



**AUDITOR GENERAL**  
DAVID W. MARTIN, CPA



**PENSACOLA JUNIOR COLLEGE**

Financial Audit

For the Fiscal Year Ended June 30, 2007

During the audit period, the President of the College was Dr. G. Thomas Delaino. Members of the College's Board of Trustees who served during the audit period are listed below:

<u>Board Member</u>	<u>County</u>
Dona W. Usry, Chair	Escambia
Vincent R. Andry, Vice-Chair	Santa Rosa
Miller Caldwell to 9-21-06 (1)	Santa Rosa
Carol H. Carlan	Escambia
Monsignor Luke Hunt from 6-05-07 (1)	Santa Rosa
Gerald McKenzie	Escambia
Denis A. McKinnon, Jr.	Escambia
Celeste Norris	Santa Rosa
John L. O'Connor	Santa Rosa
Deidre L. Young	Escambia

Note: (1) Position remained vacant from September 22, 2006, through June 4, 2007.

PENSACOLA JUNIOR COLLEGE

TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY .....	v
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS .....	1
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	3
Internal Control Over Financial Reporting .....	3
Compliance and Other Matters .....	4
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	5
FINANCIAL SECTION	
Statement of Net Assets .....	14
Statement of Revenues, Expenses, and Changes in Net Assets .....	16
Statement of Cash Flows .....	17
Notes to Financial Statements .....	19

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**EXECUTIVE SUMMARY**

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The audit of the financial statements of Pensacola Junior College for the fiscal year ended June 30, 2007, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the College, a component unit of the State of Florida, and a determination as to whether management complied with applicable laws, rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the College is included in our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2008-061.

The following provides a summary of the findings of our audit of the College's financial statements:

- We found that the College's financial statements presented fairly, in all material respects, the financial positions of the College and its discretely presented component units as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- No significant deficiencies are noted in our report on the College's internal control over financial reporting.
- The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Edward H. Brewton, CPA, and supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at [tedsauerbeck@aud.state.fl.us](mailto:tedsauerbeck@aud.state.fl.us) or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Pensacola Junior College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2007, as shown on pages 14 through 34. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pensacola Junior College and of its aggregate discretely presented component units as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of Pensacola Junior College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA  
March 18, 2008



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

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

We have audited the financial statements of Pensacola Junior College, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2007, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to College management in our operational audit report No. 2008-061, dated January 2008.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA  
March 18, 2008

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2007, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

**FINANCIAL HIGHLIGHTS**

The College's assets totaled \$70.4 million at June 30, 2007. This balance reflects a \$1.9 million, or 2.8 percent, increase from the 2005-06 fiscal year, resulting from an increase in student enrollment and an increase in Public Education Capital Outlay (PECO) appropriations due from the State for various construction projects. While assets grew, liabilities increased by a lesser amount of \$.3 million, or 2 percent, totaling \$16.2 million at June 30, 2007, compared to \$15.9 million at June 30, 2006. As a result, the College's net assets increased by \$1.6 million, reaching a year-end balance of \$54.1 million.

The College's revenues totaled \$78.2 million for the 2006-07 fiscal year, representing an 8.6 percent increase over the 2005-06 fiscal year due mainly to the increase in PECO appropriations due from the State for various construction projects. Operating expenses totaled \$76.4 million for the 2006-07 fiscal year, representing an increase of 6.9 percent over the 2005-06 fiscal year due mainly to an increase in personnel services expenses and an increase in noncapitalized repair and maintenance expenses.

The Pensacola, Warrington, and Milton campuses and the Downtown Center all suffered damage, some extensive, from Hurricane Ivan in September 2004 and Hurricane Dennis in July 2005. The hurricanes' impact on the communities in the College's service area has led to declining enrollment in some of the College's programs. While some College programs are still dealing with enrollment issues, the College is beginning to see the anticipated recovery of some of the lost enrollment due to the hurricanes.

**OVERVIEW OF FINANCIAL STATEMENTS**

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements, and notes thereto, provide information on the College as a whole, present a long-term view of the College's finances, and include activities for the following entities:

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

- WSRE-TV Foundation, Inc. (Component Unit) - Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. This component unit provides funding and services to support and foster the activities, operations, and capital needs of WSRE-TV, a public telecommunications station owned and operated by the College.

#### **THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

One of the most important questions asked about the College's finances is, "Is Pensacola Junior College as a whole, better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Pensacola Junior College's operating results.

