

NORTHWEST FLORIDA STATE COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2010



BOARD OF TRUSTEES AND PRESIDENTS

Members of the Board of Trustees and Presidents who served during the 2009-10 fiscal year are listed below:

	<u>County</u>
Wesley Wilkerson, Chair (1)	Walton
Sandy Sims, Vice Chair	Okaloosa
Elizabeth S. Campbell to 7-14-09 (2)	Walton
Paul A. Foster from 7-15-09	Okaloosa
Rachel R. Gillis from 7-15-09	Walton
Joseph W. Henderson to 7-14-09 (2)	Okaloosa
Brian S. Pennington	Okaloosa
Dale E. Rice, Jr. (1)	Okaloosa
Marijo Strauss from 7-15-09	Okaloosa
Vercell Vance to 7-14-09 (2)	Okaloosa
Esteena K. Wells (1)	Walton

Dr. Jill J. White, Interim President
to November 30, 2009

Dr. G. Thomas Delaino, Interim President
from December 1, 2009, to June 20, 2010

Dr. Ty Handy, President
from June 21, 2010

- Notes: (1) Board member served beyond the end of term
May 31, 2010.
(2) Board member served beyond the end of term
May 31, 2009.

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

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

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

NORTHWEST FLORIDA STATE COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

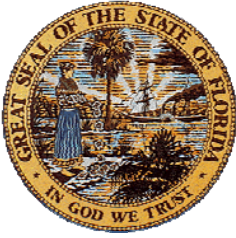
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2011-016.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Northwest Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2010, which collectively comprise the College's basic financial statements as shown on pages 11 through 31. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report 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 report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northwest Florida State College and of its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Northwest Florida State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 10 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on page 32 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
February 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2010, 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 increased \$39 thousand, or 0.03 percent, during the 2008-09 fiscal year to \$141.6 million at June 30, 2010. Liabilities increased \$926 thousand, or 14.6 percent, to \$7.3 million at June 30, 2010. Liabilities increased primarily because of a \$711 thousand increase in construction retainage payable. As a result, the College's net assets decreased during the fiscal year by \$887 thousand, to \$134.3 million at June 30, 2010.

The College's operating revenues were \$15.7 million during the 2009-10 fiscal year, representing a 1.9 percent decrease from the 2008-09 fiscal year mainly due to reductions in State and Federal grants and contracts. Operating expenses totaled \$51.2 million for the 2009-10 fiscal year, which was an increase of 5.5 percent over the 2008-09 fiscal year due mainly to a \$2.2 million increase in scholarship and waiver expenses.

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:

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

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

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

These statements include all assets and liabilities 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 unit for the respective fiscal years ended are shown in the following table:

	College		Component Unit	
	6-30-10	6-30-09	9-30-09	9-30-08
Assets				
Current Assets	\$ 38,371	\$ 44,625	\$ 2,931	\$ 4,298
Capital Assets, Net	101,693	87,097	5,874	6,042
Other Noncurrent Assets	1,538	9,841	25,110	24,008
Total Assets	141,602	141,563	33,915	34,348
Liabilities				
Current Liabilities	3,376	2,543	79	230
Noncurrent Liabilities	3,880	3,787		
Total Liabilities	7,256	6,330	79	230
Net Assets				
Invested in Capital Assets, Net of Related Debt	100,753	86,026	5,874	6,042
Restricted	28,126	45,236	27,545	27,855
Unrestricted	5,467	3,971	417	221
Total Net Assets	\$ 134,346	\$ 135,233	\$ 33,836	\$ 34,118
Decrease in Net Assets	\$ (887) -0.66%		\$ (282) -0.83%	

Current assets decreased by \$6.3 million, or 14 percent. Much of the decrease resulted from an \$8.6 million reduction in Public Education Capital Outlay receivables due to collections on the receivables and also because the College was required to return \$1.3 million to the State because of State reductions in capital project funding. Capital assets increased by \$14.6 million, or 16.8 percent, due mainly to increases in construction in progress from the Community Service Center construction project. Noncurrent assets decreased by \$8.3 million, or 84.4 percent, primarily because the College expended restricted cash and cash equivalents for College construction projects.

