

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

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

**DISTRICT BOARD OF TRUSTEES
PENSACOLA STATE COLLEGE
WSRE-TV STATION
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INDEPENDENT AUDITORS' REPORT

Board of Trustees - Pensacola State College
WSRE-TV Station

Report on the Financial Statements

We have audited the accompanying combined financial statements of WSRE-TV Station, a public telecommunications entity locally owned and licensed to the District Board of Trustees, Pensacola State College (the College), and the WSRE-TV Foundation, Inc., as of June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the WSRE-TV Station's basic combined 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 auditors' 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.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the WSRE-TV Station, as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the WSRE-TV Station's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WSRE-TV Station's internal control over financial reporting and compliance.

Warren Averett, LLC

November 30, 2016
Pensacola, Florida

**WSRE-TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY THE
DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

OVERVIEW

Management's discussion and analysis of WSRE-TV Station's ("Station") financial statements provides an overview of the Station's financial activities for the years ended June 30, 2016 and 2015. Management has prepared the financial statements and the related footnote disclosures along with the accompanying management discussion and analysis. Responsibility for the completeness and fairness of this information rests with management. The management discussion and analysis contains the financial activities of the Station combined with the WSRE-TV Foundation, Inc. (its direct-support organization) for both the fiscal 2015-16 and 2014-15 years, and should be read in conjunction with the accompanying financial statements.

The following activities are included in the basic financial statements:

- **WSRE-TV STATION** – The Station is a viewer-supported public media entity locally owned and licensed to the District Board of Trustees of Pensacola State College ("College"), Pensacola, Florida. The Station operates as a non-commercial public television station regulated by the Federal Communications Commission under licensure to the District Board of Trustees of the College. The Station's over-the-air digital television broadcast area encompasses Northwest Florida and South Alabama and serves to further the mission of the College to bring educational and informative programs and services to the local communities in those areas. The Station is an affiliated member of the nationwide network of public television stations known as the Public Broadcasting Service (PBS). The Station broadcasts four digital streams 24 hours a day, seven days a week over the air and via cable and satellite systems.
- **WSRE-TV FOUNDATION, INC.** ("Foundation") - The Foundation, a 501(c)(3) tax exempt entity formed in 1991, functions as a direct-support organization of Pensacola State College authorized under Florida Statutes to provide support and foster the activities, operations and capital needs of the Station. The Foundation provides approximately 30% of the total funds required for the annual operation of WSRE, supplementing grants from the State of Florida, the Corporation for Public Broadcasting, and general state appropriations. The Foundation operates under the governance of a 27-member Board of Directors comprised of local business and community leaders. The Foundation reports its financial activities to the State of Florida as a component unit of the College, and issues separately audited annual financial statements.

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

- The Station's financial position remained strong during fiscal year 2016, with operating revenues of \$4.5 million, a 2 percent increase from \$4.4 million in fiscal year 2015.
- The Foundation's revenues from special events and donations continued to hold steady in 2016 and 2015. Revenue generated from the Foundation continued to be well diversified, including memberships and contributions, program grants and special events. Foundation Board engagement was intensified, with several fundraising efforts helping to garner additional operational funds as well. These included a very successful Wine & Food Classic event held at Pensacola Beach and a VIP dinner held in Pensacola. Contributions to the Station through the Foundation increased from the prior year, from \$658,400 to \$753,100. These were supplemented by various program grants supporting the Station's productions, activities and outreach efforts in the community. Continuation of operating grants from the Corporation for Public Broadcasting, the Florida Department of Education and direct and indirect support from Pensacola State College provided a sound basis of operational support for the Station in 2016.
- During fiscal year 2016, the Foundation continued to provide financial support for locally produced programming such as Conversations with Jeff Weeks, In Your Own Backyard, AWARE and Studio Amped. In addition, a new local program was funded in 2016 – inStudio, hosted by one of four local television personalities for each episode. A significant new documentary was produced and premiered in June – "They Were Our Fathers", which recounts stories of adult children of fathers who were lost in the Vietnam War.
- WSRE's Imagination Station, a hands-on, technology-based activity center housed at the Blue Wahoos' Stadium at the Community Maritime Park in downtown Pensacola opened in the spring of 2013. The center features educational materials and technology tools for parents and caregivers of children ages 4-8 to experience interactively with their children. The content of the materials and technology applications feature PBS' award-winning children's programs and iconic characters. The center is a joint collaboration with local philanthropist Quint Studer, who provided the location, and is supported through donations to the Foundation for WSRE's early literacy and children's outreach projects. Additional funding to support this exceptional facility is provided to the Station by the Florida Department of Education. The Imagination Station continues to serve children and parents from the community and has become a valued partner with local support groups for disabled and developmentally delayed children, as well as new parent groups from Naval Air Station Pensacola. Through the support from the Florida Department of Education, the Imagination Station serves as a place where parents, caregivers and children are provided with exposure to Florida Public Broadcasting System's Learning Media, a free online curriculum that serves children of all ages.
- During 2015 and continuing into 2016, WSRE began hosting a community service speaker approximately once per quarter. The events, known as the Public Speaker Bureau Series rotate the subject areas between education, arts, sciences, and media. The invited speakers have been regionally and nationally known scientists, activists, authors, and educators. These events are offered free to the public and when possible are correlated to current local or national programming.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

- As media delivery platforms continue to expand, local high-definition content production remains a high priority for WSRE. Through free, digital over-the-air delivery of 4 channels and a robust website featuring PBS and WSRE programming, WSRE has met, and will continue to meet, the growing demand for high quality, relevant and important local programming. Efforts continued in 2016 to improve and expand digital content delivery, as well as to implement new web features and modules used to inform the public about WSRE's activities and content offerings. In 2017, this effort will dovetail with the new PBS initiative "Passport" which enables contributing members to access digital content online as a benefit of their membership. The Foundation will continue to seek grants and donations to continue support for content designed for the website and for other rapidly emerging delivery platforms.