These two statements report Pensacola Junior College's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student enrollment and retention, condition of the buildings, and the safety of the campus to assess the College's overall financial health.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

A condensed statement of assets, liabilities, and net assets of the College and its component units for the fiscal years ended June 30, 2007, and June 30, 2006, is shown in the following table:

<b>Assets, Liabilities, and Net Assets at June 30</b>				
<b>(In Thousands)</b>				
	College		Component Units	
	2007	2006	2007	2006
<b>Assets</b>				
Current Assets	\$23,977	\$20,877	\$21,072	\$14,356
Capital Assets, Net	43,427	44,814	197	203
Other Noncurrent Assets	2,980	2,770	8,243	1,113
<b>Total Assets</b>	<b>70,384</b>	<b>68,461</b>	<b>29,512</b>	<b>15,672</b>
<b>Liabilities</b>				
Current Liabilities	6,660	6,348	11,443	217
Noncurrent Liabilities	9,587	9,589	90	80
<b>Total Liabilities</b>	<b>16,247</b>	<b>15,937</b>	<b>11,533</b>	<b>297</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	40,297	41,469	167	203
Restricted	13,149	10,364	15,252	12,760
Unrestricted	691	691	2,560	2,412
<b>Total Net Assets</b>	<b>\$54,137</b>	<b>\$52,524</b>	<b>\$17,979</b>	<b>\$15,375</b>
<b>Increase in Net Assets</b>	<b>\$ 1,613</b>	<b>3.1%</b>	<b>\$ 2,604</b>	<b>16.9%</b>

A review of the College's statement of net assets at June 30, 2007, and June 30, 2006, shows that the College continues to build upon its financial foundation. This financial health reflects the conservative utilization of its financial resources, some of which were utilized in the College's hurricane recovery efforts. The total assets for the College and its component units increased from the 2005-06 fiscal year to the 2006-07 fiscal year. The increase in the component unit's total assets was primarily due to funds being held by the Pensacola Junior College Foundation, Inc., for a joint project with Escambia County and the Escambia County Sheriff's Office. College accounts receivable have decreased primarily due to payments received from the Florida Community College Risk Management Consortium reinsurance carriers for hurricane damage. Total liabilities for the College decreased from 23.3 percent of total assets to 23.1 percent.

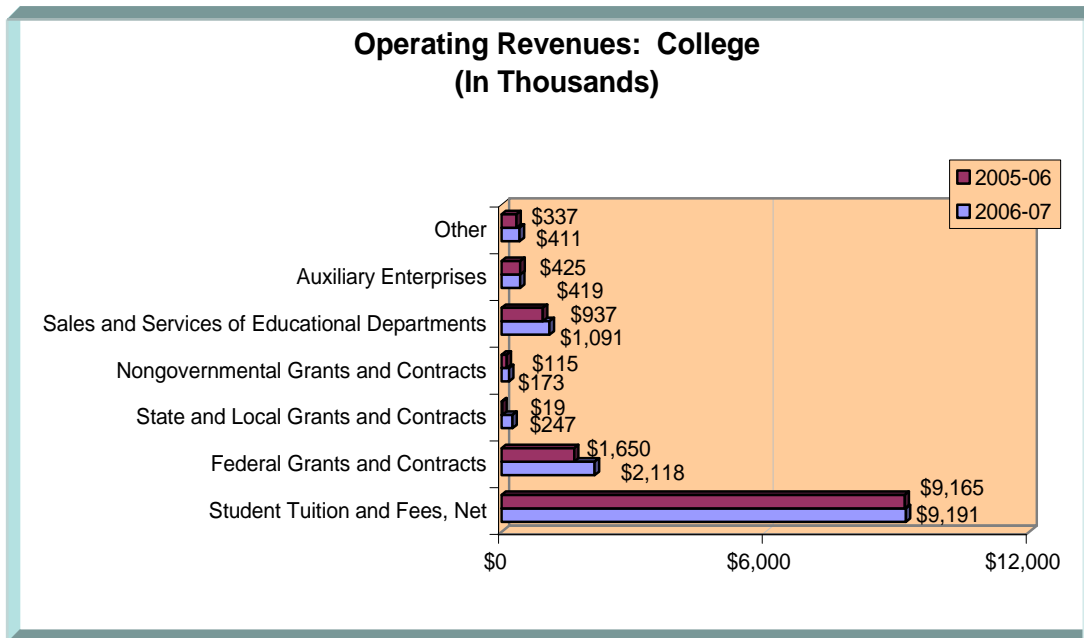
Revenues and expenses of the College and its component units for the 2006-07 and 2005-06 fiscal years are shown in the following table:

<b>Operating Results for the Fiscal Years (In Thousands)</b>				
	College		Component Units	
	2006-07	2005-06	2006-07	2005-06
<b>Operating Revenues</b>				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 9,191	\$ 9,165	\$	\$
Federal Grants and Contracts	2,118	1,650		
State and Local Grants and Contracts	247	19		
Nongovernmental Grants and Contracts	173	115		
Sales and Services of Educational Departments	1,091	937		
Auxiliary Enterprises	419	425		
Other Operating Revenues	411	337	4,156	4,310
<b>Total Operating Revenues</b>	<b>13,650</b>	<b>12,648</b>	<b>4,156</b>	<b>4,310</b>
Less, Operating Expenses	76,437	71,516	4,073	3,436
<b>Operating Income (Loss)</b>	<b>(62,787)</b>	<b>(58,868)</b>	<b>83</b>	<b>874</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Appropriations	37,635	38,919		
Other Nonoperating Revenues	15,134	14,819	1,793	1,307
Nonoperating Expenses	(164)	(180)		
<b>Net Nonoperating Revenues</b>	<b>52,605</b>	<b>53,558</b>	<b>1,793</b>	<b>1,307</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>				
	(10,182)	(5,310)	1,876	2,181
Capital Appropriations	9,955	4,216		
Capital Grants, Contracts, Gifts, and Fees	1,840	1,389		
Additions to Permanent Endowments			728	
<b>Increase in Net Assets</b>	<b>1,613</b>	<b>295</b>	<b>2,604</b>	<b>2,181</b>
Net Assets, Beginning of Year	52,524	52,229	15,375	13,194
<b>Net Assets, End of Year</b>	<b>\$ 54,137</b>	<b>\$ 52,524</b>	<b>\$ 17,979</b>	<b>\$ 15,375</b>

### Operating Revenues

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

The following chart presents the College’s operating revenues for the 2006-07 and 2005-06 fiscal years:



College operating revenue changes were the result of the increase in student tuition and fees tied to the increases in enrollment and additional funding from Federal, State, and other grants and contracts for the College’s television station and State grants for nursing, education, and automotive programs.

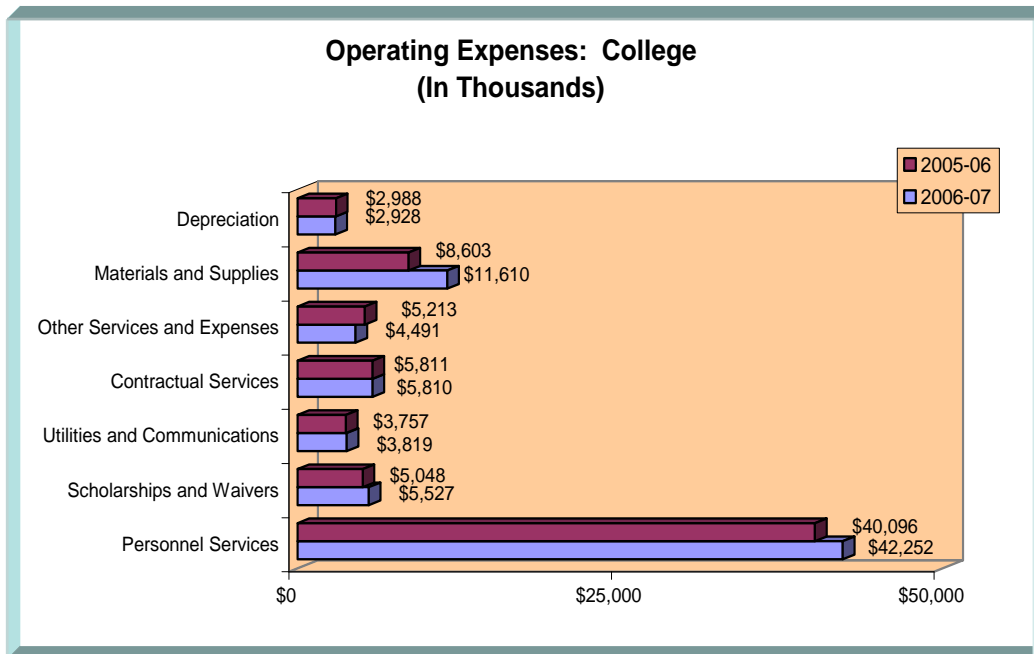
**Operating Expenses**

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

Operating expenses for the College and its component units for the 2006-07 and 2005-06 fiscal years are presented in the following table:

Operating Expenses	Operating Expenses (In Thousands)			
	College		Component Units	
	2006-07	2005-06	2006-07	2005-06
Personnel Services	\$ 42,252	\$ 40,096	\$	\$
Scholarships and Waivers	5,527	5,048	669	428
Utilities and Communications	3,819	3,757	16	18
Contractual Services	5,810	5,811	744	584
Other Services and Expenses	4,491	5,213	2,321	2,025
Materials and Supplies	11,610	8,603	258	277
Depreciation	2,928	2,988	65	104
<b>Total Operating Expenses</b>	<b>\$ 76,437</b>	<b>\$ 71,516</b>	<b>\$ 4,073</b>	<b>\$ 3,436</b>

The following chart presents the College’s operating expenses for the 2006-07 and 2005-06 fiscal years:



College operating expenses increased primarily due to hurricane-related repairs and renovations and an increase in personnel services expenses.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2006-07 and 2005-06 fiscal years:

<b>Nonoperating Revenues (Expenses): College (In Thousands)</b>		
	<u>2006-07</u>	<u>2005-06</u>
State Appropriations	\$ 37,635	\$ 38,919
Gifts and Grants	13,937	10,123
Investment Income	593	432
Other Nonoperating Revenues	604	4,264
Interest on Capital Asset-Related Debt	<u>(164)</u>	<u>(180)</u>
<b>Net Nonoperating Revenues</b>	<b><u>\$ 52,605</u></b>	<b><u>\$ 53,558</u></b>

The decrease in other nonoperating revenue was the result of hurricane insurance recovery funds recognized as revenue in the 2005-06 fiscal year. This decrease was offset by an increase in gifts and grants revenue.