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

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

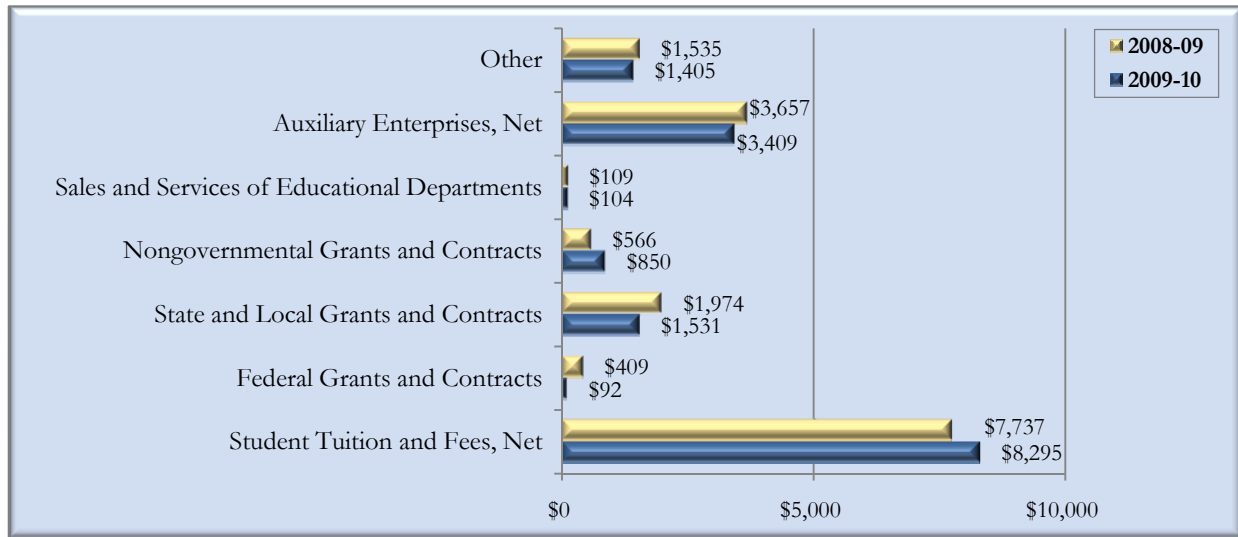
	College		Component Unit	
	6-30-10	6-30-09	9-30-09	9-30-08
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 8,295	\$ 7,737	\$	\$
Federal Grants and Contracts	92	409		
State and Local Grants and Contracts	1,531	1,974		
Nongovernmental Grants and Contracts	850	566		
Sales and Services of Educational Departments	104	109		
Auxiliary Enterprises, Net of Scholarship Allowances	3,409	3,657		
Other Operating Revenues	1,405	1,535	409	420
Total Operating Revenues	15,686	15,987	409	420
Less, Operating Expenses	51,244	48,568	1,595	4,740
Operating Loss	(35,558)	(32,581)	(1,186)	(4,320)
Nonoperating Revenues (Expenses)				
State Appropriations	16,627	19,136		3,197
Other Nonoperating Revenues	16,924	9,125	691	(4,410)
Interest on Capital Asset-Related Debt	(52)	(57)		
Net Nonoperating Revenues (Expenses)	33,499	28,204	691	(1,213)
Loss Before Other Revenues, Expenses, Gains, or Losses				
	(2,059)	(4,377)	(495)	(5,533)
Capital Appropriations	1,092	31,726		
Capital Grants, Contracts, Gifts, and Fees	1,350	1,434		
Other Expenses	(1,270)	(5,690)		
Additions to Permanent Endowments			213	3,295
Increase (Decrease) in Net Assets	(887)	23,093	(282)	(2,238)
Net Assets, Beginning of Year	135,233	112,140	34,118	36,356
Net Assets, End of Year	\$134,346	\$ 135,233	\$ 33,836	\$ 34,118

Operating Revenues

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

The following chart presents the College’s operating revenues for the 2009-10 and 2008-09 fiscal years:

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



The College had no significant changes in operating revenues.

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.

