Accounts Receivable, Net	991,780	195,881
Notes Receivable, Net	127,409	
Due from Other Governmental Agencies	4,664,289	
Due from Component Unit	57,039	
Prepaid Expenses	298,168	81,753
Other Assets	1,200	86,852
Total Current Assets	22,178,448	10,228,976
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,417,066	
Investments		639,883
Restricted Investments	91,349	9,147,036
Prepaid Expenses	123,292	
Other Noncurrent Assets	79,903	746,937
Depreciable Capital Assets, Net	38,142,482	15,450
Nondepreciable Capital Assets	12,800,174	
Total Noncurrent Assets	57,654,266	10,549,306
TOTAL ASSETS	79,832,714	20,778,282
LIABILITIES		
Current Liabilities:		
Accounts Payable	1,205,126	90,028
Salary and Payroll Taxes Payable	1,401,757	
Retainage Payable	38,926	
Unearned Revenue	2,609,412	149,340
Deposits Held for Others	445,665	
Long-Term Liabilities - Current Portion:		
Bonds Payable	285,000	
Compensated Absences Payable	422,221	
Total Current Liabilities	6,408,107	239,368
Noncurrent Liabilities:		
Bonds Payable	1,340,000	
Notes Payable		236,289
Compensated Absences Payable	5,554,769	
Total Noncurrent Liabilities	6,894,769	236,289
TOTAL LIABILITIES	13,302,876	475,657

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	College	Component Units
NET POSITION		
Net Investment in Capital Assets	\$ 49,317,656	\$ 15,450
Restricted:		
Nonexpendable:		
Endowment		8,656,678
Expendable:		
Endowment		3,898,958
Grants and Loans	641,804	
Capital Projects	9,088,973	
Debt Service	38,053	
Other		5,856,571
Unrestricted	7,443,352	1,874,968
TOTAL NET POSITION	\$ 66,529,838	\$ 20,302,625

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 POSITION
For the Fiscal Year Ended June 30, 2013

	College	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$12,431,938	\$ 11,710,264	\$
Federal Grants and Contracts	2,310,455	
Nongovernmental Grants and Contracts	105,671	
Sales and Services of Educational Departments	941,982	
Auxiliary Enterprises	620,870	
Other Operating Revenues	411,630	2,438,557
Total Operating Revenues	16,100,872	2,438,557
EXPENSES		
Operating Expenses:		
Personnel Services	41,666,361	
Scholarships and Waivers	11,535,695	768,239
Utilities and Communications	3,464,202	18,592
Contractual Services	9,407,812	348,608
Other Services and Expenses	4,339,327	2,061,114
Materials and Supplies	6,591,025	163,904
Depreciation	2,696,390	8,994
Total Operating Expenses	79,700,812	3,369,451
Operating Loss	(63,599,940)	(930,894)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	33,282,024	
Federal and State Student Financial Aid	21,622,890	
Gifts and Grants	3,902,013	
Investment Income	91,317	1,936,029
Other Nonoperating Revenues	93,497	
Loss on Disposal of Capital Assets	(50,679)	
Interest on Capital Asset-Related Debt	(94,850)	
Other Nonoperating Expenses		(4,962)
Net Nonoperating Revenues	58,846,212	1,931,067
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(4,753,728)	1,000,173
State Capital Appropriations	439,452	
Capital Grants, Contracts, Gifts, and Fees	3,169,286	
Additions to Permanent Endowments		40,388
Total Other Revenues	3,608,738	40,388
Increase (Decrease) in Net Position	(1,144,990)	1,040,561
Net Position, Beginning of Year	67,674,828	19,262,064
Net Position, End of Year	\$ 66,529,838	\$ 20,302,625

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, 2013

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 11,696,774
Grants and Contracts	1,421,226
Payments to Suppliers	(20,023,385)
Payments for Utilities and Communications	(3,464,202)
Payments to Employees	(34,470,877)
Payments for Employee Benefits	(7,361,897)
Payments for Scholarships	(11,535,695)
Loans Issued to Students	(1,753,960)
Collection on Loans to Students	1,770,569
Auxiliary Enterprises	620,870
Sales and Service of Educational Departments	941,982
Other Receipts	1,004,753
Net Cash Used by Operating Activities	<u>(61,153,842)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	33,282,024
Federal and State Student Financial Aid	21,869,401
Federal Direct Loan Program Receipts	2,857,661
Federal Direct Loan Program Disbursements	(2,611,029)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,890,443
Other Nonoperating Disbursements	(60,584)
Net Cash Provided by Noncapital Financing Activities	<u>59,227,916</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,778,452
Capital Grants and Gifts	3,180,589
Proceeds from Sale of Capital Assets	49,694
Purchases of Capital Assets	(865,146)
Principal Paid on Capital Debt	(275,000)
Interest Paid on Capital Debt	(94,850)
Net Cash Provided by Capital and Related Financing Activities	<u>3,773,739</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	7,583
Investment Income	86,717
Net Cash Provided by Investing Activities	<u>94,300</u>
Net Increase in Cash and Cash Equivalents	1,942,113
Cash and Cash Equivalents, Beginning of Year	<u>20,513,516</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 22,455,629</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, 2013