- Synovus Trust of Columbus, Georgia, is the investment manager for the Foundation's endowment assets. The endowments are composed of a board-designated endowment fund, whose earnings are to be reinvested until the corpus reaches \$1,000,000 at which time the earnings may be used for operations, and a donor-restricted endowment received in 2006 to support the future technology needs of the Amos Performance Studio. The Foundation's Investment Committee has responsibility for the oversight of the management of the portfolio in accordance with the Foundation's investment policy, and meets regularly. The investment strategy for these funds is for long-term appreciation of the corpus, and reinvestment of earnings to achieve growth over time. The investment policy of the Foundation provides for a conservative target allocation of 50% equities /50% fixed income/cash. Effective June 16, 2016, the Foundation's Board of Directors adopted a revised Investment Policy that changed the target asset allocation to 65% equity and 35% fixed income and cash. As of June 30, 2016, the investment manager had begun to move the holdings in this account toward the new allocation, which more closely matches the investment goals for investments of a longer duration. In 2014, the Foundation Board of Directors authorized the establishment of a separate, individually managed investment account with Synovus to house operational funds not required for short term liquidity. At June 30, 2016, approximately \$307,000 is held for this investment. This account is invested in a "Capital Preservation" strategy with a long-term target asset allocation of 80% fixed income and 20% equity. The components of the investment portfolio are detailed in Footnote C, pages 21-25, of the attached Financial Statements.

- Operating expense exceeded operating revenue for both 2016 and 2015 due primarily to the significant levels of depreciation expense recognized on the Station's buildings and equipment purchased in the last few years as the broadcast infrastructure for full power HD digital transmission was completed and the Station's production facility was expanded significantly. Revenue funding the purchases is recognized in the year the assets are acquired as non-operating Capital Grants and Donations, but the corresponding equipment expense is recognized as operating expense through charges to depreciation over the life of the assets.

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The effect of the recording of depreciation as an operating expense on the Station's Net Operating Income/Loss is shown below:

	2016	2015
Net operating loss as reported	\$ (330,900)	\$ (444,500)
Depreciation	346,000	396,300
Adjusted net operating income (loss)	\$ 15,100	\$ (48,200)

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

THE FINANCIAL STATEMENTS

This 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* provide a comprehensive financial picture of the Station's financial health. The statements are prepared using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector organizations. Under this method, revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or payments made.

The Station also classifies revenue and expenses as operating and non-operating, and recognizes donor pledges as receivable when pledges are formalized, net of estimated uncollectible pledges.

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

STATEMENT OF NET POSITION

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

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The difference between Assets and Liabilities is designated as "Net Position". Within this Statement, Net Position is divided into three major categories. The first category, *Invested in Capital Assets*, represents the Station's investment (net of depreciation) in property, plant and equipment available for future operations. *Restricted Net Position* represents the net funds available for expenditure by the Station for specific purposes or periods as determined by donors, grantors or other external entities, and includes the Foundation's Capital Campaign contributions and Endowment contributions. The final category is *Unrestricted Net Position*, representing accumulated surpluses from prior years available for any future lawful purpose of the Station.

	2016	2015
ASSETS		
Current	\$ 2,110,500	\$ 1,983,100
Noncurrent	43,800	44,700
Investments	1,735,000	1,710,500
Capital assets, net	5,439,100	5,755,400
TOTAL ASSETS	\$ 9,328,400	\$ 9,493,700
 LIABILITIES AND NET POSITION		
Liabilities:		
Current	\$ 1,160,300	\$ 1,044,700
Noncurrent	86,100	74,900
Total Liabilities	1,246,400	1,119,600
Net Position:		
Invested in capital assets	5,439,100	5,755,400
Restricted	1,093,900	1,080,800
Unrestricted	1,549,000	1,537,900
Total Net Position	8,082,000	8,374,100
TOTAL LIABILITIES AND NET POSITION	\$ 9,328,400	\$ 9,493,700

The decrease in noncurrent assets reflects the transition of future years' EnvisionIt! Pledges into current year receivable and cash status as repayments continue. The increase in investments reflects interest and dividend income and changes in market value of the portfolio during 2016. The decrease in capital assets and net position invested in capital assets reflects depreciation expense in excess of the cost of new capital assets purchased in 2016. (See Footnote E, page 26).

Current liabilities are comprised primarily of grant receipts, approximately \$1.07 million that are recorded as unearned revenue until the monies are expended for the purposes authorized. Non-current liabilities reflect deferred compensation (annual and sick leave earned and available to employees). The Foundation maintains an open line of credit for \$100,000 with a local financial institution, which was not utilized in either 2015-16 or 2014-15. The Station did not utilize loans, cash advances or any other formalized debt during 2015-16 or 2014-15.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Changes in total net position as presented on the *Statement of Net Position* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Position*.