### **Other Revenues, Expenses, Gains, or Losses**

This category is mainly composed of capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues, expenses, gains, or losses for the 2006-07 and 2005-06 fiscal years:

<b>Other Revenues, Expenses, Gains, or Losses: College (In Thousands)</b>		
	<u>2006-07</u>	<u>2005-06</u>
Capital Appropriations	\$ 9,955	\$ 4,216
Capital Grants, Contracts, Gifts, and Fees	<u>1,840</u>	<u>1,389</u>
<b>Total</b>	<b><u>\$ 11,795</u></b>	<b><u>\$ 5,605</u></b>

The College's other revenues increased mainly due to additional Public Education Capital Outlay appropriations from the State for renovation and remodeling projects.

### **THE STATEMENT OF CASH FLOWS**

Another way to assess the financial health of an institution is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period.

The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its need for external financing.

A summary of the College’s cash flows for the 2006-07 and 2005-06 fiscal years is presented in the following table:

<b>Condensed Statement of Cash Flows: College</b>		
<b>(In Thousands)</b>		
	<u>2006-07</u>	<u>2005-06</u>
Cash Provided (Used) by:		
Operating Activities	\$ (59,059)	\$ (55,545)
Noncapital Financing Activities	53,475	43,170
Capital and Related Financing Activities	7,650	9,180
Investing Activities	561	462
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,627</b>	<b>(2,733)</b>
Cash and Cash Equivalents, Beginning of Year	<u>8,780</u>	<u>11,513</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 11,407</u></b>	<b><u>\$ 8,780</u></b>

Major sources of funds came from State appropriations (\$38 million), net student tuition and fees (\$9 million), grants and contracts (\$18 million), and capital appropriations (\$7 million).

The statement of cash flows shows that cash and cash equivalents increased by 30 percent during the 2006-07 fiscal year. This was primarily due to increased State appropriations and an increase in grant revenues. The College invests all excess cash with the State Board of Administration and utilizes an overnight sweep account at its local banking institution.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2007, the College had \$91.7 million in capital assets, less accumulated depreciation of \$48.3 million, for net capital assets of \$43.4 million. Depreciation charges for the current fiscal year totaled \$2.9 million. The following table summarizes the College’s capital assets for the 2006-07 fiscal year:

<b>Capital Assets: College (In Thousands)</b>				
Capital Assets	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 7,567	\$ 175	\$	\$ 7,742
Buildings	61,450			61,450
Other Structures and Improvements	8,746	64		8,810
Furniture, Machinery, and Equipment	13,271	1,224	894	13,601
Construction in Progress	11	92	11	92
Artwork	7	4		11
<b>Total</b>	<b>91,052</b>	<b>1,559</b>	<b>905</b>	<b>91,706</b>
Less, Accumulated Depreciation:				
Buildings	28,615	1,112		29,727
Other Structures and Improvements	7,735	189		7,924
Furniture, Machinery, and Equipment	9,888	1,627	887	10,628
<b>Total Accumulated Depreciation</b>	<b>46,238</b>	<b>2,928</b>	<b>887</b>	<b>48,279</b>
<b>Capital Assets, Net</b>	<b>\$ 44,814</b>	<b>\$ (1,369)</b>	<b>\$ 18</b>	<b>\$ 43,427</b>

Planning is underway for an addition to the Library, Building 20, on the Pensacola campus as well as the renovation of several buildings during the next fiscal year. State appropriations together with local funds are expected to finance the construction and renovation of the facilities. More information about the College's capital assets is presented in the notes to financial statements.

#### **DEBT ADMINISTRATION**

At fiscal year-end, the College had \$3.1 million in long-term debt outstanding versus \$3.3 million at the end of the prior fiscal year, a decrease of 6.4 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2006-07 fiscal year, there were no bond sales and debt repayments totaled \$215,000. Additional information about the College's long-term debt is presented in the notes to financial statements.

#### **ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Pensacola Junior College's economic condition is closely tied to that of the State of Florida. The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the overall financial position or results of operations during the 2007-08 fiscal year.