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (63,599,940)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,696,390
Changes in Assets and Liabilities:	
Receivables, Net	(669,659)
Other Assets	303,486
Accounts Payable	345,227
Unearned Revenue	(351,095)
Deposits Held for Others	264,230
Compensated Absences Payable	(142,481)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (61,153,842)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL FINANCING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 5,645
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (50,679)
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, 2013**

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. 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 legally separate organization provides funding and services to support and foster the pursuit of higher education at the College and is governed by a separate board.
- The WSRE-TV Foundation, Inc.: This legally separate 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, and is governed by a separate board.

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, 2012. 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, 2013. 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, 2013

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

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, 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 follows GASB standards of accounting and financial reporting.

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.

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

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

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is

**PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the 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 invested 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, 2013, the College and the WSRE-TV Foundation, Inc., reported as cash equivalents at fair value \$3,115,580 and \$143,294, 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, 2013, 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 40 days as of June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; 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:

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- 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, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 53,296
State Board of Administration Debt Service Accounts	<u>38,053</u>
Total College Investments	<u>\$ 91,349</u>

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, 2013, the College and WSRE-TV Foundation, Inc., reported investments at fair value of \$53,296 and \$3,732, respectively, in Fund B. Investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 years. A portfolio's WAL is the dollar-weighted average length of time until securities

**PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2013. 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 \$38,053 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education 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.

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Component Units Investments

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

Investment Type	Average Maturity	Credit Quality	Fair Value		
			Pensacola State College Foundation, Inc.	WSRE-TV Foundation, Inc.	Total
			12-31-12	6-30-13	
Debt Obligations and Mutual Funds:					
Government National Mortgage Association Modified Pass Through Pool #26442	September 2028	(1)	\$ 1,002	\$	\$ 1,002
Vanguard Short-Term Investment-Grade Fund	7.5 Years	(3)	596,162		596,162
Vanguard Inflation-Protected Securities Fund	7.4 Years	(3)	1,414,873		1,414,873
Vanguard Intermediate-Term Bond Index Fund	7.3 Years	(3)	1,783,564		1,783,564
PIMCO Total Return Fund	6.54 Years	(3)	1,824,920	157,632	1,982,552
Federated Total Return Bond Fund	6.4 Years	(3)		281,512	281,512
PIMCO Low Duration Fund	3.46 Years	(3)		78,983	78,983
Federated Government Obligations Fund	53 Days WAM	AAAm		65,853	65,853
Equities, Equity Mutual Funds, and Other Investments					
PIMCO All Asset Fund	(1)	(1)	809,752		809,752
Lazard Emerging Markets	(1)	(1)	111,100		111,100
Vanguard 500 Index Fund	(1)	(1)	4,156,647		4,156,647
Vanguard Dividend Growth Fund	(1)	(1)	1,480,733		1,480,733
Vanguard Small Cap Index Fund	(1)	(1)	2,104,247		2,104,247
Vanguard Developed Markets Fund	(1)	(1)	1,294,473		1,294,473
Alliance Bernstein Small Cap Growth	(1)	(1)		25,944	25,944
American EuroPacific Growth Fund	(1)	(1)		41,152	41,152
Columbia Dividend Opportunity Fund	(1)	(1)		75,037	75,037
Fidelity Small Cap Value Fund	(1)	(1)		25,506	25,506
Harbor International Fund	(1)	(1)		40,399	40,399
Leuthold Asset Allocation Fund	(1)	(1)		19,945	19,945
Munder Midcap Core Growth Fund	(1)	(1)		41,349	41,349
Oppenheimer Developing Markets Fund	(1)	(1)		30,061	30,061
Sentinel Common Stock Fund Class I	(1)	(1)		300,355	300,355
Victory Established Value Fund	(1)	(1)		39,641	39,641
SBA Fund B Surplus Funds Trust Fund	(2)	(2)		3,732	3,732
Total Component Units' Investments			\$ 15,577,473	\$ 1,227,101	\$ 16,804,574

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

(2) SBA Fund B disclosures are detailed on pages 20 and 21.

(3) These funds are not rated.

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 investments in the Vanguard Inflation-Protected Securities Fund and the Vanguard Short-Term Investment-Grade Fund had average effective durations of 5.5 years. The Vanguard Intermediate-Term Bond Index Fund had an average effective duration of 6.6 years. The PIMCO Total Return Fund had an average effective duration of 5.82 years.