The purpose of this statement is to present the operating revenues generated by the Station, the Station's operating expenses incurred during the year, and all non-operating revenue used to support the Station's operation. Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Station. These activities include the acquisition and/or production of program material for public broadcast, the broadcast of program content via over-the-air signal, cable, satellite and internet distribution, complementary programmatic educational and community outreach services, and provision of broadcast/production services to others.

Major sources of operating revenue are grants from the State of Florida and the Corporation for Public Broadcasting, direct support from the licensee (Pensacola State College), contributions from viewers and members, contracted services to others, and indirect and inkind support from the licensee and others. These components are detailed on the *Statement of Revenues, Expenses, and Changes in Net Position* on page 12.

Summarized *Statements of Revenues, Expenses and Changes in Net Position* for the Station for the years ended June 30, 2016 and 2015 follow:

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Revenues	\$ 4,465,700	\$ 4,398,500
Expenses	(4,796,600)	(4,843,000)
Net Operating Loss	<u>(330,900)</u>	<u>(444,500)</u>
Non-operating Revenue		
Net investment income	36,100	31,100
Gain (loss) on investments	(12,800)	3,700
Net Non-operating Revenue	<u>23,300</u>	<u>34,800</u>
Capital Grants	<u>15,500</u>	<u>221,700</u>
Decrease in Net Position	(292,100)	(188,000)
Net Position, Beginning of Year	<u>8,374,100</u>	<u>8,562,100</u>
Net Position, Beginning of Year	<u>\$ 8,082,000</u>	<u>\$ 8,374,100</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Operating revenues for 2016 were slightly more than operating revenues in 2015. Expenses decreased in 2016 from 2015 levels in part due to changes in programming fees, depreciation, and other contracted services. (As noted previously, operating expense includes the recognition of depreciation expense, which comprises a major component of the Station's net operating loss each year).

Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities. Non-operating revenue consists of investment income and "mark to market" adjustments in the value of the Station's investment portfolio during the year. Also shown separately are donations and grants received for the acquisition of capital assets.

STATEMENT OF CASH FLOWS

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

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

The information below is summarized to show the total net change in cash for the years ended June 30, 2016 and 2015. As part of the detailed statement on page 14, a reconciliation is provided to show how Operating Income (Loss) as shown on the *Statement of Revenues, Expenses and Changes in Net Position* is related to the net cash generated or consumed by operations. The difference occurs because of the use of accrual accounting to report Operating Income (Loss). Operating Income (Loss) for the year will reflect revenues earned but not collected in cash as of the end of the year, and will not include cash received that will be recognized as income in a future period as it is earned. Operating Income (Loss) will also reflect expenses incurred but not paid as of the end of the year, and will not include cash paid in advance for expenses that properly belong to future periods. The most common example of this is the purchase of capital assets, in which the cash used to purchase equipment is reflected in the *Statement of Cash Flows* in the year of purchase, but the operating expense for the use of the equipment is recognized by allocating a portion of that original cost as "depreciation expense" to each year's Operating Expense over the future periods benefited. Thus Operating Income (Loss) may be more or less than Net Cash Provided by Operating Activities.

The Statement is helpful to readers because it shows the Station's ability to generate cash required for its operations and payment of obligations in a timely fashion. It also provides information as to the decisions made by management as to the use of cash available.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The increase in cash during 2016 reflects an increase in operating grant funds received, but not expended prior to year-end. Summarized *Statements of Cash Flows* for the years ended June 30, 2016 and 2015 follow.

	2016	2015
Cash Provided (Used) By:		
Operating Activities	\$ 237,100	\$ (266,400)
Capital and Related Financing Activities	(14,100)	21,700
Investing Activities	3,800	(201,300)
Net Increase (Decrease) in Cash	226,800	(446,000)
Cash, Beginning of Year	1,688,200	2,134,200
Cash, End of Year	\$ 1,915,000	\$ 1,688,200

FINANCIAL STATEMENTS

WSRE TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
STATEMENTS OF NET POSITION
FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

ASSETS	2016	2015
CURRENT ASSETS		
Cash	\$ 1,914,942	\$ 1,688,219
Accounts receivable	77,535	101,554
Real estate held for sale	25,000	30,000
Pledges receivable, net	8,578	14,316
Due from government agencies	12,940	66,880
Prepaid assets	71,554	82,101
Total current assets	2,110,549	1,983,070
NONCURRENT ASSETS		
Pledges receivable, net	43,780	44,690
Investments	1,735,024	1,710,504
Capital assets (net)	5,439,093	5,755,439
Total noncurrent assets	7,217,897	7,510,633
Total assets	\$ 9,328,446	\$ 9,493,703
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 38,479	\$ 66,028
Accrued liabilities	54,828	37,493
Unearned revenue	1,066,966	941,175
Total current liabilities	1,160,273	1,044,696
NONCURRENT LIABILITIES		
Compensated absences	86,151	74,884
NET POSITION		
Invested in capital assets	5,439,093	5,755,439
Restricted	1,093,915	1,080,782
Unrestricted	1,549,014	1,537,902
Total net position	8,082,022	8,374,123
Total liabilities and net assets	\$ 9,328,446	\$ 9,493,703

See notes to the financial statements.