#### **REQUESTS FOR INFORMATION**

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

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**FINANCIAL SECTION**


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**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2007**

	<b>College</b>	<b>Component Units</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 6,957,513	\$ 1,328,227
Restricted Cash and Cash Equivalents	2,324,434	12,168,371
Investments		7,184,758
Accounts Receivable, Net	2,938,088	313,691
Notes Receivable, Net	85,004	
Due from Other Governmental Agencies	11,283,365	
Prepaid Expenses	384,213	76,462
Deposits - Other	4,958	
Other Assets		600
<b>Total Current Assets</b>	<b>23,977,575</b>	<b>21,072,109</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,125,913	
Investments		6,929,321
Prepaid Expenses	854,017	
Depreciable Capital Assets, Net	35,582,270	167,535
Nondepreciable Capital Assets	7,844,820	30,000
Other Noncurrent Assets		1,313,437
<b>Total Noncurrent Assets</b>	<b>46,407,020</b>	<b>8,440,293</b>
<b>TOTAL ASSETS</b>	<b>\$ 70,384,595</b>	<b>\$ 29,512,402</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 1,415,518	\$ 199,010
Salary and Payroll Taxes Payable	1,543,849	
Retainage Payable	251,119	
Deferred Revenue	2,768,438	11,243,668
Deposits Held for Others	127,864	
Long-Term Liabilities - Current Portion:		
Bonds Payable	225,000	
Compensated Absences Payable	328,461	
<b>Total Current Liabilities</b>	<b>6,660,249</b>	<b>11,442,678</b>
Noncurrent Liabilities:		
Bonds Payable	2,905,000	
Special Termination Benefits Payable	532,195	
Compensated Absences Payable	6,150,063	
Other Long-Term Liabilities		90,540
<b>Total Noncurrent Liabilities</b>	<b>9,587,258</b>	<b>90,540</b>
<b>TOTAL LIABILITIES</b>	<b>16,247,507</b>	<b>11,533,218</b>

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS (Continued)**  
**As of June 30, 2007**

	<u>College</u>	<u>Component Units</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 40,297,090	\$ 167,535
Restricted:		
Nonexpendable:		
Endowment		7,785,573
Expendable:		
Grants and Loans	766,200	171,645
Scholarships	(376)	
Capital Projects	12,311,109	
Debt Service	71,577	
Other		7,294,722
Unrestricted	<u>691,488</u>	<u>2,559,709</u>
<b>Total Net Assets</b>	<u>54,137,088</u>	<u>17,979,184</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 70,384,595</u>	<u>\$ 29,512,402</u>

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

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Fiscal Year Ended June 30, 2007**

	College	Component Units
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$5,901,428	\$ 9,191,255	\$
Federal Grants and Contracts	2,118,356	
State and Local Grants and Contracts	247,014	
Nongovernmental Grants and Contracts	172,700	
Sales and Services of Educational Departments	1,090,776	
Auxiliary Enterprises	418,404	
Other Operating Revenues	411,235	4,156,156
<b>Total Operating Revenues</b>	<b>13,649,740</b>	<b>4,156,156</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	42,252,005	
Scholarships and Waivers	5,526,897	669,015
Utilities and Communications	3,819,190	15,625
Contractual Services	5,810,472	744,035
Other Services and Expenses	4,490,580	2,321,397
Materials and Supplies	11,609,935	258,375
Depreciation	2,927,556	65,039
<b>Total Operating Expenses</b>	<b>76,436,635</b>	<b>4,073,486</b>
<b>Operating Income (Loss)</b>	<b>(62,786,895)</b>	<b>82,670</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	37,634,502	
Gifts and Grants - Student Aid	11,628,708	
Gifts and Grants - Other	2,308,412	
Investment Income	593,172	606,100
Other Nonoperating Revenues	604,127	1,186,704
Interest on Capital Asset-Related Debt	(163,862)	
<b>Net Nonoperating Revenues</b>	<b>52,605,059</b>	<b>1,792,804</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(10,181,836)</b>	<b>1,875,474</b>
Capital Appropriations	9,954,708	
Capital Grants, Contracts, Gifts, and Fees	1,840,373	
Additions to Permanent Endowments		728,408
<b>Total Other Revenues</b>	<b>11,795,081</b>	<b>728,408</b>
<b>Increase in Net Assets</b>	<b>1,613,245</b>	<b>2,603,882</b>
Net Assets, Beginning of Year	52,523,843	15,375,302
<b>Net Assets, End of Year</b>	<b>\$54,137,088</b>	<b>\$ 17,979,184</b>

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

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2007**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 8,878,666
Grants and Contracts	2,532,232
Payments to Suppliers	(21,453,543)
Payments for Utilities and Communications	(3,819,189)
Payments to Employees	(33,400,825)
Payments for Employee Benefits	(8,507,624)
Payments for Scholarships	(5,553,026)
Auxiliary Enterprises	418,404
Sales and Service of Educational Departments	1,090,776
Other Receipts	755,077
	<b>(59,059,052)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	37,619,502
Gifts and Grants Received for Other Than Capital or Endowment Purposes	13,894,476
Insurance Recoveries	1,961,267
	<b>53,475,245</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Capital Appropriations	7,263,573
Capital Grants and Gifts	1,566,225
Proceeds from Sale of Capital Assets	599,384
Purchases of Capital Assets	(1,400,364)
Principal Paid on Capital Debt	(215,000)
Interest Paid on Capital Debt	(163,862)
	<b>7,649,956</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	561,401
	<b>2,627,550</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,627,550</b>
Cash and Cash Equivalents, Beginning of Year	8,780,310
	<b>11,407,860</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 11,407,860</b>

