

**NORTHWEST FLORIDA STATE COLLEGE
FOUNDATION, INC.**

**A COMPONENT UNIT OF
NORTHWEST FLORIDA STATE COLLEGE**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwest Florida State College Foundation, Inc.
Niceville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Florida State College Foundation, Inc. (the "Foundation"), a direct support organization and component unit of the Northwest Florida State College as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

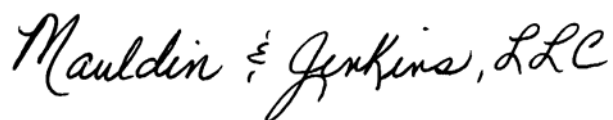
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2020, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



Bradenton, Florida
November 17, 2020

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Northwest Florida State College Foundation, Inc. (the "Foundation") for the fiscal year ended June 30, 2020, with comparative information for fiscal years ending 2019 and 2018, and should be read in conjunction with the financial statements and notes thereto. This report includes financial statements presented and prepared with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB) as this is the presentation used in the Northwest Florida State College (the "College") Annual Financial Report. Foundation management has prepared the financial statements and related note disclosures along with the discussion and analysis. The responsibility for the completeness and fairness of this information rests with Foundation management.

The Foundation is a Florida not-for-profit corporation formed in 1988 to encourage, solicit, receive and administer gifts and bequests of property and funds to support the College and advance its mission and objectives. The Foundation is a direct support organization of the College.

FINANCIAL HIGHLIGHTS

The Foundation's financial position remained strong at June 30, 2020, with total assets of \$52,611,160 and liabilities of \$47,317, resulting in a net position of \$52,563,843 at June 30, 2020. Net position decreased from July 1, 2019 to June 30, 2020, by 1.80%.

The Foundation's investments showed a loss (net of fees) of approximately 5.21% from July 1, 2019 to June 30, 2020.

USING THIS ANNUAL REPORT

The financial statements consist of three basic financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These financial statements are prepared in accordance with GASB accounting principles and guidelines, which establish standards for external financial reporting for public colleges, universities and other governmental entities. The Foundation is required to prepare its annual report in accordance with GASB due to its formation under Florida Statute 1004.70 and the component unit relationship with the College. These statements present a long-term view of the Foundation's finances.

THE STATEMENT OF NET POSITION

The statement of net position presents the financial position of the Foundation at the end of the fiscal year and includes all assets and liabilities of the Foundation. The difference between total assets and total liabilities – net position – is an indicator of the current financial condition of the Foundation. The change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical costs less an allowance for depreciation.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

A summarized comparison of the Foundation's assets, liabilities and net position at June 30, 2020, June 30, 2019, and June 30, 2018, is presented in the following table:

NET POSITION
(In Thousands)

	Foundation		
	Jun-20	Jun-19	Jun-18
Assets			
Current Assets	\$14,216	\$14,975	\$14,668
Capital Assets, Net	3,611	3,745	3,907
Other Non-current Assets	34,783	34,915	32,920
Total Assets	<u>\$52,611</u>	<u>\$53,635</u>	<u>\$51,495</u>
Liabilities			
Current Liabilities	\$ 47	\$ 108	\$ 113
Total Liabilities	<u>\$ 47</u>	<u>\$ 108</u>	<u>\$ 113</u>
Net Position			
Investment in Capital Assets	\$ 3,611	\$ 3,745	\$ 3,907
Restricted	50,594	51,355	49,663
Unrestricted	(1,641)	(1,573)	(2,188)
Total Net Position	<u>52,564</u>	<u>53,527</u>	<u>51,382</u>
Total Liabilities and Net Position	<u>\$52,611</u>	<u>\$53,635</u>	<u>\$51,495</u>

Current assets primarily consist of cash, cash equivalents, accounts receivables and investments. Non-current assets consist of net capital assets and endowment investments. A review of the Foundation's statement of net position at June 30, 2020, and June 30, 2019, shows that the Foundation net position decreased by 1.8% from year to year.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Foundation capitalizes assets with a value of \$5,000 and greater for financial reporting purposes. As of June 30, 2020, there was \$3.6 million invested in capital assets net of accumulated depreciation. Capital assets of the Foundation at June 30, 2020, June 30, 2019, and June 30, 2018, are presented in the following table:

CAPITAL ASSETS
(In Thousands)