WSRE TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

OPERATING REVENUES	2016	2015
Operating grants	\$ 1,359,530	\$ 1,294,518
Direct support - Pensacola State College	1,301,969	1,294,664
Contributions and program underwriting	753,057	658,399
Use of facilities and other indirect administrative support from Pensacola State College	833,394	833,534
Inkind support	96,080	219,702
Sales and services	83,630	76,655
Other operating revenues	<u>38,067</u>	<u>20,998</u>
Total operating revenues	4,465,727	4,398,470
OPERATING EXPENSES		
Program services		
Programming and production	2,698,331	2,777,056
Broadcasting	<u>821,823</u>	<u>829,851</u>
Total program services	3,520,154	3,606,907
Supporting services		
Fundraising and development	647,536	618,289
Management and general	<u>628,944</u>	<u>617,820</u>
Total supporting services	<u>1,276,480</u>	<u>1,236,109</u>
Total operating expenses	<u>4,796,634</u>	<u>4,843,016</u>
Net operating loss	(330,907)	(444,546)
NONOPERATING REVENUES (EXPENSES)		
Investment income (net)	36,122	31,082
Loss on land held for sale	(5,000)	-
Gain (Loss) on investments	<u>(7,816)</u>	<u>3,732</u>
	<u>23,306</u>	<u>34,814</u>
Loss before capital grants and donations	(307,601)	(409,732)
CAPITAL GRANTS AND DONATIONS	15,500	221,769
Decrease in net assets	<u>(292,101)</u>	<u>(187,963)</u>
NET POSITION		
Beginning of year	<u>8,374,123</u>	<u>8,562,086</u>
End of year	<u>\$ 8,082,022</u>	<u>\$ 8,374,123</u>

See notes to the financial statements.

WSRE TV STATION
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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from operating grants	\$ 1,539,261	\$ 1,218,076
Cash receipts from Pensacola State College	1,301,969	1,294,664
Cash receipts from contributions and program underwriting	771,176	702,179
Cash receipts from sales and services to others	83,630	62,752
Cash receipts from other operating revenue	38,067	148,308
Cash payments to employees	(1,342,716)	(1,297,838)
Cash payments for operating expenses	(2,154,308)	(2,394,561)
Net cash flows from (used in) operating activities	237,079	(266,420)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants, gifts, and allocations received	15,500	221,769
Purchase of capital assets	(29,642)	(200,082)
Net cash flows from (used in) capital and related financing activities	(14,142)	21,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(196,973)	(844,529)
Sale of investments	170,564	612,698
Payments for investment management	(5,927)	(6,539)
Dividends/interest proceeds	36,122	37,113
Net cash flows from (used by) investing activities	3,786	(201,257)
NET INCREASE (DECREASE) IN CASH	226,723	(445,990)
CASH AT BEGINNING OF YEAR	1,688,219	2,134,209
CASH AT END OF YEAR	\$ 1,914,942	\$ 1,688,219
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (330,907)	\$ (444,546)
Adjustments to reconcile to net cash provided (used) by operating activities:		
Depreciation	345,988	396,350
Uncollectible accounts receivable	12,548	-
(Increase) decrease in operating assets:		
Accounts receivable	11,471	(22,485)
Pledges receivable	6,648	43,780
Due from other governments	53,940	(66,880)
Prepaid assets	10,547	42,138
Increase (decrease) in operating liabilities:		
Accounts payable	(27,549)	27,014
Accrued liabilities	17,335	5,931
Unearned revenue	125,791	(229,692)
Compensated absences	11,267	(18,030)
Net cash flows provided by (used in) operating activities	\$ 237,079	\$ (266,420)
SUPPLEMENTAL CASH FLOW INFORMATION		
Taxes paid	\$ 6,704	\$ 6,894

See notes to the financial statements.

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NOTE A - ORGANIZATION AND OPERATIONS

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation and Accounting

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

2. Cash and Cash Equivalents

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

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

3. Accounts Receivable

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

4. Pledges Receivable

Pledges receivable are unconditional promises to make future payments to the Foundation. Pledges meeting the requirements specified by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (“GASB 33”) are included in the financial statements as pledges receivable and recognized in the period pledged. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In addition, an allowance for uncollectible pledges is recorded as determined by management.

Conditional pledges, which depend on the occurrence of a specified future or uncertain event such as matching gifts from other donors, plus all pledges for endowment purposes are recognized when the conditions are substantially met.

5. Capital Assets

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

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

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

6. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following components:

Invested in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets (there is no outstanding debt related to these assets at this time).

Restricted – non-expendable net position includes permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to principal in accordance with the donor's wishes. The Station did not hold any permanent endowments at year-end.

Restricted – expendable net position relates to contributions designated by donors for use by particular programs or for specific purposes or functions of the Station. They also include funds functioning as endowments, of which the principal can be invaded. Income and change in fair market value of endowment investments are classified as restricted-expendable unless otherwise specified by the donor. The Amos Endowment is included in this category based on the ability of the Foundation Board of Directors to expend principal upon affirmative vote of eighty percent of the Board, coupled with the occurrence of unforeseen circumstances that necessitate the use of the funds in accordance with the intended purpose of the fund.