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS (Continued)**  
**For the Fiscal Year Ended June 30, 2007**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (62,786,895)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,927,556
Changes in Assets and Liabilities:	
Accounts Receivable, Net	25,752
Notes Receivable, Net	(26,129)
Other Assets	384,613
Accounts Payable	390,002
Deferred Revenue	(304,452)
Deposits Held for Others	(40,770)
Compensated Absences Payable	371,271
	\$ (59,059,052)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	

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

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** The governing body of Pensacola Junior College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Community Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Escambia and Santa Rosa counties.

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

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

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

The College's component units are audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The audited financial statements for each component unit are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the audited financial statements of the College's component units for the fiscal year ended June 30, 2007. Additional condensed financial statements for the College's component units are included in a subsequent note.

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

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

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

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

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

The College's component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting for State and local governmental entities.

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

The College follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

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

The statement of net assets is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

**Cash and Cash Equivalents.** The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and funds invested with the State Board of Administration (SBA). For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SBA Local Government Surplus Funds Trust Fund investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2007, the College and WSRE-TV Foundation, Inc., reported as cash equivalents at fair value \$4,032,813 and \$334,670, respectively, of moneys held in the Local Government Surplus Funds Trust Fund, administered by the SBA pursuant to Section 218.405, Florida Statutes. These investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign credit risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2007.

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

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

## 2. INVESTMENTS

The College's Board of Trustees had not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the College was authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College reported no investments at June 30, 2007, as surplus funds were invested in the State Board of Administration Local Government Surplus Funds Trust Fund investment pool, which is reported as cash and cash equivalents.

**Component Units Investments**

Investments reported for component units at June 30, 2007, were all held by the Pensacola Junior College Foundation, Inc., and are reported at fair value, as follows:

<u>Investment Type</u>	<u>Average Maturity</u>	<u>Credit Quality</u>	<u>Fair Value</u>
<b>Investment in Debt Obligations and Mutual Funds:</b>			
PIMCO All Asset Fund	< 8 Years	AA-	\$ 1,016,651
SMAM Government Credit Index Fund	(1)	Not Rated	4,042,402
Vanguard Fixed Income Securities - Inflation Protected Securities	< 11 Years	AAA	<u>1,441,471</u>
<b>Total Investment in Debt Obligations and Mutual Funds</b>			6,500,524
<b>Other Investments:</b>			
Certificate of Deposit	(2)	(2)	142,938
Daily Valued Stock Index Fund	(2)	(2)	4,836,527
Government National Mortgage Association II Modified Pass Through Pool No. 2644	(2)	(2)	2,613
International Stock Index Fund	(2)	(2)	1,434,016
Small Cap Stock Index Fund	(2)	(2)	1,080,973
Vanguard Index Fund	(2)	(2)	<u>116,488</u>
<b>Total Component Units Investments</b>			<u>\$ 14,114,079</u>

Notes: (1) Average maturity not available.

(2) Disclosure of maturity or credit quality is not required for these investments.

The Foundation’s investment policy provides that investments should produce maximum total return consistent with prudent risk limits. To achieve this policy, the Foundation uses targets of 45 to 75 percent in equities, 25 to 55 percent in bonds, 5 to 25 percent in small capitalization equities, and no more than 20 percent in international equities. The Foundation’s investment policy does not place specific limits on maturities or credit quality.

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

**3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for student fee deferments, insurance recoveries, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$199,245 allowance for uncollectible accounts.

**4. NOTES RECEIVABLE**

Notes receivable represent student loans made under the College's short-term loan program and are reported net of a \$53,920 allowance for uncollectible notes.

**5. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$10,608,807 of Public Education Capital Outlay allocations due from the State to the College for land acquisition and the construction, renovation and maintenance of College facilities.

**6. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 7,567,273	\$ 175,087	\$	\$ 7,742,360
Construction in Progress	11,196	91,960	11,196	91,960
Artwork	7,000	3,500		10,500
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 7,585,469</b>	<b>\$ 270,547</b>	<b>\$ 11,196</b>	<b>\$ 7,844,820</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$61,450,081	\$	\$	\$61,450,081
Other Structures and Improvements	8,745,960	64,265		8,810,225
Furniture, Machinery, and Equipment	13,271,000	1,224,152	893,998	13,601,154
<b>Total Depreciable Capital Assets</b>	<b>83,467,041</b>	<b>1,288,417</b>	<b>893,998</b>	<b>83,861,460</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	28,615,249	1,111,563		29,726,812
Other Structures and Improvements	7,734,994	188,892		7,923,886
Furniture, Machinery, and Equipment	9,888,178	1,627,101	886,787	10,628,492
<b>Total Accumulated Depreciation</b>	<b>46,238,421</b>	<b>2,927,556</b>	<b>886,787</b>	<b>48,279,190</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$37,228,620</b>	<b>\$(1,639,139)</b>	<b>\$ 7,211</b>	<b>\$35,582,270</b>