Capital Assets	Foundation		
	Jun-20	Jun-19	Jun-18
Non-depreciable Capital Assets:			
Land	\$ 254	\$ 254	\$ 254
Total Non-depreciable Capital Assets	254	254	254
Depreciable Capital Assets:			
Apartment Buildings	\$ 3,357	\$ 3,491	\$ 3,653
Total Depreciable Capital Assets, Net of Depreciation	3,357	3,491	3,653
Capital Assets, Net of Depreciation	\$ 3,611	\$ 3,745	\$ 3,907

DEBT

All capital improvements are through internal financing and therefore the Foundation does not carry any long-term debt.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses and changes in net position presents the Foundation's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating. A summary of the Foundation's revenues, expenses, and changes in net position for the fiscal year ended June 30, 2020, June 30, 2019, and June 30, 2018 is presented in the following table:

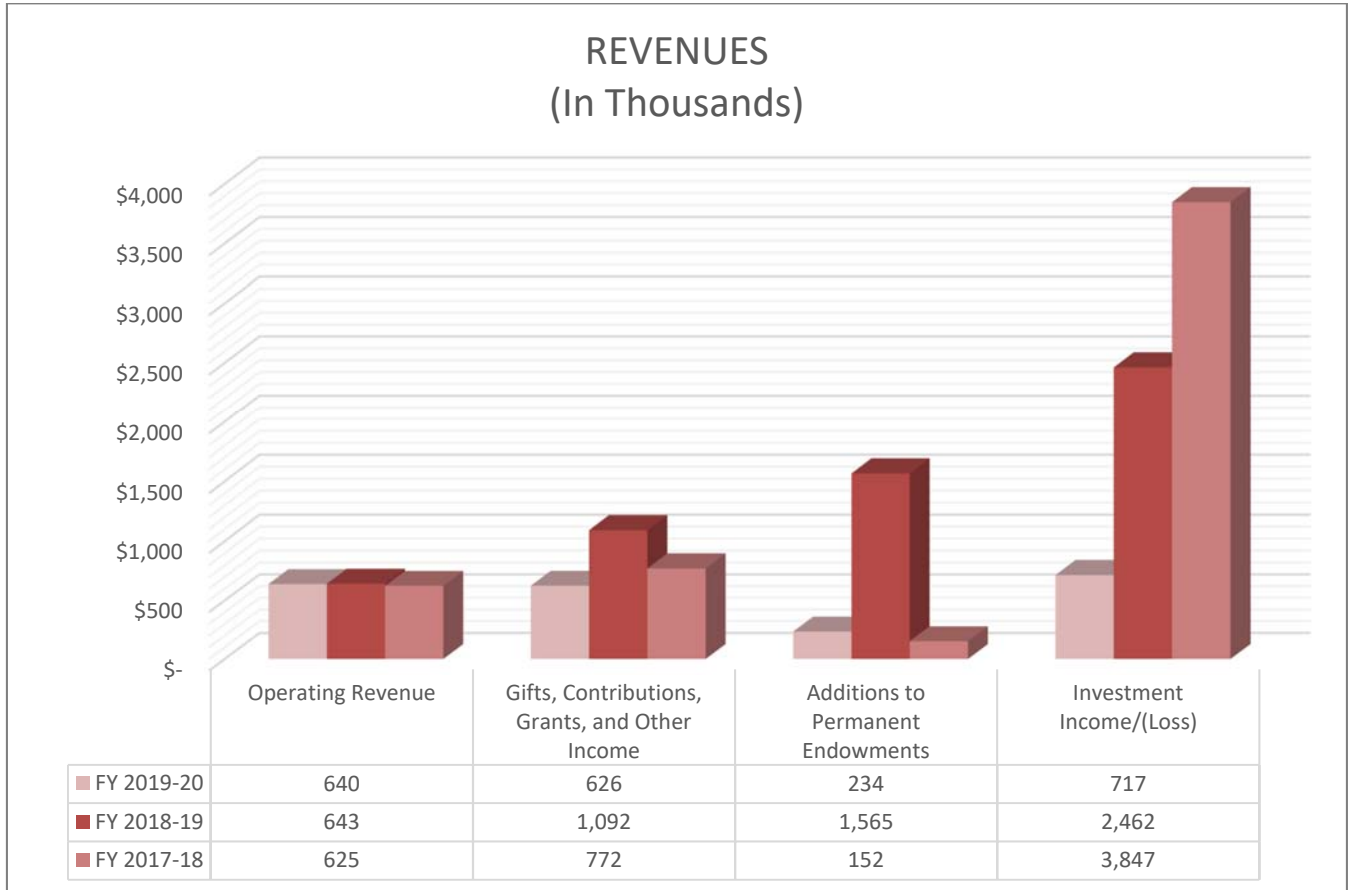
REVENUES, EXPENSES AND CHANGES IN NET POSITION

