

# NORTHWEST FLORIDA STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2011



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

	<u>County</u>
Sandy Sims, Chair (1)	Okaloosa
Brian S. Pennington, Vice Chair (1)	Okaloosa
Paul A. Foster	Okaloosa
Rachel R. Gillis	Walton
Dale E. Rice, Jr. (2)	Okaloosa
Marijo Strauss	Okaloosa
Esteena K. Wells (2)	Walton
Wesley Wilkerson (2)	Walton

Dr. Ty Handy, President

- Notes: (1) Board member served beyond the end of term,  
May 31, 2011.  
(2) Board member served beyond the end of term,  
May 31, 2010.

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](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 922-2263.

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## EXECUTIVE SUMMARY

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### 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, 2011. 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.

### 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

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534  
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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, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. 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, 2011, 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** and the **SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA  
March 7, 2012

## 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, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activities of the College for fiscal years ended 2010 and 2011 and its component unit, the Northwest Florida State College Foundation, Inc. (Component Unit), for the fiscal years ended September 30, 2009, and September 30, 2010.

### FINANCIAL HIGHLIGHTS

The College's assets totaled \$143.1 million at June 30, 2011. This balance reflects a \$1.5 million, or 1 percent, increase from the 2009-10 fiscal year, resulting primarily from increases in construction-related nondepreciable assets and decreases in current assets. While assets grew, liabilities decreased by a lesser amount of \$179 thousand, or 2.5 percent, totaling \$7.1 million at June 30, 2011, compared to \$7.3 million at June 30, 2010. As a result, the College's net assets increased by \$1.7 million, reaching a year-end balance of \$136 million.

The College's operating revenues totaled \$16.9 million for the 2010-11 fiscal year, representing a 7.5 percent increase over the 2009-10 fiscal year due mainly to an increase in student tuition and fees. Operating expenses totaled \$51.9 million for the 2010-11 fiscal year, representing an increase of 1.3 percent over the 2009-10 fiscal year due mainly to increases in personnel services, scholarships and waivers, utility expenses, and contractual service 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 and are presented 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 is shown in the following table:

	College		Component Unit	
	6-30-11	6-30-10	9-30-10	9-30-09
<b>Assets</b>				
Current Assets	\$ 29,242	\$ 38,371	\$ 2,064	\$ 2,931
Capital Assets, Net	111,900	101,693	5,705	5,874
Other Noncurrent Assets	<u>1,931</u>	<u>1,538</u>	<u>27,763</u>	<u>25,110</u>
<b>Total Assets</b>	<u>143,073</u>	<u>141,602</u>	<u>35,532</u>	<u>33,915</u>
<b>Liabilities</b>				
Current Liabilities	3,325	3,376	51	79
Noncurrent Liabilities	<u>3,752</u>	<u>3,880</u>	<u>          </u>	<u>          </u>
<b>Total Liabilities</b>	<u>7,077</u>	<u>7,256</u>	<u>51</u>	<u>79</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	111,095	100,753	5,705	5,874
Restricted	20,040	28,126	29,188	27,545
Unrestricted	<u>4,861</u>	<u>5,467</u>	<u>588</u>	<u>417</u>
<b>Total Net Assets</b>	<u>\$ 135,996</u>	<u>\$ 134,346</u>	<u>\$ 35,481</u>	<u>\$ 33,836</u>
<b>Increase in Net Assets</b>	<u>\$ 1,650</u> 1.2%		<u>\$ 1,645</u> 4.9%	

Current assets decreased by \$9.1 million, or 23.8 percent. The decrease was primarily due to a reduction in Public Education Capital Outlay receivables totaling \$8.2 million. Noncurrent assets increased by \$10.6 million, or 10.3 percent, resulting mainly from additions to College construction projects. The College had no significant changes in liabilities and net assets from the prior fiscal year.

