

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

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**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, 2018 and 2017, 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 an opinion 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, 2018 and 2017, 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

Pensacola, Florida
January 2, 2019

**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, 2018 and 2017. 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 2017-18 and 2016-17 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 a member station 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 1990, 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 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

**WSRE-TV STATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

HIGHLIGHTS

- The Station's financial position remained strong during fiscal year 2018, with operating revenues of \$4.5 million.
- During fiscal year 2018, the Foundation continued to provide financial support for locally produced programming such as *Conversations with Jeff Weeks*, *In Your Own Backyard*, *AWARE*, *inStudio*, and *Studio Amped*. Two WSRE productions, "In Your Own Backyard: The Gulf Coast Hot Air Balloon Festival" and "Best of Studio Amped: Volume 2" were awarded the bronze Telly Award for excellence in video and television production.
- A significant new documentary was produced and premiered in June 2016 – "They Were Our Fathers", which recounts stories of adult children of fathers who were lost in the Vietnam War. Promotion and viewing for this documentary continued through the current fiscal year. PBS channels aired "They Were Our Fathers" in conjunction with Memorial Day programming in 2018.
- WSRE continued to offer the 24/7 PBS Kids channel added in 2017 within its programming. This channel supplements the children's programming offered on the main channel and is utilized at the Imagination Station to provide exposure to the educational programming for visiting parents and children.
- During 2018, WSRE implemented the WSRE Passport program, which provides access to an on-demand library of public television programming to members.
- Revenue generation continued to be diversified among several sources: annual memberships, major gifts, and donations, special events, television program underwriting and corporate support and program grants. Supplemental income continues to be received for production and uplink services provided to others. Studio related income decreased during 2018 to \$73,000 from \$113,000 in 2017. The Foundation's revenues from donations increased during 2018, with memberships and contributions of \$938,000 up from 2017's \$668,000, due to the receipt of two large bequests totaling approximately \$157,000. WSRE has been fortunate to have and is very appreciative of its strong and consistent support base.
- The Foundation's fundraising events during the year included the 29th annual October Wine & Food Classic celebrating the 50th anniversary of WSRE's existence as a public television station and a spring WSRE PBS Kids & Family Day at Gulfarium Marine Adventure Park on Fort Walton Beach. Total net revenue from these events was \$115,000 in fiscal year 2018.
- During April 2018, the Foundation partnered with The Ounce of Prevention Fund's Prevent Child Abuse Florida chapter to host the first annual Be My Neighbor Day spotlighting the neighborly values of Mister Rogers. The event emphasized early learning and health and safety resources for families through interactive activities centered around PBS children's programming and access to contacts from several local family-focused agencies for information and outreach.

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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)**

- As part of a grant to promote awareness of PBS programs focused on the Vietnam War, WSRE spearheaded “The Reading of the Names” during the week leading up to Memorial Day 2018. WSRE staff and volunteers, along with hundreds of community volunteers, veterans, and active duty military personnel read aloud each of the more than 58,000 names of Vietnam veteran casualties that are etched on the Vietnam War Memorial. This community remembrance event was held at The Wall South, a local replica of the Vietnam War Memorial.
- 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 four channels and a robust website featuring PBS and WSRE programming, WSRE continues to meet the growing demand for high-quality, relevant, and important local programming. The Foundation will continue to seek grants and donations to continue support for content designed for rapidly changing 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 to support the future technology needs of the Amos Performance Studio. The Foundation’s Investment Committee is responsible for the oversight of the management of the portfolio in accordance with the Foundation’s investment policy and meets regularly. The investment strategy for the endowment fund is for long-term appreciation of the corpus and reinvestment of earnings to achieve growth over time and provides for a conservative target asset allocation of 65% equity and 35% fixed income and cash. The Foundation also has an individually managed investment account to house operational funds not required for short term liquidity. This account is invested in a “Capital Preservation” strategy with target asset allocation of 80% fixed income and cash and 20% equity. As of June 30, 2018, the portfolio is in compliance with this target allocation. Portfolio holdings are detailed in Note 2.

Operating expense exceeded operating revenue for both 2018 and 2017 due primarily to the significant level 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.