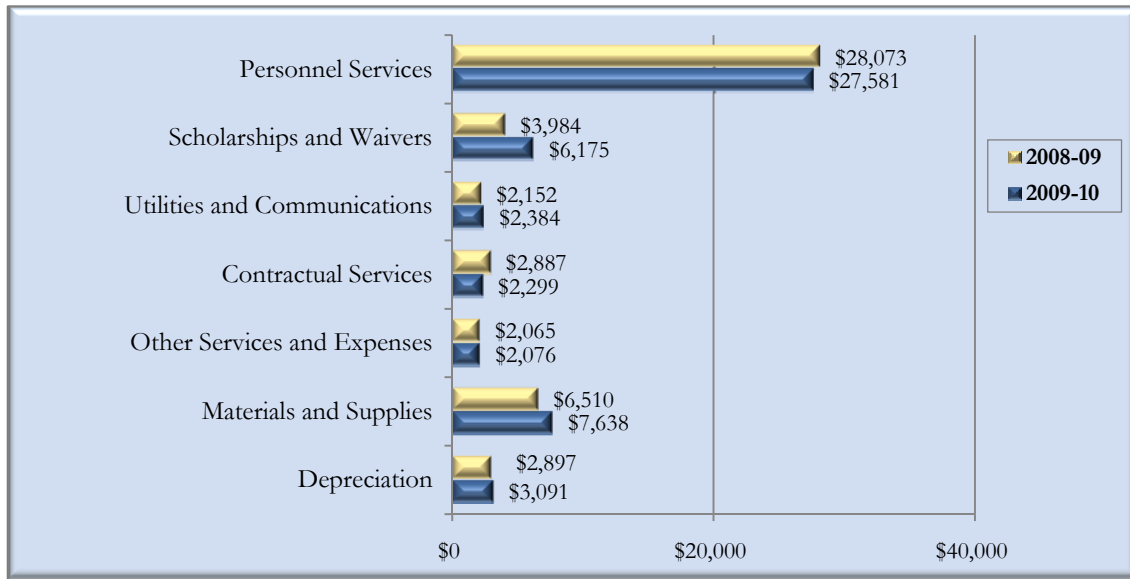
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

**Operating Expenses
(In Thousands)**

	College		Component Unit	
	6-30-10	6-30-09	9-30-09	9-30-08
Operating Expenses				
Personnel Services	\$ 27,581	\$ 28,073	\$	\$
Scholarships and Waivers	6,175	3,984	370	644
Utilities and Communications	2,384	2,152	98	87
Contractual Services	2,299	2,887		189
Other Services and Expenses	2,076	2,065	930	3,587
Materials and Supplies	7,638	6,510	25	55
Depreciation	3,091	2,897	172	178
Total Operating Expenses	\$ 51,244	\$ 48,568	\$ 1,595	\$ 4,740

The following chart presents the College’s operating expenses for the 2009-10 and 2008-09 fiscal years:

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



The College’s 2009-10 fiscal year operating expenses increased by \$2.7 million, or 5.5 percent, over the 2008-09 fiscal year. Scholarship expenses accounted for \$2.2 million of the increase; these expenses increased primarily because of increases in Federal Pell grants that allowed the College to award the grants to more students and for higher amounts.

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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
State Appropriations	\$ 16,627	\$ 19,136
Gifts and Grants	16,782	9,038
Investment Income	142	79
Other Nonoperating Revenues		8
Interest on Capital Asset-Related Debt	(52)	(57)
Net Nonoperating Revenues	\$ 33,499	\$ 28,204

The College’s net nonoperating revenues increased by \$5.3 million, primarily because:

- State appropriations decreased by \$2.5 million, or 13.1 percent, for the 2009-10 fiscal year. This decrease was the result of reductions in State funding allocations due to economic conditions in Florida.
- Gifts and grants increased by \$7.7 million, or 85.7 percent, primarily because the College received Federal Pell grants that were \$4 million more than the previous fiscal year and received \$1.5 million in American Recovery and Reinvestment Act funds, and received \$902 thousand from Okaloosa County for the construction of the Community Services Complex during the 2009-10 fiscal year.