(In Thousands)

	Foundation		
	Jun-20	Jun-19	Jun-18
Operating Revenues			
Rental Income	\$ 583	\$ 582	\$ 575
Membership Revenue	57	61	50
Total Operating Revenues	640	643	625
Less Operating Expenses	3,180	3,618	2,883
Operating Loss	(2,540)	(2,975)	(2,258)
Nonoperating Revenues			
Gifts and Grants	455	1,028	613
Pledge Income	130	0	0
Investment Income	1,301	1,409	1,363
Realized Gain (Loss) on Investments	1,839	1,304	2,297
Unrealized Gain (Loss) on Investments	(2,423)	(251)	187
Miscellaneous Income	41	64	159
Nonoperating Revenues	1,343	3,554	4,619
Gain (Loss) Before Additions to Permanent Endowments	(1,197)	579	2,361
Additions to Permanent Endowments	234	1,565	152
Increase (Decrease) in Net Position	(963)	2,144	2,513
Net Position, Beginning of Year	53,526	51,382	48,869
Net Position, End of Year	\$52,563	\$53,526	\$51,382
Increase (Decrease) in Net Assets	-1.8%	4.2%	5.1%

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

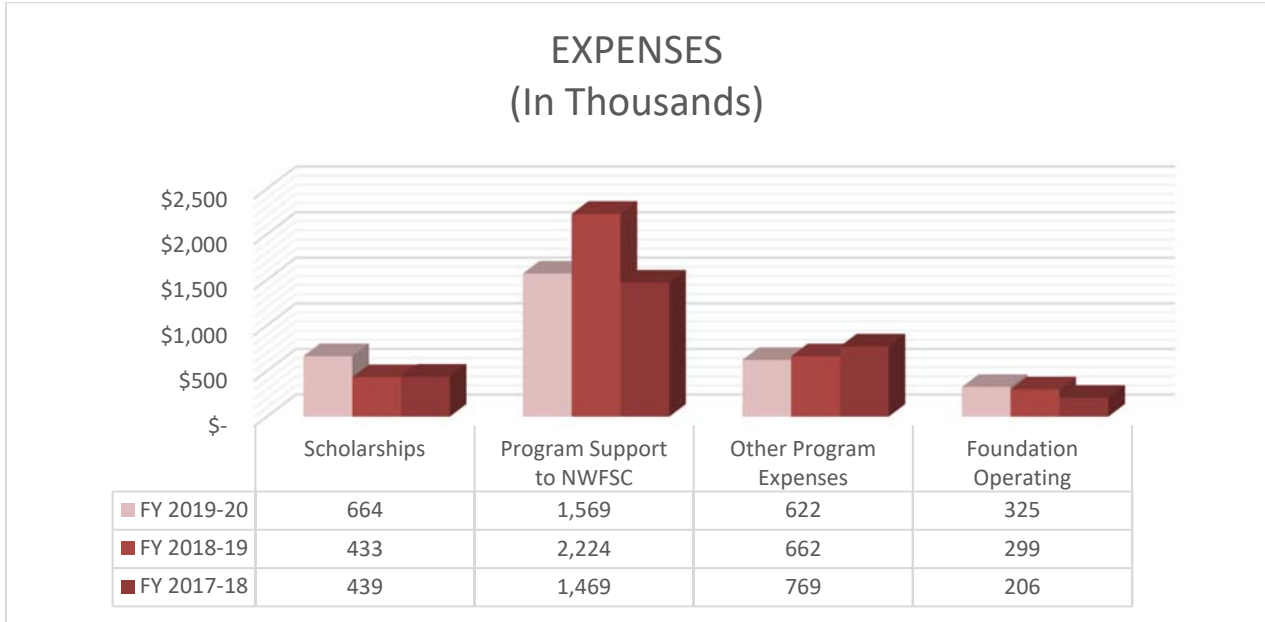
The following is a graphical presentation of Foundation revenues for fiscal year ended June 30, 2020, as compared to fiscal years ended June 30, 2019, and June 30, 2018:



Operating revenue remained fairly consistent from fiscal year 2019 to 2020 decreasing by \$3 thousand dollars. Total gifts, contributions, grants and other income decreased \$466 thousand. Additions to permanent endowments decreased by over \$1.3 million from the prior year. Investment income showed a significant decrease of over \$1.7 million from 2019 to 2020, which is attributed to a leveling off of market returns during the year.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

In addition to presenting expenses by natural classification, as shown on the statement of revenues, expenses and changes in net position, it is also informative to review operating expenses by functional activity. A comparative summary of Foundation expenses by functional classification for fiscal years 2020, 2019, and 2018, are shown in the following table:



Overall expenses increased \$438 thousand from 2019 to 2020. In total, program support decreased \$655 thousand and scholarship expenses paid to the College increased by \$231 thousand from fiscal year 2019 to 2020. Both types of expense allocations, program support and scholarships, are funded primarily by endowment earnings in accordance with the Foundation's spending policy – awards of up to 4%, calculated by using the average of the prior three year-end balances for each endowment when earnings are available.

Other program expenses, not transferred to the College but expended through the Foundation for program initiatives, including those associated with managing the College Courtyard apartment complex, decreased \$40 thousand.

Foundation operating expenses increased \$26 thousand from 2019 to 2020. Major gifts campaign initiatives remained a focus until the pandemic, at which point the campaign was suspended. Consulting expenses associated with the campaign were consistent with the prior fiscal year.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the Foundation's financial results by reporting the major sources and uses of cash. 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 comparative summary of the statement of cash flows for the Foundation for the fiscal years ended June 30, 2020, June 30, 2019, and June 30, 2018, is shown in the following table:

CASH FLOWS
(In Thousands)

	Foundation		
	Jun-20	Jun-19	Jun-18
Cash Provided (Used) by:			
Operating Activities	\$ (2,229)	\$ (2,813)	\$ (2,053)
Noncapital Financing Activities	835	2,134	924
Investing Activities	1,867	533	946
Net Increase (decrease) in Cash and Cash Equivalents	453	(146)	(183)
Cash and Cash Equivalents, Beginning of the Year	192	388	521
Cash and Cash Equivalents, End of Year	\$ 645	\$ 192	\$ 338

The Foundation's liquidity remained stable during the reporting year. For the purpose of cash flows, the Foundation considers cash equivalents to include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. The following discussion presents an overview of cash flows:

During the fiscal year ended June 30, 2020, cash and cash equivalents increased \$473 thousand. The Foundation has adequate funds on hand to pay invoices upon demand and approval.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020
(Unaudited)

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of the Northwest Florida State College Foundation is closely tied to Okaloosa and Walton Counties and the State of Florida.

Investment income plays a key role in generating revenues for the Foundation. Also tied to investment earnings is the ability to provide scholarships and program support to Northwest Florida State College through various endowments. Foundation investment accounts remain well-diversified and moderately invested, targeting 55% equity and 30% fixed income, with the remainder in alternative investments and cash.

The Foundation Board of Directors and management carefully monitor the status of all endowed funds, particularly those underwater funds in which the total fund balance is less than the corpus, or principal. Foundation policy states that endowments with a fair market value below corpus will receive no spending allocation. This deficit can only be overcome through positive investment earnings. From fiscal year 2016 to 2020, the number of underwater funds dropped from 15 to zero. As of June 30, 2020, the Foundation held 309 endowed funds. Of these funds, zero were in an underwater status.

In December 2018, a motion to engage in a major gifts campaign was unanimously passed in a joint meeting of the Foundation Board and College Board of Trustees. The campaign was intended to span two years with The Armistead Group providing direction and consultant services to support the fundraising effort. The campaign priorities were focused on scholarships, student achievement, and workforce development, as aligned with the College's strategic plan and direction from the College President, Dr. Devin Stephenson. Due to the COVID-19 pandemic in early 2020, this campaign was suspended effective March 27, 2020, by the Executive Committee and may resume when conditions surrounding the pandemic have improved.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Foundation's finances for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Foundation.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF NET POSITION