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

	<u>2018</u>	<u>2017</u>
Net operating loss as reported	\$ (246,258)	\$ (131,189)
Depreciation	<u>288,283</u>	<u>321,755</u>
Adjusted net operating income	<u>\$ 42,025</u>	<u>\$ 190,566</u>

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

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

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).

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

	2018	2017
ASSETS		
Current	\$ 2,190,701	\$ 2,282,625
Pledges receivable, net	41,018	42,189
Investments	2,059,078	1,914,754
Capital assets, net	4,970,693	5,146,745
TOTAL ASSETS	\$ 9,261,490	\$ 9,386,313
LIABILITIES AND NET POSITION		
Liabilities:		
Current	\$ 1,132,012	\$ 1,176,843
Non-current	63,867	73,397
Total liabilities	1,195,879	1,250,240
Net position:		
Invested in capital assets	4,970,693	5,146,745
Restricted	1,248,897	1,180,586
Unrestricted	1,846,021	1,808,742
Total net position	8,065,611	8,136,073
TOTAL LIABILITIES AND NET POSITION	\$ 9,261,490	\$ 9,386,313

The increase in investments reflects interest and dividend income and changes in market value of the portfolio during 2018. 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 2018 (see Note 4).

Current liabilities are comprised primarily of grant receipts, approximately \$1 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). WSRE did not utilize loans, cash advances or any other formalized debt during 2018 or 2017.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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 in-kind support from the licensee and others. These components are detailed on the *Statement of Revenues, Expenses, and Changes in Net Position* on page 11.

Summarized *Statements of Revenues, Expenses and Changes in Net Position* for the Station for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
OPERATING REVENUE		
Revenues	\$ 4,531,685	\$ 4,542,425
Expenses	<u>(4,777,943)</u>	<u>(4,673,614)</u>
Net operating loss	(246,258)	(131,189)
NONOPERATING REVENUE		
Net investment income	35,200	33,067
Gain on investments	<u>111,209</u>	<u>152,173</u>
Net non-operating revenue	146,409	185,240
CAPITAL GRANTS	<u>29,387</u>	<u>-</u>
INCREASE (DECREASE) IN NET POSITION	(70,462)	54,051
NET POSITION, BEGINNING OF YEAR	<u>8,136,073</u>	<u>8,082,022</u>
NET POSITION, END OF YEAR	<u>\$ 8,065,611</u>	<u>\$ 8,136,073</u>

Operating revenues for 2018 were slightly less than operating revenues in 2017. Expenses increased in 2018 from 2017 levels in part due to changes in pledge premiums, programming fees, non-capitalized equipment purchases, and depreciation. 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.

**WSRE-TV STATION
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DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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, 2018 and 2017. As part of the detailed statement on pages 12 - 13, a reconciliation is provided to show how Operating 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 Loss. Operating 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 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 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.

The decrease in cash during 2018 reflects the receipt of settlement funds during 2017. Summarized *Statements of Cash Flows* for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 28,732	\$ 158,221
Capital and related financing activities	(82,844)	(29,407)
Investing activities	2,085	5,510
NET INCREASE (DECREASE) IN CASH	(52,027)	134,324
CASH, BEGINNING OF YEAR	2,049,266	1,914,942
CASH, END OF YEAR	\$ 1,997,239	\$ 2,049,266

FINANCIAL STATEMENTS

WSRE TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash	\$ 1,997,239	\$ 2,049,266
Accounts receivable	73,229	53,853
Related party accounts receivable	30,611	89,975
Real estate held for sale	25,000	25,000
Pledges receivable, net	1,543	900
Due from government agencies	1,425	1,382
Prepaid assets	61,654	62,249
Total current assets	2,190,701	2,282,625
NONCURRENT ASSETS		
Pledges receivable, net	41,018	42,189
Investments	2,059,078	1,914,754
Capital assets, net	4,970,693	5,146,745
Total noncurrent assets	7,070,789	7,103,688
TOTAL ASSETS	\$ 9,261,490	\$ 9,386,313
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 11,895	\$ 60,490
Accrued liabilities	48,635	79,378
Unearned revenue	1,071,482	1,036,975
Total current liabilities	1,132,012	1,176,843
NONCURRENT LIABILITIES		
Compensated absences	63,867	73,397
NET POSITION		
Invested in capital assets	4,970,693	5,146,745
Restricted	1,248,897	1,180,586
Unrestricted	1,846,021	1,808,742
Total net position	8,065,611	8,136,073
TOTAL LIABILITIES AND NET POSITION	\$ 9,261,490	\$ 9,386,313

See notes to the financial statements.