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)**

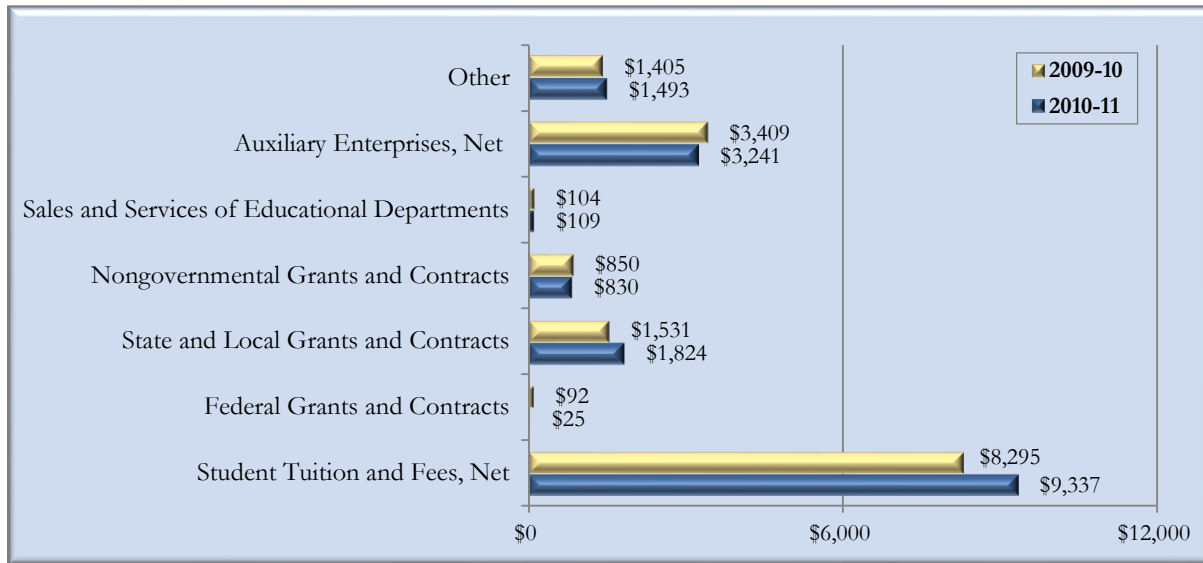
	College		Component Unit	
	6-30-11	6-30-10	9-30-10	9-30-09
<b>Operating Revenues</b>				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 9,337	\$ 8,295	\$	\$
Federal Grants and Contracts	25	92		
State and Local Grants and Contracts	1,824	1,531		
Nongovernmental Grants and Contracts	830	850		
Sales and Services of Educational Departments	109	104		
Auxiliary Enterprises, Net of Scholarship Allowances	3,241	3,409		
Other Operating Revenues	1,493	1,405	112	409
<b>Total Operating Revenues</b>	<b>16,859</b>	<b>15,686</b>	<b>112</b>	<b>409</b>
Less, Operating Expenses	51,934	51,244	1,755	1,595
<b>Operating Loss</b>	<b>(35,075)</b>	<b>(35,558)</b>	<b>(1,643)</b>	<b>(1,186)</b>
<b>Nonoperating Revenues (Expenses)</b>				
State Noncapital Appropriations	18,026	16,627		
Other Nonoperating Revenues	15,574	16,924	3,208	691
Interest on Capital Asset-Related Debt	(45)	(52)		
<b>Net Nonoperating Revenues</b>	<b>33,555</b>	<b>33,499</b>	<b>3,208</b>	<b>691</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>				
	(1,520)	(2,059)	1,565	(495)
State Capital Appropriations	1,678	1,092		
Capital Grants, Contracts, Gifts, and Fees	1,492	1,350		
Other Expenses		(1,270)		
Additions to Permanent Endowments			80	213
<b>Increase (Decrease) in Net Assets</b>	<b>1,650</b>	<b>(887)</b>	<b>1,645</b>	<b>(282)</b>
Net Assets, Beginning of Year	134,346	135,233	33,836	34,118
<b>Net Assets, End of Year</b>	<b>\$ 135,996</b>	<b>\$ 134,346</b>	<b>\$ 35,481</b>	<b>\$ 33,836</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 gives or receives something of equal or similar value.