Unrestricted net position consists of all other net position not included in the above categories and which are available for the support of the Station's operations. This category also includes the Foundation's Board Designated Endowment.

7. Revenues and Expenses

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

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

8. Revenues and Expenses – (Continued)

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

Program production grants are reported as unearned revenue until the program is broadcast. Program rights purchased are amortized over the respective contract periods on a straight-line basis or over the period of expected usage.

Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities, endowment contributions and donations and grants received for the acquisition of capital assets.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available, restricted resources are used first. Gifts for permanent endowment purposes and other additions of permanently restricted net position are classified under other changes in net position.

9. Endowments Policy

Although no permanent endowments existed during the year, the Foundation has policies to follow the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) adopted by the State of Florida in July 2012. UPMIFA does not set specific expenditure limits; instead the Foundation can spend the amount it deems prudent after considering the following factors:

- The duration and preservation of the fund.
- The purpose of the fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.

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

9. Endowments Policy – (Continued)

- Other resources of the Foundation and Station.
- The investment policies of the Foundation.

10. In-Kind Contributions

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

11. Estimates

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

12. Income Taxes

The Foundation is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. The Foundation is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles.

13. Advertising

Advertising costs are expensed as incurred and were approximately \$44,800 and \$35,700 for the years ended June 30, 2016 and 2015, respectively. These totals are in addition to in-kind, donated advertising provided by others at a value of \$32,300 and \$168,300 for the years ended June 30, 2016 and 2015, respectively.

14. Functional Allocation of Expenses

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

15. Reclassifications

Certain prior period financial statement amounts have been reclassified to conform to current period presentation.

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

16. Events Occurring After Reporting Date

The Station has evaluated events and transactions that occurred between June 30, 2016 and November 30, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the combined financial statements.

NOTE C - CASH AND INVESTMENTS

The Foundation has an investment policy which provides guidelines for the investment of Foundation assets. The objectives of the Foundation's policy are to assure the preservation of capital, provide a reasonable rate of return, and to provide liquidity and growth of assets to meet the operational and capital needs of the Station

Allowable long-term investments include debt and equity securities; allowable short-term investments of cash may include overnight repurchase agreements, State Board of Administration (SBA) Florida PRIME investments (formerly the Local Government Investment Pool (LGIP), Money Market funds, and bank-insured certificates of deposit. Prohibited investments include margin or derivative securities, and investments greater than 5% with any one issuer (except, in the case of U.S. Government bonds). Funds on deposit from grantors with the College are held in a demand deposit account and are invested overnight in repurchase agreements.

1. Cash

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

At year end the carrying amounts of the Station's bank deposits held in the accounts of the College were approximately \$1,206,400 and \$889,800 as of June 30, 2016 and 2015, respectively. These accounts are held by qualified public depositories under Chapter 280, Florida Statutes. As such, these deposits are considered to be fully insured.

At June 30, 2016 and 2015, the carrying amounts of the Foundation's cash and money funds held in bank and brokerage accounts were approximately \$707,400 and \$796,200, respectively. Brokerage account funds are subject to custodial credit risk - the risk that the deposits might not be recovered if the financial institution becomes insolvent. The Foundation does not have a policy prohibiting investment due to custodial credit risk, however, as of June 30, 2016 and 2015 the balances in the cash and money market funds were FDIC or SIPC insured.

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NOTE C – CASH AND INVESTMENTS – (Continued)

1. Cash – (Continued)

Cash invested with the SBA represents the Foundation's participation in Florida PRIME, which is authorized by Section 218.415(17), Florida Statutes. Florida PRIME operates under investment guidelines established by Section 215.47, Florida Statutes. The Foundation's investments in Florida PRIME, a Securities and Exchange Commission Rule 2a7-like external investment pool, are reported at amortized cost. As of June 30, 2016 and 2015, the Foundation's balances in Florida PRIME were approximately \$47,700 and \$46,800, respectively.

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

Credit Quality: Florida PRIME is rated by Standard and Poor's, and carries an AAAM rating for both June 30, 2016 and 2015.

Interest Rate Risk: The weighted average days to maturity (WAM) of Florida PRIME's investment portfolio was 38.8 days at June 30, 2016 and 34.3 days at June 30, 2015. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM is relevant as an assessment of the sensitivity of Florida PRIME's investments to interest rate changes.

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NOTE C – CASH AND INVESTMENTS – (Continued)

2. Investments

Investments held by the Foundation at June 30, 2016 and June 30, 2015, are reported at fair market value as determined by level one inputs (valuation based on unadjusted quoted prices for identical assets or liabilities in active markets), as shown in the following tables:

2016 Investment Type	Maturity	Fair Market Value
Federated Government Obligations	n/a	\$ 96,700
Equities:		
Alliance Bernstein Small Cap Growth		37,700
American EuroPacific Growth Fund		59,900
Fidelity Small Cap Value Fund		38,900
Harbor International Fund		59,300
Oppenheimer Developing Markets Fund		28,500
Sentinel Common Stock Fund Class I		181,300
Vanguard 500 Index Fund		357,300
JP Morgan Mid Cap Value Fund		42,100
Massmutual Select Mid Cap Growth		41,600
Fixed Income:		
Federated Total Return Bond Fund	Avg maturity 7.8 years Average quality A-	332,200
Pimco Funds Low Duration	Avg maturity 2.6 years Average quality AA	197,000
Dodge and Cox Income Fund	Avg maturity 7.8 years average quality A	262,500
TOTAL INVESTMENTS		\$ 1,735,000