	June 30,	
	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 645,392	\$ 191,720
Accounts receivable	3,000	-
Pledge receivable	-	5,143
Due from college	783	10,467
Prepaid expenses and other current assets	25,145	20,543
Total current assets	<u>674,320</u>	<u>227,873</u>
Restricted current assets		
Pledge receivable	116,318	326,350
Investments, nonendowed	13,425,726	14,420,396
Total restricted current assets	<u>13,542,044</u>	<u>14,746,746</u>
Noncurrent assets		
Pledge receivable, long-term	216,186	191,700
Endowment investments	34,567,526	34,723,165
Nondepreciable capital assets	254,001	254,001
Depreciable capital assets, net	3,357,083	3,491,023
Total noncurrent assets	<u>38,394,796</u>	<u>38,659,889</u>
TOTAL ASSETS	<u>\$ 52,611,160</u>	<u>\$ 53,634,508</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 25,783	\$ 17,294
Due to college	21,534	90,645
Total current liabilities	<u>47,317</u>	<u>107,939</u>
TOTAL LIABILITIES	<u>47,317</u>	<u>107,939</u>
NET POSITION		
Investment in capital assets	3,611,084	3,745,024
Restricted, nonexpendable, endowment	37,168,340	36,934,077
Restricted, other	13,425,726	14,420,396
Unrestricted	(1,641,307)	(1,572,928)
Total net position	<u>52,563,843</u>	<u>53,526,569</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 52,611,160</u>	<u>\$ 53,634,508</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30,	
	2020	2019
Operating revenues		
Rental income	\$ 582,959	\$ 582,062
Membership revenue	57,475	60,979
Total operating revenues	<u>640,434</u>	<u>643,041</u>
Operating expenses		
Scholarships and waivers	663,719	433,118
Utilities and communications	114,505	124,156
Other services and expenses	637,579	627,620
Support to college	1,568,870	2,223,626
Materials and supplies	41,679	47,979
Depreciation	153,608	161,825
Total operating expenses	<u>3,179,960</u>	<u>3,618,324</u>
Operating loss	<u>(2,539,526)</u>	<u>(2,975,283)</u>
Nonoperating revenues		
Gifts and grants	584,662	1,028,484
Investment income	1,301,273	1,409,374
Other income	40,979	63,666
Realized gain on investments	1,839,010	1,303,703
Net unrealized loss on investments	<u>(2,423,387)</u>	<u>(250,514)</u>
Total nonoperating revenues	<u>1,342,537</u>	<u>3,554,713</u>
Gain (loss) before additions to permanent endowments	<u>(1,196,989)</u>	579,430
Additions to permanent endowments	<u>234,263</u>	1,564,759
Increase (decrease) in net position	<u>(962,726)</u>	2,144,189
Net position, beginning of the year	<u>53,526,569</u>	51,382,380
Net position, end of the year	<u>\$ 52,563,843</u>	<u>\$ 53,526,569</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2020	2019
Cash flows from operating activities		
Receipts from other sources	\$ 279,334	\$ 66,664
Receipts from rental income	582,959	582,062
Payments to the College for scholarships	(663,719)	(433,118)
Payments to the College as gifts and contributions	(1,637,981)	(2,186,138)
Payments to suppliers and others	(789,876)	(842,519)
Net cash used in operating activities	(2,229,283)	(2,813,049)
Cash flows from noncapital financing activities		
Gifts and grants received for other than capital or endowment purposes	560,176	831,641
Private gifts for endowment purposes	234,263	1,238,409
Other	40,979	63,666
Net cash provided by noncapital financing activities	835,418	2,133,716
Cash flows from investing activities		
Purchase of investments	(16,203,249)	(15,106,111)
Proceeds from sales and maturities of investments	16,769,181	14,229,238
Investment income	1,301,273	1,409,374
Net cash provided by investing activities	1,867,205	532,501
Net increase (decrease) in cash and cash equivalents	453,672	(146,832)
Cash at beginning of year	191,720	338,552
Cash at end of year	\$ 645,392	\$ 191,720
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (2,539,526)	\$ (2,975,283)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	153,608	161,825
Changes in assets and liabilities		
Prepaid insurance	(4,602)	(76)
Accounts receivable and due from other funds	221,859	5,685
Accounts payable and due to college	(60,622)	(5,200)
Net cash used in operating activities	\$ (2,229,283)	\$ (2,813,049)
Noncash investing activities		
Net unrealized loss on investments	\$ (2,423,387)	\$ (250,514)

The accompanying notes are an integral part of these financial statements.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The governing body of the Northwest Florida State College Foundation, Inc. (the "Foundation") is a 28 member Board of Directors that constitutes a corporation. The Board of Directors is directly responsible for the day-to-day operations and control of the Foundation within the framework of applicable state law and State Board of Education rules. The Foundation is a component unit and direct support organization of Northwest Florida State College (the "College") as defined in Section 1004.70, *Florida Statutes*. The Foundation is legally separate from the College, but is financially accountable to the College. The Foundation receives, holds, invests, and administers property and makes expenditures to or for the benefit of the College.