The WSRE-TV Foundation, Inc.'s investment in the PIMCO Total Return Fund had an average effective duration of 5.8 years. The Federated Total Return Bond Fund had an average effective duration of 4.5 years. The PIMCO Low Duration Fund had an average effective duration of 3.5 years.

**PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

The investment in Federated Government Obligations Fund, a money market mutual fund, had a weighted average days to maturity (WAM) of 53 days at June 30, 2013. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The investments in the Federated Government Obligations Fund money market fund are reported at fair value, which is amortized cost.

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 investments 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 mutual funds.

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, 2013, 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 Columbus, Georgia, at its sub-custodian, the Bank of New York Mellon. At December 31, 2012, the Foundation's cash balances before outstanding checks totaled approximately \$1.8 million of which \$1.5 million was insured by the Federal Depository Insurance Corporation (FDIC).

The WSRE-TV Foundation, Inc.'s investment 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, 2012, meet the investment policy guidelines.

The WSRE-TV Foundation, Inc., did not have any investments at June 30, 2013, 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.

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments and contract and grant reimbursements due from third parties. These receivables are reported net of an \$845,080 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 \$111,217 allowance for doubtful notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$2,823,950 of Public Education Capital Outlay allocations due from the State for construction, remodeling, and renovation of College facilities.

6. DUE FROM COMPONENT UNIT

The \$57,039 reported as due from component unit consists of amounts owed to the College by the Pensacola State College Foundation, Inc., (Foundation) for scholarships and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2013. The Foundation's financial statements are reported for the fiscal year ended December 31, 2012. Accordingly, while the College reported an amount as due from component unit on the statement of net position, 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, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 12,659,126	\$ 20,507	\$	\$ 12,679,633
Artwork	116,700			116,700
Construction in Progress		3,841		3,841
Total Nondepreciable Capital Assets	\$ 12,775,826	\$ 24,348	\$	\$ 12,800,174
Depreciable Capital Assets:				
Buildings	\$ 73,263,816	\$ 6,486	\$	\$ 73,270,302
Other Structures and Improvements	10,695,213	64,496		10,759,709
Furniture, Machinery, and Equipment	13,525,286	679,718	626,297	13,578,707
Total Depreciable Capital Assets	97,484,315	750,700	626,297	97,608,718
Less, Accumulated Depreciation:				
Buildings	36,250,358	1,553,777		37,804,135
Other Structures and Improvements	9,151,350	288,524		9,439,874
Furniture, Machinery, and Equipment	11,943,756	854,089	575,618	12,222,227
Total Accumulated Depreciation	57,345,464	2,696,390	575,618	59,466,236
Total Depreciable Capital Assets, Net	\$ 40,138,851	\$ (1,945,690)	\$ 50,679	\$ 38,142,482

PENSACOLA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

8. UNEARNED REVENUE

Unearned 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, 2013, the College reported the following amounts as unearned revenue:

<u>Description</u>	<u>Amount</u>
Restricted Grants & Contracts	\$ 1,807,108
Student Tuition and Fees	608,898
Other Unearned Revenues	<u>193,406</u>
Total Unearned Revenue	<u>\$ 2,609,412</u>

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2013, include bonds payable and compensated absences payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 1,900,000	\$	\$ 275,000	\$ 1,625,000	\$ 285,000
Compensated Absences Payable	<u>6,119,471</u>	<u>1,825,821</u>	<u>1,968,302</u>	<u>5,976,990</u>	<u>422,221</u>
Total Long-Term Liabilities	<u>\$ 8,019,471</u>	<u>\$ 1,825,821</u>	<u>\$ 2,243,302</u>	<u>\$ 7,601,990</u>	<u>\$ 707,221</u>

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, 2013:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds:			
Series 2005B	\$ 1,540,000	5	2018
Series 2009A	<u>85,000</u>	5	2019
Total	<u>\$ 1,625,000</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2013, are as follows:

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Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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	360,000	18,750	378,750
2019	15,000	750	15,750
Total	\$ 1,625,000	\$ 255,250	\$ 1,880,250

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, 2013, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$5,976,990. The current portion of the compensated absences liability, \$422,221, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees has established and can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 89 retirees received other postemployment healthcare benefits. The College provided required contributions of

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

\$104,153 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 \$529,975, which represents 2 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 38,314
Amortization of Unfunded Actuarial Accrued Liability	<u>40,796</u>
Annual Required Contribution	79,110
Interest on Net OPEB Obligation	(2,180)
Adjustment to Annual Required Contribution	<u>1,816</u>
Annual OPEB Cost (Expense)	78,746
Contribution Toward the OPEB Cost	<u>(104,153)</u>
Decrease in Net OPEB Obligation	(25,407)
Net OPEB Contributions (Asset), Beginning of Year	<u>(54,496)</u>
Net OPEB Contributions (Asset), End of Year (1)	<u><u>\$ (79,903)</u></u>

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

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, 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>
2010-11	\$ 54,661	83.8%	\$ (37,270)
2011-12	78,862	121.8%	(54,496)
2012-13	78,747	132.3%	(79,903)

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 \$26,563,658 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.6 percent.