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NOTE C – CASH AND INVESTMENTS – (Continued)

2. Investments – (Continued)

<u>2015 Investment Type</u>	<u>Maturity</u>	<u>Fair Market Value</u>
Federated Government Obligations	n/a	\$ 101,400
Equities:		
Alliance Bernstein Small Cap Growth		42,700
American EuroPacific Growth Fund		56,600
Fidelity Small Cap Value Fund		39,900
Harbor International Fund		57,300
Victory Munder Midcap Core Growth Fund		40,400
Oppenheimer Developing Markets Fund		30,300
Sentinel Common Stock Fund Class I		192,100
Vanguard 500 Index Fund		290,500
JP Morgan Mid Cap Value Fund		39,900
Fixed Income:		
Federated Total Return Bond Fund	Avg maturity 7.1 years Average quality A-	343,800
Pimco Funds Low Duration	Avg maturity 1.96 years Average quality A	204,500
Dodge and Cox Income Fund	Avg maturity 6.95 years average quality A	271,100
TOTAL INVESTMENTS		<u>\$ 1,710,500</u>

Credit Risk

The investment policy guidelines as revised on June 16, 2016 provide for the endowment portfolio allocation in which equity investments will not exceed 65%, and fixed income investments generally will not exceed 35%. The endowment portfolio at June 30, 2016 meets the policy guidelines, with equities representing 55%, fixed income representing 40%, and cash representing 5%. Per the revised investment policy, the asset allocation for the operating account will not exceed 20% equity. There is a caveat included in the investment policy that allows for up to a 5% deviation from those percentages to allow for market adjustments. The short-term investment portfolio meets these requirements at June 30, 2016 with 21% in equity investments, 73% in fixed income investments, and 6% in cash.

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NOTE C – CASH AND INVESTMENTS – (Continued)

2. Investments – (Continued)

Concentration of Credit Risk

There were no investments at June 30, 2016 and 2015 in which over 5% of the total investment portfolio derived from one issuer, excluding US government and US government agency-backed securities.

Interest Rate Risk

The Foundation's fixed income portfolio at June 30, 2016 and 2015 consisted primarily of mutual funds.

At June 30, 2016, the Federated Total Return Bond Fund held an average rating of A-. The average duration was 5.3 years and the average maturity was 7.8 years, with a weighted average price of 106.02% of par. At June 30, 2015, the Federated Total Return Bond Fund held an average rating of A-. The average duration was 4.6 years and the average maturity was 7.1 years, with a weighted average price of 103.47% of par.

At June 30, 2016, the PIMCO Low Duration Fund held an average rating of AA. Effective average duration of this fund was 1.99 years and the effective average maturity was 2.61 years. At June 30, 2015, the PIMCO Low Duration Fund held an average rating of A. Effective average duration of this fund was 1.10 years and the effective average maturity was 1.96 years.

At June 30, 2016, the Dodge and Cox Income Fund held an average rating of A. The average duration of the fund was 4.39 years with an average maturity of 7.84 years. At June 30, 2015, the Dodge and Cox Income Fund held an average rating of A. Effective average duration of this fund was 4.19 years, the effective average maturity was 6.95 years.

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NOTE D – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Amounts Pledged	\$ 67,200	\$ 74,400
Less present value discount	<u>(9,200)</u>	<u>(9,200)</u>
	58,000	65,200
Less allowance for uncollectible pledges	<u>(5,600)</u>	<u>(6,200)</u>
	<u>\$ 52,400</u>	<u>\$ 59,000</u>
Amounts due in:		
Less than one year	8,600	14,300
One to five years	<u>43,800</u>	<u>44,700</u>
	<u>\$ 52,400</u>	<u>\$ 59,000</u>

A ten percent allowance for uncollectible pledges has been provided for outstanding pledges from the Foundation's 40th Legacy Society and from the Foundation's EnvisionIt! Campaign which started during 2011.

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NOTE E - CAPITAL ASSETS

Capital assets consist of the following:

As of June 30, 2016:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Depreciable assets:				
Building	\$ 8,597,600	\$ -	\$ -	\$ 8,597,600
Studio, broadcast and other equipment	7,154,600	29,600	-	7,184,200
Total depreciable capital assets	<u>15,752,200</u>	<u>29,600</u>	<u>-</u>	<u>15,781,800</u>
Less accumulated depreciation for:				
Building	3,264,400	209,300	-	3,473,700
Studio, broadcast and other equipment	6,732,300	136,700	-	6,869,000
Total accumulated depreciation	<u>9,996,700</u>	<u>346,000</u>	<u>-</u>	<u>10,342,700</u>
Net depreciable assets	<u>\$ 5,755,500</u>	<u>\$ (316,400)</u>	<u>\$ -</u>	<u>\$ 5,439,100</u>
As of June 30, 2015:				
Depreciable assets:				
Building	\$ 8,597,600	\$ -	\$ -	\$ 8,597,600
Studio, broadcast and other equipment	7,165,800	200,100	(211,300)	7,154,600
Total depreciable capital assets	<u>15,763,400</u>	<u>200,100</u>	<u>(211,300)</u>	<u>15,752,200</u>
Less accumulated depreciation for:				
Building	3,055,100	209,300	-	3,264,400
Studio, broadcast and other equipment	6,756,600	187,100	(211,300)	6,732,400
Total accumulated depreciation	<u>9,811,700</u>	<u>396,400</u>	<u>(211,300)</u>	<u>9,996,800</u>
Net depreciable assets	<u>\$ 5,951,700</u>	<u>\$ (196,300)</u>	<u>\$ -</u>	<u>\$ 5,755,400</u>