Basis of Presentation: The Foundation's accounting policies conform to accounting principles generally accepted in the United States of America applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting: The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Foundation'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 statement of net position 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 Foundation's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The Foundation's principal operating activity is College program support and student scholarships. Operating revenues include rental income and expenses and all fiscal transactions related to College support, Foundation management, fund raising, and depreciation of capital assets. Nonoperating revenues include state appropriations, grants, individual gifts, investment income, and capital funding.

Cash and Cash Equivalents: The amount reported as cash and cash equivalents consists of cash on hand and cash in demand accounts. Cash placed in money market accounts with Merrill Lynch are reported as investments. Cash deposits of the Foundation are held by banks qualified as public depositories under Florida Statute, Chapter 280. Therefore all such deposits are covered by the FDIC limit of \$250,000 or were fully collateralized with securities held by the Foundation's financial institution.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable: The Foundation records accounts receivable at their net realizable value. An allowance for doubtful accounts is established based on specific assessment of all amounts that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period the determination is made. For the years ended June 30, 2020 and 2019, all accounts receivable are considered fully collectible.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net position. Realized and unrealized gains and losses are included in the statement of revenues, expenses and changes in net position. Investment income includes interest and dividend income and is included in the statement of revenues, expenses and changes in net position separate from gains and losses.

Capital Assets: The Foundation's capital assets consist of land, buildings, furniture, and equipment and are stated at historical cost or estimated fair value if donated or acquired at nominal cost. The Foundation has a capitalization threshold of \$5,000 for capital assets. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings	38 Years
Building improvements and equipment	7 Years

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from the estimates.

NOTE 2. CASH AND INVESTMENTS

Cash and investments held by the Foundation consisted of the following classifications at June 30:

Cash and cash equivalents	<u>2020</u>	<u>2019</u>
Unrestricted	<u>\$ 645,392</u>	<u>\$ 191,720</u>

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Investments held by the Foundation are reported at fair value and were as follows at June 30 2020:

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Cash and cash equivalents	\$ 2,406,661	\$ 2,406,661	\$ -	\$ -	\$ -
Life insurance/annuities	2,140,921	2,140,921	-	-	-
United States Government securities					
United States Government	1,758,598	-	1,299,791	383,407	75,400
Total United States Government securities	1,758,598	-	1,299,791	383,407	75,400
Corporate bonds	8,811,046	1,219,787	3,998,294	3,592,965	-
Alternative investments	4,671,581	4,671,581	-	-	-
Corporate stocks	23,612,001	N/A	-	-	-
Equities and mutual funds	4,592,444	N/A	-	-	-
Total investments	\$ 47,993,252	\$ 10,438,950	\$ 5,298,085	\$ 3,976,372	\$ 75,400

Investments held by the Foundation are reported at fair value and were as follows at June 30 2019:

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Cash and cash equivalents	\$ 2,768,730	\$ 2,768,730	\$ -	\$ -	\$ -
Life insurance/annuities	2,270,605	2,270,605	-	-	-
United States Government securities					
United States Government	2,743,686	199,452	1,874,942	580,303	88,989
Total United States Government securities	2,743,686	199,452	1,874,942	580,303	88,989
Corporate bonds	7,355,329	558,212	4,403,376	1,740,468	653,273
Alternative investments	5,370,266	5,370,266	-	-	-
Corporate stocks	23,586,903	N/A	-	-	-
Equities and mutual funds	5,048,042	N/A	-	-	-
Total investments	\$ 49,143,561	\$ 11,167,265	\$ 6,278,318	\$ 2,320,771	\$ 742,262