The following chart presents the College’s operating revenues for the 2010-11 and 2009-10 fiscal years:

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



The College had no significant changes in operating revenues from the prior fiscal year.

**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 operating 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.

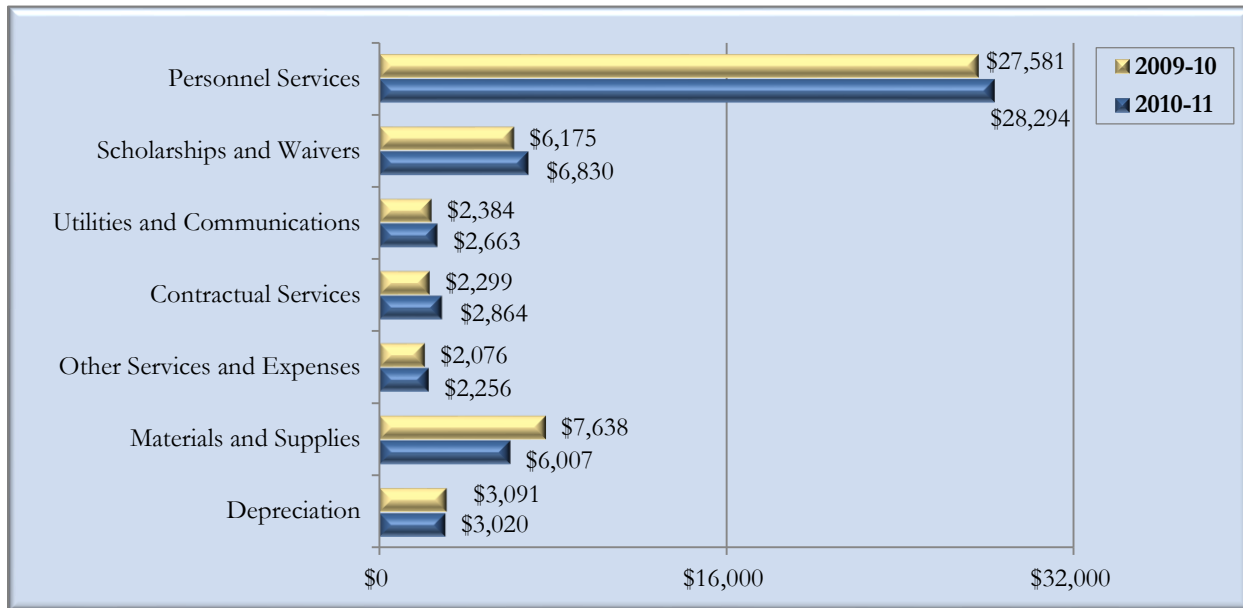
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

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

	College		Component Unit	
	6-30-11	6-30-10	9-30-10	9-30-09
<b>Operating Expenses</b>				
Personnel Services	\$28,294	\$27,581	\$	\$
Scholarships and Waivers	6,830	6,175	340	370
Utilities and Communications	2,663	2,384	101	98
Contractual Services	2,864	2,299		
Other Services and Expenses	2,256	2,076	1,120	930
Materials and Supplies	6,007	7,638	25	25
Depreciation	3,020	3,091	169	172
<b>Total Operating Expenses</b>	<b>\$51,934</b>	<b>\$51,244</b>	<b>\$ 1,755</b>	<b>\$ 1,595</b>

The following chart presents the College’s operating expenses for the 2010-11 and 2009-10 fiscal years:

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



The College had no significant changes in operating expenses from the prior fiscal year.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital 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 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
State Noncapital Appropriations	\$ 18,026	\$ 16,627
Gifts and Grants	15,567	16,782
Investment Income (Loss)	(16)	142
Other Nonoperating Revenues	23	
Interest on Capital Asset-Related Debt	(45)	(52)
<b>Net Nonoperating Revenues</b>	<b>\$ 33,555</b>	<b>\$ 33,499</b>

The College had no significant changes in nonoperating revenues and expenses from the prior fiscal year.