Other Revenues, Expenses, Gains, or Losses

This category is 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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Capital Appropriations	\$ 1,092	\$ 31,726
Capital Grants, Contracts, Gifts, and Fees	1,350	1,434
Other Expenses	(1,270)	(5,690)
Net Other Revenues	\$ 1,172	\$ 27,470

Other revenues decreased by \$26.3 million, which was the result of the following factors:

- Capital appropriations decreased because State Public Education Capital Outlay appropriations for the 2009-10 fiscal year decreased by \$30.6 million.
- Other expenses decreased by \$4.4 million during the 2009-10 fiscal year. During the 2008-09 fiscal year, the College decided to not go forward with the Destin Joint-Use Facility and reported the return of \$5.7 million in Public Education Capital Outlay funding for this project in this expense category. During the 2009-10 fiscal year, the State requested the College return \$1.3 million of unexpended Public Education Capital Outlay funds and the College reported this return in this expense category. This accounts for the net decrease of \$4.4 million in other expenses.

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 2009-10 and 2008-09 fiscal years is presented in the following table:

**Condensed Statement of Cash Flows: College
(In Thousands)**

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (32,639)	\$ (29,789)
Noncapital Financing Activities	32,972	28,108
Capital and Related Financing Activities	(7,014)	1,790
Investing Activities	142	330
Net Increase (Decrease) in Cash and Cash Equivalents	(6,539)	439
Cash and Cash Equivalents, Beginning of Year	19,385	18,946
Cash and Cash Equivalents, End of Year	\$ 12,846	\$ 19,385

Major sources of funds came from State appropriations (\$16.6 million), net student tuition and fees (\$8 million), grants and contracts (\$20.1 million), and capital appropriations (\$9.6 million). Major uses of funds were for payments to employees (\$22 million), purchases of capital assets (\$17.7 million), and payments to suppliers (\$12 million).

Cash and cash equivalents decreased by \$6.5 million during the 2009-10 fiscal year, due primarily to the College expending \$17.7 million for capital assets while receiving \$9.6 million in capital appropriations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2010, the College had \$140.3 million in capital assets, less accumulated depreciation of \$38.6 million, for net capital assets of \$101.7 million. Depreciation charges for the current fiscal year totaled \$3.1 million. The following table summarizes the College’s capital assets at June 30:

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

<u>Capital Assets</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,909	\$ 2,909
Capitalized Collections	762	761
Construction in Progress	34,217	22,388
Buildings	93,738	88,548
Other Structures and Improvements	4,102	4,102
Furniture, Machinery, and Equipment	4,613	3,999
Total	140,341	122,707
Less, Accumulated Depreciation:		
Buildings	32,839	30,570
Other Structures and Improvements	2,321	2,023
Furniture, Machinery, and Equipment	3,488	3,018
Total Accumulated Depreciation	38,648	35,611
Capital Assets, Net	\$ 101,693	\$ 87,096

Construction in progress accounts for the majority of the increase in capital assets. Major construction projects in effect during the 2009-10 fiscal year included the Community Services Complex and the Student Services Center. Capital appropriations from the State together with local funds are expected to finance the construction, remodeling, and renovation of College 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 \$940 thousand in long-term debt outstanding as compared with \$1.1 million at the end of the prior fiscal year, a decrease of 12.2 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2009-10 fiscal year, there were no bond sales and debt repayments totaled \$130 thousand. Additional information about the College’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Northwest Florida State College’s economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, the College anticipates a decrease in State funding in the coming year. As a result of this anticipated decrease in State appropriations, the Board of Trustees increased tuition rates by 8 percent effective with the Fall 2010 term. The College’s current financial and capital plans indicate that the infusion of additional financial resources from the increase in tuition rates is necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information and financial statements and notes thereto, or requests for additional financial information, should be addressed to the Associate Vice President for Business Services, Northwest Florida State College, 100 College Boulevard, Niceville, Florida 32578.