Investments are managed in accordance with an investment policy. The investment policy sets target allocations of investments of 25% to 45% for fixed income, 45% to 65% for equities, 5% to 15% for alternative investments and 2% to 8% for cash and cash equivalents, in order 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 FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy for the Foundation states at least 50% of the short-term funds shall be invested in instruments having maturities no greater than two years. No more than 25% may be invested in instruments that have maturities greater than two years and less than five years and no more than 25% may be invested in instruments that have maturities greater than five years. The short-term funds are required to be invested in any of the following: obligations of the U.S. Government or agencies, obligations of agencies with implied federal sponsorship and guarantees, certificates of deposit, deposits that are insured by the FDIC, repurchase agreements, money market accounts, or government security mutual funds. The investments meet 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. Common stocks should be held in seasoned, quality, well-managed, and highly marketable companies whose prospects appear good for growth of earnings, dividends and appreciation. Fixed income securities should be of the four highest bond ratings or the two highest commercial paper ratings. Corporate bonds held by the Foundation were rated as follows at June 30:

	2020	2019	Rating
Corporate bonds	\$ 4,506,534	\$ 4,351,042	AAA to A-
Corporate bonds	4,304,512	3,004,287	BBB+ to BBB -
Total corporate bonds	\$ 8,811,046	\$ 7,355,329	

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% of the funds may be invested in any one security, no more than 30% in any one industry and the Foundation should not control more than 10% of the debt or stock in any one company. These restrictions do not apply to obligations of the federal government. As of June 30, 2020, the Foundation does not have a concentration of credit risk.

Custodial Credit Risk: The Foundation will address investment custodial credit risk by permitting brokers that obtained investments for the Foundation to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverages shall be transferred to the Foundation's custodian.

Foreign Currency Risk: Foreign currency risk is the risk that the changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Foundation's investment policy permits the hedging of non U.S. dollar investments as long as the methods used to do such do not place the investments in a leveraged position, use investment securities purchased or a margin or result in open-hedge positions.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements: The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Foundation has the following recurring fair value measurements as of June 30, 2020:

<u>Investment Type</u>	Fair Value Hierarchy				
U.S. Gov't and Federally	Fair Value	Level 1	Level 2	Level 3	Total
Guaranteed Bonds:					
Federal National Mortgage Assoc.	\$ 280,114	-	\$ 280,114	-	\$ 280,114
Federal Home Loan Mortgage Corp	678,788	-	678,788	-	678,788
Federal Home Credit Bank	799,696	-	799,696	-	799,696
Corporate Bonds	8,811,046	-	8,811,046	-	8,811,046
Total US Government and Bonds	10,569,644	-	10,569,644	-	10,569,644
Equity Mutual Funds:					
Alternative Investments	4,671,581	-	-	4,671,581	4,671,581
Equities	23,355,537	23,355,537	-	-	23,355,537
Vanguard	256,464	256,464	-	-	256,464
Ishares Core S&P MID CAP	3,265,309	3,265,309	-	-	3,265,309
Ishares TR Russell 2000	1,327,135	1,327,135	-	-	1,327,135
Total Equity Mutual Funds	32,876,026	28,204,445	-	4,671,581	32,876,026
Life Insurance/Annuities	2,140,921	-	-	2,140,921	2,140,921
Cash and Equivalents	2,406,661	2,406,661	-	-	2,406,661
Total Investments	\$ 47,993,252	\$ 30,611,106	\$ 10,569,644	\$ 6,812,502	\$ 47,993,252

The Foundation has the following recurring fair value measurements as of June 30, 2019:

<u>Investment Type</u>	Fair Value Hierarchy				
U.S. Gov't and Federally	Fair Value	Level 1	Level 2	Level 3	Total
Guaranteed Bonds:					
U.S. Gov't Obligations	\$ 624,717	-	\$ 624,717	-	\$ 624,717
Federal National Mortgage Assoc.	549,499	-	549,499	-	549,499
Federal Home Loan Mortgage Corp	220,823	-	220,823	-	220,823
Federal Home Loan Bank	1,348,647	-	1,348,647	-	1,348,647
Corporate Bonds	7,355,329	-	7,355,329	-	7,355,329
Total US Government and Bonds	10,099,015	-	10,099,015	-	10,099,015
Equity Mutual Funds:					
Alternative Investments	5,370,266	-	-	5,370,266	5,370,266
Equities	23,203,384	23,203,384	-	-	23,203,384
Vanguard	383,519	383,519	-	-	383,519
Ishares Core S&P MID CAP	3,600,026	3,600,026	-	-	3,600,026
Ishares TR Russell 2000	1,448,016	1,448,016	-	-	1,448,016
Total Equity Mutual Funds	34,005,211	28,634,945	-	5,370,266	34,005,211
Life Insurance/Annuities	2,270,605	-	-	2,270,605	2,270,605
Cash and Equivalents	2,768,730	2,768,730	-	-	2,768,730
Total Investments	\$ 49,143,561	\$ 31,403,675	\$ 10,099,015	\$ 7,640,871	\$ 49,143,561