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

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
State Capital Appropriations	\$ 1,678	\$ 1,092
Capital Grants, Contracts, Gifts, and Fees	1,492	1,350
Other Expenses		(1,270)
<b>Total</b>	<b>\$ 3,170</b>	<b>\$ 1,172</b>

The College had no significant changes in other revenues or expenses from the prior fiscal year.

**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 2010-11 and 2009-10 fiscal years is presented in the following table:

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

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	\$ (31,227)	\$ (32,639)
Noncapital Financing Activities	33,656	32,972
Capital and Related Financing Activities	(3,190)	(7,014)
Investing Activities	34	142
<b>Net Decrease in Cash and Cash Equivalents</b>	(727)	(6,539)
Cash and Cash Equivalents, Beginning of Year	12,846	19,385
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 12,119</b>	<b>\$ 12,846</b>

Major sources of funds came from State noncapital appropriations (\$18 million), State capital appropriations (\$8.7 million), net student tuition and fees (\$9.5 million), gifts, grants, and contracts (\$19.8 million), and bookstore receipts (\$3.2 million). Major uses of funds were for payments to employees (\$22.6 million), purchases of capital assets (\$13.3 million), and payments to suppliers (\$10.5 million).

The College’s cash and cash equivalents decreased by \$727 thousand, or 5.7 percent, and was primarily the result of the following factors:

- Cash used by operating activities decreased primarily due to a reduction in payments to suppliers for goods and services.
- Cash used by capital and related financing activities decreased due to a reduction in the purchases of capital assets during the 2010-11 fiscal year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

At June 30, 2011, the College had \$153.6 million in capital assets, less accumulated depreciation of \$41.7 million, for net capital assets of \$111.9 million. Depreciation charges for the current fiscal year totaled \$3 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>2011</u>	<u>2010</u>
Land	\$ 2,909	\$ 2,909
Capitalized Collections	762	762
Construction in Progress	46,748	34,217
Buildings	93,781	93,738
Other Structures and Improvements	4,350	4,102
Furniture, Machinery, and Equipment	5,022	4,613
<b>Total</b>	<b>153,572</b>	<b>140,341</b>
Less, Accumulated Depreciation:		
Buildings	35,102	32,839
Other Structures and Improvements	2,646	2,321
Furniture, Machinery, and Equipment	3,924	3,488
<b>Total Accumulated Depreciation</b>	<b>41,672</b>	<b>38,648</b>
<b>Capital Assets, Net</b>	<b>\$ 111,900</b>	<b>\$ 101,693</b>

Construction in progress accounts for the majority of the increase in capital assets. Major construction projects during the 2010-11 fiscal year included the Community Services Complex and the Student Services Center. The College has \$11.9 million in construction contract commitments at June 30, 2011. State capital appropriations together with local funds are expected to finance the construction 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 \$805 thousand in long-term debt outstanding as compared to \$940 thousand at the end of the prior fiscal year, a decrease of 14.4 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2010-11 fiscal year, there were no bond sales, and debt repayments totaled \$135 thousand. Additional information about the College's long-term debt is presented in the notes to financial statements.