BASIC FINANCIAL STATEMENTS

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2010**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,461,230	\$ 638,119
Restricted Cash and Cash Equivalents	4,073,728	2,250,193
Receivables, Net	1,240,400	21,303
Due from Other Governmental Agencies	24,994,727	
Inventories	536,266	
Prepaid Expenses	64,661	20,457
Other Assets		1,190
Total Current Assets	<u>38,371,012</u>	<u>2,931,262</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,310,838	
Investments		25,109,635
Restricted Investments	227,356	
Depreciable Capital Assets, Net	63,805,918	5,422,732
Nondepreciable Capital Assets	37,887,307	451,201
Total Noncurrent Assets	<u>103,231,419</u>	<u>30,983,568</u>
TOTAL ASSETS	<u>\$ 141,602,431</u>	<u>\$ 33,914,830</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 331,176	\$ 79,090
Salary and Payroll Taxes Payable	144,538	
Retainage Payable	2,046,813	
Due to Other Governmental Agencies	75,335	
Deferred Revenue	20,507	
Deposits Held for Others	368,849	
Long-Term Liabilities - Current Portion:		
Bonds Payable	135,000	
Special Termination Benefits Payable	196,121	
Compensated Absences Payable	57,779	
Total Current Liabilities	<u>3,376,118</u>	<u>79,090</u>
Noncurrent Liabilities:		
Bonds Payable	805,000	
Special Termination Benefits Payable	99,291	
Compensated Absences Payable	2,831,161	
Other Postemployment Benefits Payable	144,797	
Total Noncurrent Liabilities	<u>3,880,249</u>	
TOTAL LIABILITIES	<u>7,256,367</u>	<u>79,090</u>

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010**

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 100,753,225	\$ 5,873,933
Restricted:		
Other		(857,305)
Nonexpendable:		
Endowment		28,401,988
Expendable:		
Grants and Loans	1,602,192	
Scholarships	43,720	
Capital Projects	26,454,465	
Debt Service	25,625	
Unrestricted	5,466,837	417,124
Total Net Assets	134,346,064	33,835,740
TOTAL LIABILITIES AND NET ASSETS	\$ 141,602,431	\$ 33,914,830

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

NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2010

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$4,438,024	\$ 8,295,045	\$
Federal Grants and Contracts	92,143	
State and Local Grants and Contracts	1,530,721	
Nongovernmental Grants and Contracts	850,447	
Sales and Services of Educational Departments	103,992	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,262,835	3,408,894	
Other Operating Revenues	1,404,584	408,530
Total Operating Revenues	15,685,826	408,530
EXPENSES		
Operating Expenses:		
Personnel Services	27,580,821	
Scholarships and Waivers	6,175,088	369,841
Utilities and Communications	2,384,114	98,155
Contractual Services	2,299,017	
Other Services and Expenses	2,076,525	930,294
Materials and Supplies	7,637,707	25,181
Depreciation	3,091,018	171,401
Total Operating Expenses	51,244,290	1,594,872
Operating Loss	(35,558,464)	(1,186,342)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	16,627,029	
Gifts and Grants	16,782,329	349,135
Investment Income	142,114	342,428
Interest on Capital Asset-Related Debt	(52,214)	
Net Nonoperating Revenues	33,499,258	691,563
Loss Before Other Revenues, Expenses, Gains, or Losses	(2,059,206)	(494,779)
Capital Appropriations	1,092,591	
Capital Grants, Contracts, Gifts, and Fees	1,349,798	
Other Expenses	(1,270,353)	
Additions to Permanent Endowments		212,757
Total Other Revenues	1,172,036	212,757
Decrease in Net Assets	(887,170)	(282,022)
Net Assets, Beginning of Year	135,233,234	34,117,762
Net Assets, End of Year	\$ 134,346,064	\$ 33,835,740

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

NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 7,943,695
Grants and Contracts	2,473,311
Payments to Suppliers	(12,097,799)
Payments for Utilities and Communications	(2,384,114)
Payments to Employees	(21,922,117)
Payments for Employee Benefits	(5,376,263)
Payments for Scholarships	(6,175,088)
Loans Issued to Students	(546,410)
Collection of Loans to Students	543,709
Auxiliary Enterprises, Net	3,408,894
Sales and Service of Educational Departments	103,992
Other Receipts	1,389,042
	(32,639,148)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	16,627,029
Gifts and Grants Received for Other Than Capital or Endowment Purposes	16,344,383
	32,971,412
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	9,562,717
Capital Grants, Contracts, Gifts, and Fees	1,293,074
Purchases of Capital Assets	(17,687,650)
Principal Paid on Capital Debt and Leases	(130,000)
Interest Paid on Capital Debt and Leases	(52,214)
	(7,014,073)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	142,126
	(6,539,683)
Cash and Cash Equivalents, Beginning of Year	19,385,479
Cash and Cash Equivalents, End of Year	\$ 12,845,796