WSRE TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Operating grants	\$ 1,252,016	\$ 1,302,779
Direct support - Pensacola State College	1,292,695	1,290,223
Contributions and program underwriting	938,383	668,514
Use of facilities and other indirect administrative support from Pensacola State College	915,499	861,611
In-kind support	37,380	44,448
Settlement income	-	237,387
Sales and services	79,803	113,797
Other operating revenues	15,909	23,666
Total operating revenues	<u>4,531,685</u>	<u>4,542,425</u>
OPERATING EXPENSES		
Program services:		
Programming and production	2,665,963	2,642,800
Broadcasting	755,383	733,431
Total program services	<u>3,421,346</u>	<u>3,376,231</u>
Supporting services:		
Fundraising and development	619,317	598,617
Management and general	737,280	698,766
Total supporting services	<u>1,356,597</u>	<u>1,297,383</u>
Total operating expenses	<u>4,777,943</u>	<u>4,673,614</u>
NET OPERATING LOSS	(246,258)	(131,189)
NONOPERATING REVENUES (EXPENSES)		
Investment income (net)	35,200	33,067
Gain on investments	111,209	152,173
Total nonoperating revenues	<u>146,409</u>	<u>185,240</u>
Income (Loss) before capital grants and donations	(99,849)	54,051
CAPITAL GRANTS AND DONATIONS	29,387	-
Increase (decrease) in net assets	(70,462)	54,051
NET POSITION, BEGINNING OF YEAR	<u>8,136,073</u>	<u>8,082,022</u>
NET POSITION, END OF YEAR	<u>\$ 8,065,611</u>	<u>\$ 8,136,073</u>

See notes to the financial statements.

WSRE TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from operating grants	\$ 1,286,480	\$ 1,284,346
Cash receipts from Pensacola State College	1,292,695	1,290,223
Cash receipts from contributions and program underwriting	948,170	602,721
Cash receipts from settlement income	-	237,387
Cash receipts from sales and services to others	79,803	113,797
Cash receipts from other operating revenue	15,909	23,666
Cash payments to employees	(1,384,709)	(1,381,449)
Cash payments for operating expenses	<u>(2,209,616)</u>	<u>(2,012,470)</u>
Net cash provided by operating activities	28,732	158,221
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants, gifts, and allocations received	29,387	-
Purchase of capital assets	<u>(112,231)</u>	<u>(29,407)</u>
Net cash flows used in capital and related financing activities	(82,844)	(29,407)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(196,581)	(549,451)
Sale of investments	171,143	529,156
Payments for investment management	(7,677)	(7,262)
Dividends/interest proceeds	<u>35,200</u>	<u>33,067</u>
Net cash provided by investing activities	<u>2,085</u>	<u>5,510</u>
NET INCREASE (DECREASE) IN CASH	(52,027)	134,324
CASH, BEGINNING OF YEAR	<u>2,049,266</u>	<u>1,914,942</u>
CASH, END OF YEAR	<u><u>\$ 1,997,239</u></u>	<u><u>\$ 2,049,266</u></u>

See notes to the financial statements.

**WSRE TV STATION
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH FROM
OPERATING ACTIVITIES**

	<u>2018</u>	<u>2017</u>
Operating loss	\$ (246,258)	\$ (131,189)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	288,283	321,755
Uncollectible accounts receivable	30,729	8,769
(Increase) decrease in operating assets:		
Accounts receivable	(50,105)	(26,693)
Related party accounts receivable	59,364	(48,369)
Pledges receivable	528	9,269
Due from other governments	(43)	11,558
Prepaid assets	595	9,305
Increase (decrease) in operating liabilities:		
Accounts payable	(48,595)	22,011
Accrued liabilities	(30,743)	24,550
Unearned revenue	34,507	(29,991)
Compensated absences	(9,530)	(12,754)
Net cash flows provided by operating activities	<u>\$ 28,732</u>	<u>\$ 158,221</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:

Income taxes	<u>\$ 5,856</u>	<u>\$ 25,029</u>
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See notes to the financial statements.