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### **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 expected a decrease in State funding in the 2011-12 fiscal year. In response to this expected decrease in State noncapital appropriations, the Board of Trustees increased tuition rates by approximately 8 percent effective with the Fall 2011 term. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, 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 Financial 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, 2011**

	<u>College</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 7,824,328	\$ 473,871
Restricted Cash and Cash Equivalents	2,572,685	1,542,072
Receivables, Net	1,776,812	26,825
Due from Other Governmental Agencies	16,363,026	
Inventories	644,222	
Prepaid Expenses	61,082	20,112
Other Assets		1,190
<b>Total Current Assets</b>	<u>29,242,155</u>	<u>2,064,070</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,721,998	
Restricted Investments	208,971	27,763,368
Depreciable Capital Assets, Net	61,481,667	5,253,404
Nondepreciable Capital Assets	50,418,282	451,201
<b>Total Noncurrent Assets</b>	<u>113,830,918</u>	<u>33,467,973</u>
<b>TOTAL ASSETS</b>	<u>\$ 143,073,073</u>	<u>\$ 35,532,043</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 1,102,294	\$ 50,529
Salary and Payroll Taxes Payable	257,039	
Retainage Payable	1,296,911	
Deferred Revenue	72,232	
Deposits Held for Others	282,783	
Long-Term Liabilities - Current Portion:		
Bonds Payable	140,000	
Special Termination Benefits Payable	115,674	
Compensated Absences Payable	58,112	
<b>Total Current Liabilities</b>	<u>3,325,045</u>	<u>50,529</u>
Noncurrent Liabilities:		
Bonds Payable	665,000	
Special Termination Benefits Payable	66,225	
Compensated Absences Payable	2,847,484	
Other Postemployment Benefits Payable	173,127	
<b>Total Noncurrent Liabilities</b>	<u>3,751,836</u>	
<b>TOTAL LIABILITIES</b>	<u>7,076,881</u>	<u>50,529</u>

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS (Continued)  
June 30, 2011**

	<b>College</b>	<b>Component Unit</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 111,094,949	\$ 5,704,605
Restricted:		
Other		419,900
Nonexpendable:		
Endowment		28,768,613
Expendable:		
Grants and Loans	2,108,775	
Scholarships	109,330	
Capital Projects	17,802,438	
Debt Service	20,033	
Unrestricted	4,860,667	588,396
<b>Total Net Assets</b>	<b>135,996,192</b>	<b>35,481,514</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 143,073,073</b>	<b>\$ 35,532,043</b>

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, 2011**

	<u>College</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$5,118,853	\$ 9,337,097	\$
Federal Grants and Contracts	24,791	
State and Local Grants and Contracts	1,823,877	
Nongovernmental Grants and Contracts	830,026	
Sales and Services of Educational Departments	109,260	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,322,884	3,241,172	
Other Operating Revenues	1,492,346	111,900
<b>Total Operating Revenues</b>	<u>16,858,569</u>	<u>111,900</u>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	28,293,949	
Scholarships and Waivers	6,830,483	340,041
Utilities and Communications	2,662,831	101,227
Contractual Services	2,863,709	
Other Services and Expenses	2,255,567	1,120,328
Materials and Supplies	6,007,046	24,337
Depreciation	3,020,211	169,330
<b>Total Operating Expenses</b>	<u>51,933,796</u>	<u>1,755,263</u>
<b>Operating Loss</b>	<u>(35,075,227)</u>	<u>(1,643,363)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	18,026,210	22,571
Gifts and Grants	15,567,312	573,274
Investment Income (Loss)	(15,500)	2,599,336
Other Nonoperating Revenues	22,616	13,075
Interest on Capital Asset-Related Debt	(45,280)	
<b>Net Nonoperating Revenues</b>	<u>33,555,358</u>	<u>3,208,256</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<u>(1,519,869)</u>	<u>1,564,893</u>
State Capital Appropriations	1,677,627	
Capital Grants, Contracts, Gifts, and Fees	1,492,370	
Additions to Permanent Endowments		80,881
<b>Total Other Revenues</b>	<u>3,169,997</u>	<u>80,881</u>
<b>Increase in Net Assets</b>	1,650,128	1,645,774
Net Assets, Beginning of Year	134,346,064	33,835,740
<b>Net Assets, End of Year</b>	<u>\$ 135,996,192</u>	<u>\$ 35,481,514</u>