NOTE F – LINE OF CREDIT

The Foundation has an available line of credit with a bank permitting borrowings up to \$100,000; the line of credit has a variable interest rate with a floor of 3.0% and ceiling of 5%. The Foundation has incurred no borrowings under the line of credit which expires in May 2018.

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JUNE 30, 2016 AND 2015

NOTE G - COMPENSATED ABSENCES AND POSTEMPLOYMENT BENEFITS

Station employees, as employees of the college, may accrue annual and sick leave based on length of service subject to certain limitations regarding the amount that will be paid upon termination. The amount for accrued annual leave includes the employer's share of the Florida Retirement System and FICA contributions.

Changes in compensated absences for the year ended June 30, 2016 were as follows:

Balance at July 1, 2015	\$ 74,900
Additions	29,700
Deletions	<u>(18,400)</u>
Balance at June 30, 2016	<u>\$ 86,200</u>

The College provides for certain postemployment health care benefits provided through the Florida Community College Risk Management Consortium and life insurance benefits through purchased commercial insurance. In addition, all regular employees of the College are eligible to enroll as members of the State-administered Florida Retirement System. Station employees, as employees of the College, are eligible to receive these benefits. The future funding and any related liabilities associated with these postemployment offerings are not reflected in the Station's financial statements due to Station employees being direct employees of the College, which would ultimately provide for the costs of these benefits. All related disclosures for these postemployment benefits can be obtained in the financial statements for the College.

NOTE H - COLLEGE SUPPORT

In addition to state appropriations and other direct support totaling approximately \$1,302,000 for the operation of the Station, imputed indirect costs such as general administration, facility operations and maintenance, and other overhead costs for the benefit of the Station totaled approximately \$833,400 for the year ended June 30, 2016. Comparable amounts for the year ended June 30, 2015 were direct support of approximately \$1,294,700 and indirect support of approximately \$833,500. These donated facilities and administrative support are recorded as revenue and expense in the accompanying financial statements.

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JUNE 30, 2016 AND 2015**

NOTE H - COLLEGE SUPPORT – (Continued)

These indirect expenses for 2016 and 2015, respectively, are distributed functionally as follows:

	<u>2016</u>	<u>2015</u>
Programming and Production	\$ 438,000	\$ 444,600
Broadcasting	134,100	137,900
Fund Raising and Development	122,000	119,500
Management and General	139,300	131,500
Total Expenses	<u>\$ 833,400</u>	<u>\$ 833,500</u>

NOTE I - IN-KIND CONTRIBUTIONS

In-kind contributions consist of donated services and support primarily from the State of Florida and local businesses. The following is a summary of in-kind contribution revenue and expenses by functional category for the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<u>In-Kind Contributions Revenue</u>	<u>\$ 96,100</u>	<u>\$ 219,700</u>
<u>In-Kind Contributions Expense</u>		
Programming and Production	32,900	165,100
Broadcasting	32,400	25,200
Fundraising and Development	1,300	3,200
Management and General	29,500	26,200
Total Expenses	<u>\$ 96,100</u>	<u>\$ 219,700</u>

NOTE J - UNEARNED REVENUE

Cash advances received through community service grants from the Corporation for Public Broadcasting and from the Florida Department of Education are recorded as unearned revenue when received and revenues are recognized when expenditures of the grant funds are incurred. Other unearned revenue is recorded from grants received that are not recognized as revenue because not all eligibility requirements have been met, primarily time requirements, of the applicable grant.

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NOTE K - RELATED PARTIES

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

In prior years, the Foundation has transferred funds to the PSC Foundation for aggregation with other College donations for matching grant funds from the Florida Academic Improvement Trust Fund. There were no transfers made in 2016 or 2015 for this purpose. Unspent funds, including matching portions appropriated by the State of Florida, are available for future expenditure for equipment needs of the Station. Remaining balances from prior year's transfers available to the Station were approximately \$67,600 as of June 30, 2016 and 2015.

NOTE L - CONCENTRATIONS OF RISK

The Station's operations are funded by federal and state community service grants, cash and in-kind contributions from individuals and businesses in the Northwest Florida area, sales of production and broadcast services and by in-kind services and facilities provided by the College. The Station's ability to continue to operate at current levels is dependent on continued funding from these sources.