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**7. DEFERRED REVENUE**

Deferred revenue includes restricted grants and contracts revenue and student tuition and fees received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2007, the College reported the following amounts as deferred revenue:

Description	Amount
Restricted Grants and Contracts	\$ 1,315,212
Student Tuition and Fees	226,461
Other Deferred Revenue	1,226,765
<b>Total Deferred Revenue</b>	<b>\$ 2,768,438</b>

**8. LONG-TERM LIABILITIES**

Long-term liabilities of the College at June 30, 2007, include bonds, compensated absences, and special termination benefits. Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 3,345,000	\$	\$ 215,000	\$ 3,130,000	\$ 225,000
Special Termination Benefits Payable	678,748		146,553	532,195	
Compensated Absences Payable	6,107,254	2,606,913	2,235,643	6,478,524	328,461
<b>Total Long-Term Liabilities</b>	<b>\$ 10,131,002</b>	<b>\$ 2,606,913</b>	<b>\$ 2,597,196</b>	<b>\$ 10,140,719</b>	<b>\$ 553,461</b>

**Bonds Payable.** The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable outstanding at June 30, 2007:

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education			
Capital Outlay Bonds:			
Series 1998-A	\$ 200,000	4.50	2008
Series 1999-A	230,000	4.00 - 4.75	2019
Series 2005-B	<u>2,700,000</u>	3.50 - 5.00	2018
<b>Total</b>	<u><u>\$ 3,130,000</u></u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2008	\$ 225,000	\$ 154,338	\$ 379,338
2009	230,000	144,338	374,338
2010	245,000	133,056	378,056
2011	250,000	120,962	370,962
2012	265,000	108,562	373,562
2013-2017	1,535,000	331,700	1,866,700
2018-2019	<u>380,000</u>	<u>19,875</u>	<u>399,875</u>
<b>Total</b>	<u><u>\$ 3,130,000</u></u>	<u><u>\$ 1,012,831</u></u>	<u><u>\$ 4,142,831</u></u>

In a prior fiscal year, a portion of the State Board of Education Capital Outlay Bonds, Series 1998-A, was refunded and considered defeased in-substance by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. The defeased bonds are not reported as outstanding debt on the College’s statement of net assets. Debt considered defeased as June 30, 2007, totaled \$2,815,000.

**Special Termination Benefits Payable.** The Board has established a Severance Pay Plan (Plan), which is available to certain executive employees. The Plan provides that an eligible employee’s total benefits shall not exceed an amount equal to twice the employee’s annualized base pay determined as of the date of the employee’s separation from service to the College. Due to new Internal Revenue Service Regulations, the Board amended the Severance Pay Plan during the 2005-06 fiscal year. Each employee that had accrued benefits as of September 30, 2005, was taxed on that amount and the net after tax proceeds were set up in an after tax severance pay payable account for each individual. All benefits under the Plan are unfunded and unsecured. The College believes that it is unlikely that it will use Plan assets to satisfy the claims of general creditors in the future. As of June 30, 2007, 16 employees had accrued benefits totaling \$532,195 under the Severance Pay Plan.

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

In November 2006, the Board changed the name of the Severance Pay Plan to the Special Pay Plan. In January 2007, the Board executed a contract for the administration of the Special Pay Plan with a private administrator. An account was established with the administrator for each eligible employee and contributions are made by the College to those accounts once each fiscal year, beginning in the 2006-07 fiscal year.

**Compensated Absences Payable.** College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2007, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$6,478,524. Of this amount, \$328,461 is considered a current liability as this is expected to be paid in the coming fiscal year. The current portion of compensated absences liability was determined by calculating percentages using the actual payout for sick and annual leave for the last six fiscal years divided by the previous fiscal year's total compensated absences balance. The percentages were then averaged, and the resulting percentage was applied to the June 30, 2007, compensated absences balance to determine the current portion.

**9. RETIREMENT PROGRAMS**

**Florida Retirement System.** Most employees working in regularly established positions of the College are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions, including employee contributions, for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$1,906,187, \$2,011,645, and \$2,513,248, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. College employees already participating in the State Community College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

individual members allocate contributions and account balances among various approved investment choices. There were 72 College participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$230,924.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

**State Community College System Optional Retirement Program.** Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible community college instructors and administrators. The Program is designed to aid community colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing community college contributes, on behalf of the participant, 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the community college to the participant's annuity account.

There were 48 College participants during the 2006-07 fiscal year. Required employer contributions made to the Program totaled \$229,665.