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, 2011**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 9,488,272
Grants and Contracts	2,678,694
Payments to Suppliers	(10,459,579)
Payments for Utilities and Communications	(2,662,831)
Payments to Employees	(22,561,418)
Payments for Employee Benefits	(5,688,557)
Payments for Scholarships	(6,830,483)
Loans Issued to Students	(686,720)
Collection on Loans to Students	687,558
Auxiliary Enterprises, Net	3,241,172
Sales and Service of Educational Departments	109,260
Other Receipts	1,458,004
	<b>(31,226,628)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	18,026,210
Gifts and Grants Received for Other Than Capital or Endowment Purposes	15,629,534
Federal Direct Loan Receipts	2,105,619
Federal Direct Loan Disbursements	(2,105,619)
	<b>33,655,744</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Appropriations	8,698,459
Capital Grants and Gifts	1,527,357
Proceeds from Sale of Capital Assets	22,616
Purchases of Capital Assets	(13,258,362)
Principal Paid on Capital Debt and Leases	(135,000)
Interest Paid on Capital Debt and Leases	(45,280)
	<b>(3,190,210)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	34,309
	<b>(726,785)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>12,845,796</b>
Cash and Cash Equivalents, Beginning of Year	12,845,796
	<b>\$ 12,119,011</b>

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (Continued)  
For the Fiscal Year Ended June 30, 2011**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (35,075,227)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,020,211
Changes in Assets and Liabilities:	
Receivables, Net	152,012
Inventories	(107,955)
Prepaid Expenses	3,579
Accounts Payable	883,619
Deferred Revenue	51,725
Deposits Held for Others	(86,066)
Special Termination Benefits Payable	(113,513)
Compensated Absences Payable	16,657
Other Postemployment Benefits Payable	28,330
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (31,226,628)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>	
An unrealized loss on investments was recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (49,809)

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, 2011**

**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 (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading 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 activities 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, 2010.

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.

**Basis of Presentation.** The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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.

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

**NORTHWEST FLORIDA STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011**

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. 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, 2011, the College reported as cash equivalents at fair value \$7,521,776 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, 2011, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 31 days as of June 30, 2011. 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

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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 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 \$1,064,793. The Foundation depreciates buildings and equipment using the straight-line method over the estimated useful lives of the assets.

**Noncurrent Liabilities.** Noncurrent liabilities include 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; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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, 2011, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 186,986
State Board of Administration Debt Service Accounts	<u>21,985</u>
<b>Total College Investments</b>	<b><u>\$ 208,971</u></b>

**State Board of Administration Fund B Surplus Funds Trust Fund**

On December 4, 2007, the State Board of Administration (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, 2011, the College reported investments at fair value of \$186,986 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. The weighted-average life (WAL) of Fund B at June 30, 2011, was 7.16 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, 2011. 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 \$21,985 at June 30, 2011, in the State Board of Administration 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

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

value. The College relies on policies developed by the State Board of Administration 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, 2010, are reported at fair value as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Value</u>
Equity Mutual Funds: (1)		
Alternative Investments		\$ 2,631,818
Blackrock US Opportunities Port Inst		1,801,525
Davis New York Venture		318,688
Dreyfus Emerging Markets		239,409
DWS Dreaman SM Cap		401,510
Eaton Vance Special Equities Fund		2,558,243
Fairholme Fund		201,228
Harbor International Fund Investor		1,491,192
Ishares Russell Growth		2,591,911
Mainstay Large Cap Growth		2,792,835
Oppenheimer Developing Markets		406,733
Perkins Mid Cap Value		1,094,796
Yacktman Fund		473,148
United States Government and Federally Sponsored Bonds:		
Federal Home Loan Mortgage Corporation	AAA-Aaa	415,172
United States Government Obligations (2)		5,997,537
Corporate Bonds	AA-BBB	4,347,623
<b>Total Investments</b>		<b><u>\$27,763,368</u></b>

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

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

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

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.