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010**

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (35,558,464)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,091,018
Changes in Assets and Liabilities:	
Receivables, Net	(354,050)
Inventories	(87,938)
Other Assets	677
Accounts Payable	36,762
Deferred Revenue	(46,349)
Deposits Held for Others	30,807
Special Termination Benefits	(48,882)
Compensated Absences Payable	274,407
Other Postemployment Benefits Payable	22,864
NET CASH USED BY OPERATING ACTIVITIES	\$ (32,639,148)

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

NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The governing body of Northwest Florida State College, a component unit of the State of Florida, is the District Board of Trustees. The Board constitutes a corporation and is composed of eight members appointed by the Governor and confirmed by the Senate. The District Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by law and State Board of Education rules. However, the District Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and State Board of Education rules. Geographic boundaries of the District correspond with those of Okaloosa and Walton 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 Unit. Based on the application of the criteria for determining component units, the Northwest Florida State College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended September 30, 2009.

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers property, and makes expenditures to or for the benefit of the College.

NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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
- Other Required Supplementary Information

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

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

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

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

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 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 third-party aid.

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

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

At June 30, 2010, the College reported as cash equivalents at fair value \$8,928,665 of moneys held in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average

NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

days to maturity (WAM) of 46 days as of June 30, 2010. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Athletic, and Other Minor Equipment – 5 years
 - Office Furniture and Equipment – 7 years
 - Educational Furniture and Equipment – 10 years

Component Unit Capital Assets. The Foundation's capital assets consist of land, buildings, and furniture and equipment and are stated at historical cost or estimated fair value at date of acquisition in the case of gifts and surplus property acquired at nominal cost. The Foundation has a capitalization threshold of \$1,000 for tangible personal property. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Furniture – 7 years

Land, buildings, and equipment are stated at cost, except for donated property which is stated at fair market value at the date of the donation, and are net of accumulated depreciation of \$895,463. The Foundation depreciates buildings and equipment using the straight-line method over the estimated useful lives of the assets.

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. INVESTMENTS

The College’s Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College’s investments at June 30, 2010, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 201,731
State Board of Administration Debt Service Accounts	<u>25,625</u>
Total College Investments	<u>\$ 227,356</u>

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2010, the College reported investments at fair value of \$201,731 for amounts held in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

factor of 0.67353149 at June 30, 2010. The weighted-average life (WAL) of Fund B at June 30, 2010, was 8.05 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2010. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The College reported investments at fair value totaling \$25,625 at June 30, 2010, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the Northwest Florida State College Foundation, Inc., at September 30, 2009, are reported at fair value as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Value</u>
Equity Mutual Funds (1)		
Alternative Investments		\$ 2,471,818
Aliancebernstein International		787,874
Blackrock US Opportunities Port Inst		1,512,642
DWS Dreaman SM Cap		253,650
Eaton Vance Special Equities Fund		2,090,109
Harbor International Fund Investor		1,135,332
Ishares Russell Growth		2,790,474
Mainstay Large Cap Growth		2,485,597
Oppenheimer Developing Markets		180,409
Perkins Mid Cap Value		695,160
United States Government and Federally Sponsored Bonds:		
Federal Home Loan Mortgage Corporation	AAA-Aaa	420,989
United States Government Obligations (2)		6,091,026
Corporate Bonds	AAA - BBB	4,194,555
Total Investments		<u>\$ 25,109,635</u>

Notes: (1) Investment risk disclosures are not required for equity mutual funds.

(2) Investment risk disclosures are not required for United States Government obligations.

The Foundation's investment policy sets target allocations of investments to reduce risk by investing in a diversified portfolio of financial assets, primarily stock funds, bonds, or bond funds, and cash equivalents.

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy states at least 50 percent of these short-term funds shall be invested in instruments having maturities no greater than two years. No more than 25 percent may be invested in instruments that have maturities no greater than five years, and no more than 25 percent may be invested in instruments that have maturities greater than five years. The investments at September 30, 2009, met the Foundation's investment policy restrictions.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation does not have a policy addressing credit risk.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation does not have a policy addressing custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy requires that investments are to be diversified to the extent that no more than 4 percent of the funds may be invested in any one security, no more than 30 percent in any one industry, and the Foundation should not control more than 10 percent of the debt in any company. These restrictions do not apply to United States government obligations.