**WSRE-TV STATION
A PUBLIC COMMUNICATIONS ENTITY OPERATED BY THE
DISTRICT BOARD OF TRUSTEES, PENSACOLA STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 under Florida Statutes as a direct support organization 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.

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

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.

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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1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

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:

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

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).

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1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position – Continued

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.

Revenues and Expenses

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

Sources of operating revenue are grants from the State of Florida and the Corporation for Public Broadcasting, direct support from the licensee (the College), contributions from viewers and members, contracted services to others, and indirect and in-kind support from the licensee and others. Allocations from the College are recorded as revenue in the *Statement of Revenues, Expenses and Changes in Net 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.

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1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues and Expenses – (Continued)

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.

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

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.

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.

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.

Advertising

Advertising costs are expensed as incurred and were approximately \$42,000 and \$48,000 for the years ended June 30, 2018 and 2017, respectively.

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1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Subsequent Events

The Station has evaluated events and transactions that occurred between June 30, 2018 and January 2, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the combined financial statements.

Reclassifications

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

2. CASH AND INVESTMENTS

The Foundation's investment policy 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 WSRE. Allowable long-term investments include debt and equity securities; allowable short-term investments of cash may include overnight repurchase agreements, Florida State Board of Administration (SBA) Florida PRIME investments (an external investment pool), 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 for 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.

Cash

The Station's cash and cash equivalents consists of cash on hand, cash in demand accounts, money market funds, the SBA Florida PRIME investment account, and an overnight repurchase agreement.

At June 30, 2018 and 2017, the carrying amounts of the Station's bank deposits held in the accounts of the College were approximately \$1,031,500 and \$1,120,500 as of June 30, 2018 and 2017, respectively. These accounts are held by qualified public depositories under Chapter 280, Florida Statutes. As such, these deposits are considered to be fully insured.

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2. CASH AND INVESTMENTS – CONTINUED

Cash – Continued

The Foundation's reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, money market funds, the SBA Florida PRIME investment account, and an overnight repurchase agreement. At June 30, 2018 and 2017, the carrying amounts of cash and money market funds held at year end were approximately \$966,000 and \$929,000, respectively. Custodial credit risk is the risk that the Foundation's deposits might not be recovered. The Foundation does not have a deposit policy for custodial credit risk; however, the Foundation has not experienced any losses in its cash and money market fund accounts and believes it is not exposed to any significant risk.

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 are reported at amortized cost. As of June 30, 2018 and 2017, the balance was approximately \$49,000 and \$48,000, respectively. The fair value of the Foundation's position in Florida PRIME is the same as the value of the pool shares.

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. In accordance with GASB Statement 79, Florida Prime qualifies to measure its investments at amortized cost and management of the pool believes that the pool is exempt from the GASB 72 fair value hierarchy disclosures. As of June 30, 2018, there were no redemption fees, maximum transaction amounts, or other requirements limiting participants' daily access to 100% of their account value.

The SBA's interpretation of GASB Statement No. 40 is that information related to credit risk and interest rate risk are applicable to the SBA accounts as noted below:

Credit Quality:

Florida PRIME is rated by Standard and Poors and carries an AAAM rating for both June 30, 2018 and 2017.