*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, 2010, 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 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 \$61,434 allowance for doubtful accounts.

### **4. DUE FROM OTHER GOVERNMENTAL AGENCIES**

This amount primarily consists of \$16,139,427 of Public Education Capital Outlay allocations due from the State for renovations, remodeling, and maintenance 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, 2011, is shown below:

**NORTHWEST FLORIDA STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011**

Description	Beginning Balance	Adjustments	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>					
Land	\$ 2,908,883	\$	\$	\$	\$ 2,908,883
Capitalized Collections	761,453				761,453
Construction in Progress	34,216,971		12,814,550	283,575	46,747,946
<b>Total Nondepreciable Capital Assets</b>	<b>\$37,887,307</b>	<b>\$</b>	<b>\$12,814,550</b>	<b>\$ 283,575</b>	<b>\$50,418,282</b>
<b>Depreciable Capital Assets:</b>					
Buildings	\$93,738,073	\$	\$ 43,375	\$	\$93,781,448
Other Structures and Improvements	4,102,448		247,088		4,349,536
Furniture, Machinery, and Equipment	4,613,373		428,971	20,074	5,022,270
<b>Total Depreciable Capital Assets</b>	<b>102,453,894</b>		<b>719,434</b>	<b>20,074</b>	<b>103,153,254</b>
<b>Less, Accumulated Depreciation:</b>					
Buildings	32,839,367	23,474	2,238,690		35,101,531
Other Structures and Improvements	2,321,059		325,238		2,646,297
Furniture, Machinery, and Equipment	3,487,550		456,283	20,074	3,923,759
<b>Total Accumulated Depreciation</b>	<b>38,647,976</b>	<b>23,474</b>	<b>3,020,211</b>	<b>20,074</b>	<b>41,671,587</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$63,805,918</b>	<b>\$ (23,474)</b>	<b>\$ (2,300,777)</b>	<b>\$</b>	<b>\$61,481,667</b>

Note: Adjustments were made to correct a prior year error in calculation of accumulated depreciation.

## 7. DEFERRED REVENUE

Deferred revenue, as of June 30, 2011, represents \$72,232 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, 2011, 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, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 940,000	\$	\$ 135,000	\$ 805,000	\$ 140,000
Special Termination Benefits Payable	295,412	108,279	221,792	181,899	115,674
Compensated Absences Payable	2,888,940	95,444	78,788	2,905,596	58,112
Other Postemployment Benefits Payable	144,797	78,062	49,732	173,127	
<b>Total Long-Term Liabilities</b>	<b>\$4,269,149</b>	<b>\$281,785</b>	<b>\$ 485,312</b>	<b>\$4,065,622</b>	<b>\$313,786</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 at June 30, 2011:

**NORTHWEST FLORIDA STATE COLLEGE  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011**

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2002B	\$ 420,000	4.0 - 5.375	2015
Series 2005A	<u>385,000</u>	4.0 - 5.0	2025
<b>Total</b>	<u>\$ 805,000</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2011, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
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	45,000	10,556	55,556
2017-2021	110,000	32,531	142,531
2022-2025	<u>90,000</u>	<u>8,938</u>	<u>98,938</u>
<b>Total</b>	<u>\$ 805,000</u>	<u>\$ 165,237</u>	<u>\$ 970,237</u>

**Special Termination Benefits Payable.** The Board has established a retirement incentive 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 \$181,899 as of June 30, 2011, for eight employees who gave notice to retire under the Retirement Incentive Program, of which \$115,674 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 noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2011, the estimated liability for compensated absences, which includes the College’s share of the Florida Retirement System and FICA contributions, totaled \$2,905,596.

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

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*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 the Plan is not included in the annual report of a public employee retirement system or an other entity.