3. RECEIVABLES

Receivables represent amounts for student fee deferments, various student services provided by the College, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$44,653 allowance for uncollectible accounts.

4. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$ 24,350,015 of Public Education Capital Outlay allocations due from the State for remodeling and renovation of College facilities.

5. INVENTORIES

Inventories consist of graphic service supplies held for use by College departments, food service supplies held for use in the production of food items for sale, and items for resale by the campus bookstores. Inventories are valued using the last invoice cost which approximates the first-in, first-out method of inventory valuation.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 2,908,883	\$	\$	\$ 2,908,883
Capitalized Collections	761,453			761,453
Construction in Progress	22,387,852	15,591,372	3,762,253	34,216,971
Total Nondepreciable Capital Assets	\$ 26,058,188	\$ 15,591,372	\$ 3,762,253	\$ 37,887,307
Depreciable Capital Assets:				
Buildings	\$ 88,548,008	\$ 5,190,065	\$	\$ 93,738,073
Other Structures and Improvements	4,102,448			4,102,448
Furniture, Machinery, and Equipment	3,999,020	668,466	54,113	4,613,373
Total Depreciable Capital Assets	96,649,476	5,858,531	54,113	102,453,894
Less, Accumulated Depreciation:				
Buildings	30,570,139	2,269,228		32,839,367
Other Structures and Improvements	2,023,275	297,784		2,321,059
Furniture, Machinery, and Equipment	3,017,657	524,006	54,113	3,487,550
Total Accumulated Depreciation	35,611,071	3,091,018	54,113	38,647,976
Total Depreciable Capital Assets, Net	\$ 61,038,405	\$ 2,767,513	\$ 0	\$ 63,805,918

7. DEFERRED REVENUE

Deferred revenue, as of June 30, 2010, represents \$20,507 in student tuition and fees received prior to fiscal year-end related to subsequent accounting periods.

8. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2010, include bonds payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 1,070,000	\$	\$ 130,000	\$ 940,000	\$ 135,000
Special Termination Benefits Payable	344,294	144,846	193,728	295,412	196,121
Compensated Absences Payable	2,614,533	316,339	41,932	2,888,940	57,779
Other Postemployment Benefits Payable	121,933	54,093	31,229	144,797	
Total Long-Term Liabilities	\$ 4,150,760	\$ 515,278	\$ 396,889	\$ 4,269,149	\$ 388,900

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 at June 30, 2010:

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2002B	\$ 525,000	4.0 - 5.375	2015
Series 2005A	415,000	4.0 - 5.0	2025
Total	\$ 940,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2011	\$ 135,000	\$ 45,763	\$ 180,763
2012	140,000	38,619	178,619
2013	145,000	32,718	177,718
2014	155,000	25,038	180,038
2015	120,000	16,837	136,837
2016-2020	130,000	38,381	168,381
2021-2025	115,000	13,644	128,644
Total	\$ 940,000	\$ 211,000	\$ 1,151,000

Special Termination Benefits Payable. The Board has established a retirement incentive program (program) that is available to certain College employees based on age and years of service. Under the program, eligible employees receive payment for accumulated sick leave based on years of service as defined in Section 1012.865, Florida Statutes, and a salary bonus equal to no more than 10 percent of the final year’s annual contract salary. The College reported a special termination benefits payable of \$295,412 as of June 30, 2010, for 22 employees who gave notice to retire under the program, of which \$196,121 represents the current portion.

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, 2010, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$2,888,940. Of this amount, \$57,779 is considered a current liability as this is expected to be paid in the coming fiscal year.

Other Postemployment Benefits Payable. The College follows Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than*

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Pensions, for certain other postemployment healthcare and life insurance benefits provided by the Florida College System Risk Management Consortium (Consortium).

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend the benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 27 retirees received postemployment healthcare benefits and 61 retirees received postemployment life insurance benefits. The College provided required contributions of \$31,229 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$166,175.