Interest Rate Risk:

The weighted average days to maturity (WAM) of Florida PRIME's investment portfolio was 51 days at June 30, 2018, and 50 days at June 30, 2017. 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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2. CASH AND INVESTMENTS – CONTINUED

Investments

Investments held by the Foundation at June 30, 2018 and 2017, 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:

2018 Investment Type	Maturity	Fair Market Value
Federal Government Obligations - Cash Equivalent	N/A	\$ 120,054
Equities:		
Alliance Bernstein Small Cap Growth	N/A	68,582
American EuroPacific Growth Fund	N/A	90,128
Fidelity Small Cap Value Fund	N/A	53,633
Vanguard Developed Markets	N/A	87,743
Oppenheimer Developing Markets Fund	N/A	44,943
Vanguard 500 Index Fund	N/A	754,262
JP Morgan Mid Cap Value Fund	N/A	54,138
Massmutual Select Mid Cap Growth	N/A	58,747
Fixed Income:		
Federated Total Return Bond Fund	Avg maturity 7 years Average quality A- Average duration 4.9 years	302,157
Pimco Funds Low Duration	Avg maturity 2 years Average quality AA Average duration 1.8 years	152,995
Dodge and Cox Income Fund	Avg maturity 8 years Average quality A Average duration 4.4 years	271,696
TOTAL INVESTMENTS		\$ 2,059,078

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2. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

<u>2017 Investment Type</u>	<u>Maturity</u>	<u>Fair Market Value</u>
Federated Government Obligations - Cash Equivalent	N/A	\$ 88,727
Equities:		
Alliance Bernstein Small Cap Growth		55,670
American EuroPacific Growth Fund		87,915
Fidelity Small Cap Value Fund		51,223
Vanguard Developed Markets		84,640
Oppenheimer Developing Markets Fund		40,556
Sentinel Common Stock Fund Class I		109,572
Vanguard 500 Index Fund		566,245
JP Morgan Mid Cap Value Fund		52,462
MassMutual Select Mid Cap Growth		55,555
Fixed Income:		
Federated Total Return Bond Fund	Avg maturity 7 years Average quality A- Average duration 4.9 years	311,179
Pimco Funds Low Duration	Avg maturity 2 years Average quality AA Average duration 1.8 years	148,785
Dodge and Cox Income Fund	Avg maturity 8 years Average quality A Average duration 4.4 years	262,225
TOTAL INVESTMENTS		<u>\$ 1,914,754</u>

Credit Risk

The Foundation holds assets within two separate investment portfolios separated between operating funds and endowment funds. The investment policy guidelines provide for allocations in which equity investments will not exceed 65% for the endowment portfolio and 20% for the operating account. 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 endowment portfolio at June 30, 2018, meets the policy guidelines, with equities representing 66%, fixed income representing 29%, and cash representing 5%. The short-term investment portfolio meets these requirements at June 30, 2018, with 20% in equity investments, 73% in fixed income investments, and 7% in cash.

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2. CASH AND INVESTMENTS – CONTINUED

Investments – Continued

Concentration of Credit Risk

There were no investments at June 30, 2018 and 2017, in which over 5% of the total investment portfolio derived from one issuer, excluding US government and US government agency-backed securities, investments in mutual funds, and other pooled investment funds.

Interest Rate Risk

The Foundation's fixed income portfolio at June 30, 2018 and 2017, consisted primarily of mutual funds.

Custodial credit risk is the risk that the Foundation will not be able to recover the value of its investments that are in the possession of an outside party if the counterparty fails. The Foundation does not have a policy for custodial credit risk; however, the Foundation has not experienced any losses and believes it is not exposed to any significant risk.

3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Amounts pledged	\$ 51,977	\$ 52,727
Less present value discount	<u>(9,000)</u>	<u>(9,000)</u>
	42,977	43,727
Less allowance for uncollectible pledges	<u>(416)</u>	<u>(638)</u>
	<u>\$ 42,561</u>	<u>\$ 43,089</u>
Amounts due in:		
Less than one year	\$ 1,543	\$ 900
One to five years	367	1,538
Thereafter	<u>40,651</u>	<u>40,651</u>
	<u>\$ 42,561</u>	<u>\$ 43,089</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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4. CAPITAL ASSETS

Capital assets consist of the following:

As of June 30, 2018:	Beginning Balance	Additions	Deletions	Ending Balance
Depreciable assets:				
Building	\$ 8,597,577	\$ -	\$ -	\$ 8,597,577
Studio, broadcast and other equipment	7,213,659	112,232	-	7,325,891
Total depreciable capital assets	15,811,236	112,232	-	15,923,468
Less accumulated depreciation for:				
Building	3,682,995	209,289	-	3,892,284
Studio, broadcast and other equipment	6,981,496	78,995	-	7,060,491
Total accumulated depreciation	10,664,491	288,284	-	10,952,775
Net depreciable assets	<u>\$ 5,146,745</u>	<u>\$ (176,052)</u>	<u>\$ -</u>	<u>\$ 4,970,693</u>
As of June 30, 2017:				
Depreciable assets:				
Building	\$ 8,597,577	\$ -	\$ -	\$ 8,597,577
Studio, broadcast and other equipment	7,184,252	29,407	-	7,213,659
Total depreciable capital assets	15,781,829	29,407	-	15,811,236
Less accumulated depreciation for:				
Building	3,473,708	209,287	-	3,682,995
Studio, broadcast and other equipment	6,869,028	112,468	-	6,981,496
Total accumulated depreciation	10,342,736	321,755	-	10,664,491
Net depreciable assets	<u>\$ 5,439,093</u>	<u>\$ (292,348)</u>	<u>\$ -</u>	<u>\$ 5,146,745</u>

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5. 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, 2018 were as follows:

Balance at July 1, 2017	\$ 73,397
Additions	-
Deletions	<u>(9,530)</u>
Balance at June 30, 2018	<u><u>\$ 63,867</u></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 found in the financial statements for the College.

6. COLLEGE SUPPORT

In addition to state appropriations and other direct support totaling approximately \$1,292,700 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 \$915,500 for the year ended June 30, 2018. Comparable amounts for the year ended June 30, 2017 were direct support of approximately \$1,290,200 and indirect support of approximately \$861,600. These donated facilities and administrative support are recorded as revenue and expense in the accompanying financial statements.

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JUNE 30, 2018 AND 2017**

6. COLLEGE SUPPORT – CONTINUED

These indirect expenses for 2018 and 2017, respectively, are distributed functionally as follows:

	<u>2018</u>	<u>2017</u>
Programming and production	\$ 498,997	\$ 455,720
Broadcasting	118,298	133,216
Fund raising and development	117,539	123,532
Management and general	<u>180,665</u>	<u>149,143</u>
Total expenses	<u>\$ 915,499</u>	<u>\$ 861,611</u>

7. 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Revenue	<u>\$ 37,380</u>	<u>\$ 44,448</u>
Expenses		
Programming and production	\$ 2,600	\$ -
Broadcasting	15,961	17,544
Fundraising and development	1,401	1,399
Management and general	<u>17,418</u>	<u>25,505</u>
Total expenses	<u>\$ 37,380</u>	<u>\$ 44,448</u>

8. 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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JUNE 30, 2018 AND 2017**

9. 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 2018 or 2017 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 \$42,600 as of June 30, 2018 and 2017.

10. 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.

11. 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. General liability and property coverage for the Foundation are provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

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12. ENDOWMENT FUNDS

The Foundation's endowment funds consist of individual funds established for the support of the future needs of WSRE. They consist of a Board-designated endowment fund (reported as part of unrestricted net position), and a donor-restricted endowment fund established for future technological upgrades to the Jean and Paul Amos Performance Studio (reported as part of restricted-expendable net position). The Foundation does not have any true permanent endowment funds.

The following depicts the activity of funds functioning as endowment funds for the years ended June 30, 2018 and 2017:

	Board Designated Endowment	Donor Restricted Endowment
Endowment net position 6/30/16	\$ 829,810	\$ 692,552
Investment income	91,651	81,997
Expense	(10,811)	(2,965)
Endowment net position 6/30/17	<u>910,650</u>	<u>771,584</u>
Investment income	76,063	68,739
Expense	(3,812)	(3,333)
Endowment net position 6/30/18	<u><u>\$ 982,901</u></u>	<u><u>\$ 836,990</u></u>

Spending Policy

The board-designated endowment was established with the policy that earnings are reinvested until the corpus reaches \$1,000,000, at which time the earnings may be used to supplement income from other sources for program or capital expenses benefitting WSRE.