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**10. CONSTRUCTION COMMITMENTS**

The College’s major construction commitments at June 30, 2007, are as follows:

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Trane Project Phase I: Contractor	\$ 1,253,000	\$ 929,127	\$ 323,873
Building 3400 Renovation: Consultant	217,713	202,561	15,152
Contractor	3,013,493	893,585	2,119,908
Building 20 Renovation/Addition: Architect	<u>577,900</u>	<u>91,960</u>	<u>485,940</u>
<b>Total</b>	<b><u>\$ 5,062,106</u></b>	<b><u>\$ 2,117,233</u></b>	<b><u>\$ 2,944,873</u></b>

**11. RISK MANAGEMENT PROGRAMS**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida Community Colleges Risk Management Consortium, which 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 is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$115 million. 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.

Life insurance coverage is being provided through purchased commercial insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**12. LITIGATION**

The College is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the College’s legal counsel and management, should not materially affect the College’s financial position.

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**13. SCHEDULE OF STATE REVENUE SOURCES**

Revenue from State sources for current operations is primarily from the Community College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college's apportionment considering the following components: base budget, which includes the State appropriation to the Community College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

The following is a summary of State revenue sources and amounts:

<u>Source</u>	<u>Amount</u>
Community College Program Fund	\$32,963,357
Gross Receipts Tax (Public Education Capital Outlay)	9,518,938
Education Enhancement Trust Fund (Lottery)	3,942,092
Restricted Contracts and Grants	1,845,479
Bright Futures Scholarship Program	1,804,204
Florida Student Assistance Grants	1,666,110
Performance Based Incentives	605,714
Motor Vehicle License Tax (Capital Outlay and Debt Service)	435,770
First Generation Scholarship Program	127,500
Statewide Student Advising	60,000
Workforce Development Disabled	40,568
Children of Deceased/Disabled Veterans	13,257
2+2 Baccalaureate Partnership (Lottery)	9,514
<b>Total</b>	<b><u><u>\$53,032,503</u></u></b>

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

Functional Classification	Amount
Instruction	\$ 24,857,312
Public Services	3,797,942
Academic Support	4,449,731
Student Services	6,949,760
Institutional Support	11,228,793
Operation and Maintenance of Plant	16,670,483
Scholarships and Fellowships	5,526,897
Depreciation	2,927,556
Auxiliary Enterprises	28,161
<b>Total Operating Expenses</b>	<b>\$ 76,436,635</b>

**15. COMPONENT UNITS**

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

**PENSACOLA JUNIOR COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

	Direct-Support Organizations		Total
	Pensacola Junior College Foundation, Inc.	WSRE-TV Foundation, Inc.	
<b>Condensed Statement of Net Assets</b>			
Assets:			
Current Assets	\$ 18,946,675	\$ 2,125,434	\$ 21,072,109
Capital Assets, Net		197,535	197,535
Other Noncurrent Assets	8,190,179	52,579	8,242,758
<b>Total Assets</b>	<b>27,136,854</b>	<b>2,375,548</b>	<b>29,512,402</b>
Liabilities:			
Current Liabilities	11,288,832	153,846	11,442,678
Noncurrent Liabilities	90,540		90,540
<b>Total Liabilities</b>	<b>11,379,372</b>	<b>153,846</b>	<b>11,533,218</b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt		167,535	167,535
Restricted	14,549,310	702,630	15,251,940
Unrestricted	1,208,172	1,351,537	2,559,709
<b>Total Net Assets</b>	<b>\$ 15,757,482</b>	<b>\$ 2,221,702</b>	<b>\$ 17,979,184</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>			
Operating Revenues	\$ 2,581,187	\$ 1,574,969	\$ 4,156,156
Operating Expenses	2,438,778	1,634,708	4,073,486
<b>Operating Income (Loss)</b>	<b>142,409</b>	<b>(59,739)</b>	<b>82,670</b>
Net Nonoperating Revenues (Expenses)	2,098,759	(305,955)	1,792,804
Other Revenues, Expenses, Gains, and Losses	728,408		728,408
<b>Increase (Decrease) in Net Assets</b>	<b>2,969,576</b>	<b>(365,694)</b>	<b>2,603,882</b>
Net Assets, Beginning of Year	12,787,906	2,587,396	15,375,302
<b>Net Assets, End of Year</b>	<b>\$ 15,757,482</b>	<b>\$ 2,221,702</b>	<b>\$ 17,979,184</b>

## 16. RELATED PARTY TRANSACTIONS

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

**PENSACOLA JUNIOR COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (Continued)  
June 30, 2007**

**17. SUBSEQUENT EVENT**

As discussed in notes 1 and 2, at June 30, 2007, the College had \$4,032,813 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool (Pool). On December 4, 2007, the State Board of Administration restructured the Pool and implemented temporary restrictions on the withdrawal of moneys that were on deposit including the requirement that a redemption fee be paid for withdrawals in excess of amounts to be periodically set by the State Board of Administration. Information regarding the restructuring and withdrawal restrictions is available from the College and the State Board of Administration. The College had \$3,065,504 invested in the Pool as of March 18, 2008.