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

**NORTHWEST FLORIDA STATE COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 55,666
Amortization of Unfunded Actuarial Accrued Liability	22,879
Annual Required Contribution	78,545
Interest on Net OPEB Obligation	2,937
Adjustment to Annual Required Contribution	(27,389)
Annual OPEB Cost (Expense)	54,093
Contribution Toward the OPEB Cost	(31,229)
Increase in Net OPEB Obligation	22,864
Net OPEB Obligation, Beginning of Year	121,933
Net OPEB Obligation, End of Year	\$ 144,797

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	91,103	34.2%	59,983
2008-09	90,903	31.9%	121,933
2009-10	54,093	57.7%	144,797

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$666,384 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$666,384 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$15,345,303 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 4.3 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types

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of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The College's OPEB actuarial valuation as of July 1, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the College's 2009-10 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent for the 2009-10 fiscal year, reduced by 0.2 percent per year for two years, then 0.1 to 0.3 percent per year thereafter, to an ultimate rate of 4.5 percent after 18 years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2010, was 27 years.

9. RETIREMENT PROGRAMS

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

Employees in the Plan vest at six years of service. All vested 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; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement and disability and death benefits, and annual cost-of-living adjustments.

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Deferred Retirement Option Program - Applicable to Members from the Above Class	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$1,275,602, \$1,359,448, and \$1,357,685, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State 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, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 49 College participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$190,353.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can

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make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf of the participant, 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 college to the participant’s annuity account.

There were 25 College participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$291,977.

10. CONSTRUCTION COMMITMENTS

The College’s major construction commitments at June 30, 2010, are as follows:

<u>Project Description</u>	<u>Total Committed</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Community Services Complex: Contractor	\$ 22,243,829	\$ 20,468,126	\$ 1,775,703
Student Services Center: Architect	<u>1,496,000</u>	<u>972,400</u>	<u>523,600</u>
Total	<u>\$ 23,739,829</u>	<u>\$ 21,440,526</u>	<u>\$ 2,299,303</u>

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 College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$175 million through February 28, 2010, and up to \$150 million starting March 1, 2010. Insurance coverage obtained through the Consortium included health, life, fire and extended property, general and automobile liability, workers’ compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

12. LITIGATION

Foley & Lardner, LLP attorneys at law have filed a Petition of Evidentiary Hearing to the Board of Trustees of Northwest Florida State College for breach of employment contract of Dr. James R. Richburg. On May 26, 2009, the Board approved a motion to offer to enter into mediation with Foley & Lardner, LLP as attorneys for Dr. Richburg. The offer to enter into mediation was accepted and that process is ongoing.

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Costs associated with the hearing and mediation are covered by the College’s insurance and have no material effect on the College’s financial position. 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.

13. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the 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 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>
College Program Fund	\$ 14,217,666
Education Enhancement Trust Fund (Lottery)	2,005,836
Bright Futures Scholarship Program	1,629,175
Gross Receipts Tax (Public Education Capital Outlay)	884,591
Florida Student Assistance Grants	674,102
Baccalaureate Programs	403,527
Motor Vehicle License Tax (Capital Outlay and Debt Service)	208,000
Total	\$ 20,022,897

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

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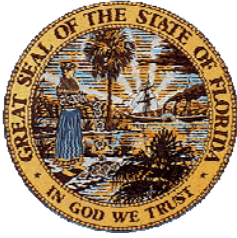
the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 16,911,273
Public Services	923,885
Academic Support	3,634,928
Student Services	2,808,069
Institutional Support	5,575,439
Operation and Maintenance of Plant	6,763,374
Scholarships and Waivers	6,175,088
Depreciation	3,091,018
Auxiliary Enterprises	<u>5,361,216</u>
Total Operating Expenses	<u>\$ 51,244,290</u>

**NORTHWEST FLORIDA STATE COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 679,082	\$ 679,082	0%	\$ 15,065,797	4.5%
7/1/2009	\$	\$ 666,384	\$ 666,384	0%	\$ 15,345,303	4.3%

Note: (1) The actuarial cost method used by the College is the projected unit credit method.



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

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

We have audited the financial statements of Northwest Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2010, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational report No. 2011-016.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 8, 2011