The donor restricted Amos Endowment was established to provide corpus and earnings to fund technological upgrades to the Jean and Paul Amos Performance Studio as needed. The Foundation's Board of Directors is empowered to determine the timing and distribution of funds for this purpose.

13. SETTLEMENT PROCEEDS

During 2017, the Foundation received a settlement from a prior year claim in the amount of approximately \$237,000 and incurred legal fees of approximately \$47,000 in connection with this claim.

SUPPLEMENTARY INFORMATION

WSRE-TV STATION
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SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Program Services			Supporting Services			2018 Total Expenses	2017 Total Expenses
	Programming and		Total	Fundraising and		Total		
	Production	Broadcasting		Development	Management and General			
Salaries	\$ 510,060	\$ 163,478	\$ 673,538	\$ 181,049	\$ 233,546	\$ 414,595	\$ 1,088,133	\$ 1,089,767
Payroll taxes	34,153	11,932	46,085	13,671	16,567	30,238	76,323	74,475
Fringe benefits	114,425	26,005	140,430	51,358	52,660	104,018	244,448	231,344
Total payroll costs	658,638	201,415	860,053	246,078	302,773	548,851	1,408,904	1,395,586
Rent	26,456	46,128	72,584	11,464	-	11,464	84,048	81,510
Utilities	136,033	127,148	263,181	5,674	30,263	35,937	299,118	296,852
Memberships and subscriptions	752	85	837	1,423	1,505	2,928	3,765	3,282
Repairs & maintenance	11,559	41,107	52,666	22,838	7,021	29,859	82,525	75,993
Accounting and legal services	-	3,349	3,349	-	44,870	44,870	48,219	87,083
Travel	15,905	5,233	21,138	7,642	17,757	25,399	46,537	47,035
Pledge premiums	-	-	-	45,873	-	45,873	45,873	53,658
Program acquisitions/license fees	848,127	-	848,127	-	-	-	848,127	855,521
Programming affinity group fees	-	-	-	-	41,925	41,925	41,925	39,118
Program traffic expense	24,000	-	24,000	-	-	-	24,000	24,000
Videotape/storage media	2,494	-	2,494	-	-	-	2,494	2,300
Minor equipment purchases	120	-	120	142	12,325	12,467	12,587	6,472
Hospitality	2,532	-	2,532	3,025	3,719	6,744	9,276	8,057
Contracted labor	105,336	9,508	114,844	33,546	17,493	51,039	165,883	115,082
Software	-	5,830	5,830	-	-	-	5,830	449
Insurance	-	13,849	13,849	-	5,476	5,476	19,325	18,923
Honoraria fees	-	-	-	122	900	1,022	1,022	300
Supplies	9,698	3,499	13,197	12,106	2,050	14,156	27,353	35,030
Freight and postage	1,688	588	2,276	8,676	122	8,798	11,074	13,837
Communication	6,233	3,698	9,931	1,293	4,055	5,348	15,279	15,795
Printing	10,802	58	10,860	16,714	54	16,768	27,628	20,460
Advertising	35,470	-	35,470	6,048	-	6,048	41,518	47,669
Taxes	1,546	4,045	5,591	-	265	265	5,856	25,029
Professional services	77,775	34,600	112,375	47,055	1,850	48,905	161,280	138,803
Bank fees	-	-	-	16,951	8,945	25,896	25,896	13,151
Depreciation	162,221	85,915	248,136	6,279	33,868	40,147	288,283	321,755
Bad debt expense	22,700	4,029	26,729	4,000	-	4,000	30,729	8,769
Major equipment for station	4,281	31,041	35,322	3,428	1,960	5,388	40,710	16,036
In-kind value of goods and services	2,600	15,960	18,560	1,401	17,419	18,820	37,380	44,448
Indirect support provided by PSC	498,997	118,298	617,295	117,539	180,665	298,204	915,499	861,611
TOTAL FUNCTIONAL EXPENSES	\$ 2,665,963	\$ 755,383	\$ 3,421,346	\$ 619,317	\$ 737,280	\$ 1,356,597	\$ 4,777,943	\$ 4,673,614

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, 2018, 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 January 2, 2019.

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 opinion 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

Pensacola, Florida
January 2, 2019