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JUNE 30, 2013**

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

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

The College's OPEB actuarial valuation as of July 1, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the College's 2012-13 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, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 9.5 percent pre-Medicare and 7.5 percent Medicare for the 2012-13 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 6 years pre-Medicare and 5 years Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2013, was 24 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS 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

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JUNE 30, 2013

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 any time 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.

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.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

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Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Florida Retirement System, Special Risk	3.00	14.90
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
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, 2011, June 30, 2012, and June 30, 2013, totaled \$2,687,341, \$1,955,818, and \$2,116,592, respectively, which were equal to the required contributions for each fiscal year.

There were 67 College participants in the Investment Plan during the 2012-13 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$270,735, which was equal to the required contribution for the 2012-13 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 eight 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 of the participant, 5.64 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

PENSACOLA STATE COLLEGE
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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 25 College participants during the 2012-13 fiscal year. The College's contributions to the Program totaled \$76,072 and employee contributions totaled \$40,445 for the 2012-13 fiscal year.

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

The Annuity Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. College employees in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of the FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 6.59 percent and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

There was one College participant during the 2012-13 fiscal year. The College's contributions to the Annuity Program totaled \$2,368 and employee contributions totaled \$1,128 for the 2012-13 fiscal year.

11. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2013, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Warrington Interior Renovation:			
Consultant	\$ 137,489	\$ 125,115	\$ 12,374
Contractor	1,212,804	349,461	863,343
Pensacola Restroom Renovation:			
Consultant	24,000	22,800	1,200
Contractor	186,000		186,000
Total	\$ 1,560,293	\$ 497,376	\$ 1,062,917

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

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JUNE 30, 2013

commercial companies provided excess coverage of up to \$90 million to February 28, 2013, and up to \$125 million from March 1, 2013. 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 reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 27,940,156
Public Services	2,938,153
Academic Support	4,883,367
Student Services	7,170,923
Institutional Support	11,944,902
Operation and Maintenance of Plant	10,591,226
Scholarships and Waivers	11,535,695
Depreciation	2,696,390
Total Operating Expenses	<u>\$ 79,700,812</u>

14. DISCRETELY PRESENTED COMPONENT UNITS

The College has two discretely presented 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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JUNE 30, 2013

Condensed Statement of Net Position

	Direct-Support Organizations		Total
	Pensacola State College Foundation, Inc.	WSRE-TV Foundation, Inc.	
Assets:			
Current Assets	\$ 9,103,843	\$ 1,125,133	\$ 10,228,976
Capital Assets, Net		15,450	15,450
Other Noncurrent Assets	9,216,707	1,317,149	10,533,856
Total Assets	18,320,550	2,457,732	20,778,282
Liabilities:			
Current Liabilities	88,123	151,245	239,368
Noncurrent Liabilities	236,289		236,289
Total Liabilities	324,412	151,245	475,657
Net Position:			
Net Investment in Capital Assets		15,450	15,450
Restricted Nonexpendable	8,656,678		8,656,678
Restricted Expendable	8,700,933	1,054,596	9,755,529
Unrestricted	638,527	1,236,441	1,874,968
Total Net Position	\$ 17,996,138	\$ 2,306,487	\$ 20,302,625

**Condensed Statement of Revenues, Expenses,
and Changes in Net Position**

	Direct-Support Organizations		Total
	Pensacola State College Foundation, Inc.	WSRE-TV Foundation, Inc.	
Operating Revenues	\$ 1,406,611	\$ 1,031,946	\$ 2,438,557
Operating Expenses	(2,171,560)	(1,197,891)	(3,369,451)
Operating Loss	(764,949)	(165,945)	(930,894)
Net Nonoperating Revenues	1,819,881	111,186	1,931,067
Other Revenues	40,388		40,388
Increase (Decrease) in Net Position	1,095,320	(54,759)	1,040,561
Net Position, Beginning of Year	16,900,818	2,361,246	19,262,064
Net Position, End of Year	\$ 17,996,138	\$ 2,306,487	\$ 20,302,625

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 \$44,568 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)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 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*

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 4, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who 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 of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free 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*.

We noted certain matters that we reported to College management in our operational audit report No. 2014-036.

Purpose of this Report

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 4, 2014