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefits (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 25 retirees received postemployment healthcare benefits, and 63 retirees received postemployment life insurance benefits. The College provided required contributions of \$49,732 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 \$171,332.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 55,666
Amortization of Unfunded Actuarial Accrued Liability	22,879
<b>Annual Required Contribution</b>	78,545
Interest on Net OPEB Obligation	4,344
Adjustment to Annual Required Contribution	(4,827)
<b>Annual OPEB Cost (Expense)</b>	78,062
Contribution Toward the OPEB Cost	(49,732)
<b>Increase in Net OPEB Obligation</b>	28,330
Net OPEB Obligation, Beginning of Year	144,797
<b>Net OPEB Obligation, End of Year</b>	\$ 173,127

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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, 2011, and for the two preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 90,903	31.9%	\$ 121,933
2009-10	54,093	57.7%	144,797
2010-11	78,062	63.7%	173,127

*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 \$15,440,989 for the 2010-11 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 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, 2011, and the College's 2010-11 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 7.8 percent for the 2010-11 fiscal year, reduced to an ultimate rate of 4.5 percent after 17 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, 2011, was 26 years.

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**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, disability, death benefits, and annual cost-of-living adjustments.

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the 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

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years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$1,359,448, \$1,357,685, and \$1,463,733, 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 the PEORP vest at one year of service. There were 56 College participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$217,075.

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 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 42 College participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$286,243.

**Senior Management Service Class Local Annuity Program.** Section 121.055, Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class may elect to withdraw from the FRS altogether and participate in a lifetime monthly annuity program offered by the local agency. Pursuant

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thereto, the College established a Senior Management Service Class Local Annuity Program (Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Program, rather than the FRS. Under the Program, the College contributes the same percentage of the participant’s salary as would have been contributed to the FRS, Senior Management Service Class toward an annuity provided by approved fund sponsors. The participant does not make any contributions to the Program. As of June 30, 2011, one College employee has opted to participate in the Program. Contributions made by the College to the Program totaled \$31,106 during the 2010-11 fiscal year.

**10. CONSTRUCTION COMMITMENTS**

The College’s major construction commitments at June 30, 2011, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Community Services Complex:			
Contractor (1)	\$ 21,311,548	\$ 20,699,178	\$ 612,370
Student Services Center:			
Contractor	17,845,652	6,845,412	11,000,240
Architect	1,496,000	1,256,640	239,360
<b>Total</b>	<b>\$ 40,653,200</b>	<b>\$ 28,801,230</b>	<b>\$ 11,851,970</b>

Note: (1) Project is essentially completed. However, there is pending litigation that may result in additional construction related costs for this project.

**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 \$150 million. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers’ compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**12. 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

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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	\$ 15,705,190
Education Enhancement Trust Fund (Lottery)	2,217,113
Gross Receipts Tax (Public Education Capital Outlay)	1,474,427
Bright Futures Scholarship Program	1,363,584
Florida Student Assistance Grants	670,630
Restricted Contracts and Grants	557,115
Motor Vehicle License Tax (Capital Outlay and Debt Service)	203,200
Other State Sources	103,907
<b>Total</b>	<b>\$ 22,295,166</b>

**13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

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

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<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 16,634,350
Public Services	667,958
Academic Support	4,397,646
Student Services	2,860,283
Institutional Support	7,074,140
Operation and Maintenance of Plant	5,077,611
Scholarships and Waivers	6,830,483
Depreciation	3,020,211
Auxiliary Enterprises	<u>5,371,114</u>
<b>Total Operating Expenses</b>	<b><u><u>\$ 51,933,796</u></u></b>

**NORTHWEST FLORIDA STATE COLLEGE  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS –  
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 679,082	\$ 679,082	0%	\$ 15,065,797	4.5%
7/1/2009	\$	\$ 666,384	\$ 666,384	0%	\$ 15,343,303	4.3%

Note: (1) The actuarial cost method used by the College to estimate the actuarial accrued liability 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, 2011, 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*.

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  
March 7, 2012