NOTE M - RISK MANAGEMENT

The Station is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks through a self-insured program and the Florida Community Colleges Risk Management Consortium (Consortium). The Consortium was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public community colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated statewide community college risk management program. The Consortium is self-sustaining through member assessments (premiums) and reinsures through commercial insurance for claims in excess of specified amounts. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health and hospitalization, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Employee group life insurance is provided to Station employees through commercial insurance purchased by the College. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. General liability and property coverage for the Foundation are provided through purchased commercial insurance with minimum deductibles for each line of coverage.

SUPPLEMENTARY INFORMATION

WSRE-TV STATION
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SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Program Services			Supporting Services			2016 Total Expenses	2015 Total Expenses
	Programming and Production	Broadcasting	Total	Fundraising and Development	Management and General	Total		
Salaries	\$ 451,540	\$ 207,176	\$ 658,716	\$ 207,672	\$ 172,277	\$ 379,949	\$ 1,038,665	\$ 997,011
Payroll taxes	30,360	15,199	45,559	15,795	13,651	29,446	75,005	70,221
Fringe benefits	107,027	39,080	146,107	55,555	54,612	110,167	256,274	218,507
	<u>588,927</u>	<u>261,455</u>	<u>850,382</u>	<u>279,022</u>	<u>240,540</u>	<u>519,562</u>	<u>1,369,944</u>	<u>1,285,739</u>
Rent	24,949	18,800	43,749	7,538	-	7,538	51,287	133,465
Utilities	150,332	127,336	277,668	6,200	31,002	37,202	314,870	329,194
Memberships and subscriptions	342	132	474	1,460	1,271	2,731	3,205	2,765
Repair & maintenance	10,048	53,540	63,588	20,312	6,643	26,955	90,543	63,637
Accounting and legal services	1,120	-	1,120	-	44,442	44,442	45,562	39,561
Travel	11,743	2,751	14,494	2,833	14,112	16,945	31,439	29,449
Pledge Premiums	-	-	-	82,627	-	82,627	82,627	80,527
Program acquisitions/license fees	877,833	-	877,833	-	-	-	877,833	789,345
Programming affinity group fees	-	-	-	-	39,992	39,992	39,992	40,003
Program traffic expense	24,000	-	24,000	-	-	-	24,000	24,000
Videotape/storage media	2,481	-	2,481	-	-	-	2,481	3,050
Minor equipment purchases	1,233	34,214	35,447	368	-	368	35,815	59,428
Hospitality	780	-	780	4,177	3,676	7,853	8,633	8,213
Contracted labor	85,779	7,202	92,981	9,397	8,831	18,228	111,209	189,235
Software	-	-	-	-	-	-	-	6,798
Insurance	-	13,876	13,876	-	7,713	7,713	21,589	21,234
Honoraria fees	-	-	-	-	600	600	600	600
Supplies	17,410	1,522	18,932	12,854	2,666	15,520	34,452	17,723
Freight and postage	917	3,378	4,295	19,205	434	19,639	23,934	6,942
Communication	6,070	3,144	9,214	2,556	6,686	9,242	18,456	17,729
Printing	6,458	63	6,521	17,031	7,529	24,560	31,081	23,455
Advertising	39,513	-	39,513	4,969	339	5,308	44,821	35,683
Taxes	3,281	3,098	6,379	-	325	325	6,704	6,894
Professional services	123,630	878	124,508	23,199	2,620	25,819	150,327	165,830
Bank fees	-	-	-	11,716	6,296	18,012	18,012	12,931
Depreciation	236,710	68,580	305,290	6,279	34,419	40,698	345,988	396,350
Bad debt expense	-	-	-	12,548	-	12,548	12,548	-
Major equipment for station	13,842	55,366	69,208	-	-	-	69,208	-
	<u>1,638,471</u>	<u>393,880</u>	<u>2,032,351</u>	<u>245,269</u>	<u>219,596</u>	<u>464,865</u>	<u>2,497,216</u>	<u>2,504,041</u>
Florida Dept. of Education	-	32,408	32,408	-	10,234	10,234	42,642	33,104
Donated materials and services	32,920	-	32,920	1,244	19,274	20,518	53,438	186,598
TOTAL IN-KIND	<u>32,920</u>	<u>32,408</u>	<u>65,328</u>	<u>1,244</u>	<u>29,508</u>	<u>30,752</u>	<u>96,080</u>	<u>219,702</u>
Pensacola State College - Occupancy	438,013	134,080	572,093	122,001	139,300	261,301	833,394	833,534
TOTAL INDIRECT	<u>438,013</u>	<u>134,080</u>	<u>572,093</u>	<u>122,001</u>	<u>139,300</u>	<u>261,301</u>	<u>833,394</u>	<u>833,534</u>
	<u>\$ 2,698,331</u>	<u>\$ 821,823</u>	<u>\$ 3,520,154</u>	<u>\$ 647,536</u>	<u>\$ 628,944</u>	<u>\$ 1,276,480</u>	<u>\$ 4,796,634</u>	<u>\$ 4,843,016</u>

See independent auditors' report on supplementary information.

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

Board of Trustees - Pensacola State College
WSRE-TV Station

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 WSRE-TV Station (the Station), a public telecommunications entity operated by the District Board of Trustees - Pensacola State College, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Station's basic combined financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Station's internal control over financial reporting (internal control) to determine the 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 Station's internal control. Accordingly, we do not express an opinion on the effectiveness of the Station'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 entity'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 Station's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

November 30, 2016
Pensacola, Florida