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3. PLEDGE RECEIVABLE

The Foundation has a major gifts campaign to assist the College in seeking partnerships and investment opportunities to help build a re-engineered launch pad for current students and generations to come. Pledge receivables are due to be collected as follows at June 30, 2020:

Gross amounts due in	
One year	\$ 116,318
Two to five years	216,186
Total pledge receivables	<u>\$ 332,504</u>

NOTE 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, is shown as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets, not being depreciated				
Land	\$ 254,001	\$ -	\$ -	\$ 254,001
Capital assets, being depreciated				
Apartment buildings and improvements	921,562	-	-	921,562
Apartment building, new	4,074,381	-	-	4,074,381
Apartment building, remodeled	644,795	19,668	-	664,463
Total capital assets being depreciated	5,640,738	19,668	-	5,660,406
Accumulated depreciation	(2,149,715)	(153,608)	-	(2,303,323)
Total capital assets being depreciated, net	3,491,023	(133,940)	-	3,357,083
Total capital assets, net	<u>\$ 3,745,024</u>	<u>\$ (133,940)</u>	<u>\$ -</u>	<u>\$ 3,611,084</u>

Capital assets activity for the year ended June 30, 2019, is shown as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets, not being depreciated				
Land	\$ 254,001	\$ -	\$ -	\$ 254,001
Capital assets, being depreciated				
Apartment buildings and improvements	921,562	-	-	921,562
Apartment building, new	4,074,381	-	-	4,074,381
Apartment building, remodeled	644,795	-	-	644,795
Total capital assets being depreciated	5,640,738	-	-	5,640,738
Accumulated depreciation	(1,987,890)	(161,825)	-	(2,149,715)
Total capital assets being depreciated, net	3,652,848	(161,825)	-	3,491,023
Total capital assets, net	<u>\$ 3,906,849</u>	<u>\$ (161,825)</u>	<u>\$ -</u>	<u>\$ 3,745,024</u>

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5. RELATIONSHIP WITH THE COLLEGE

The Foundation made contributions and payments to the College for the following purposes as of June 30:

	2020	2019
Scholarships and waivers	\$ 663,719	\$ 433,118
Gifts and contributions	1,568,870	2,223,626
	\$ 2,232,589	\$ 2,656,744

Of the amounts above, the Foundation had an outstanding balance payable to the College of \$21,534 and \$90,645 for the years ended June 30, 2020 and 2019, respectively. The Foundation had an outstanding receivable from the College in the amount of \$783 and \$10,467 for the years ended June 30, 2020 and 2019, respectively. The above related-party transactions are not necessarily indicative of the terms and amounts that would have been incurred had a comparable transaction been entered into with independent parties.

NOTE 6. RESTRICTED NET POSITION

Expendable restricted net position is restricted for scholarships or other similar purposes and totaled \$13,425,726 and \$14,420,396 for the years ended June 30, 2020 and 2019, respectively.

Nonexpendable restricted net position (endowments) is donor-directed contributions restricted in perpetuity for scholarships, program instruction, the Arts Center, and other similar purposes. Nonexpendable restricted net position totaled \$37,168,340 and \$36,934,077 for the years ended June 30, 2020 and 2019, respectively.

The Board of Trustees of the Foundation has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as nonexpendable restricted net position: (a) the original value of the gift donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Foundation has adopted investment and spending policies for endowment assets that attempt to protect the principal of the fund, provide consistent long-term income returns and protect the Foundation against long-term inflation trends. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation limits spending on endowments to a maximum of 4% of the average of the three most recent prior year-end endowment fund balances provided net earnings are available.

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. RENTAL INCOME

The Foundation rents apartments in a 62 apartment unit complex which is owned by the Foundation. The apartments are rented to either students with athletic scholarships, which are financed by the College, or members of the local community. The historical cost of the apartments of \$5,660,406 net of accumulated depreciation of \$2,303,323 has a carrying value of \$3,357,083. Rentals are commonly under agreements for one year or less. Rental income earned by the Foundation for the year ended June 30, 2020, for the apartment rentals totaled \$582,959, of which \$270,000 was paid to the Foundation by the College for units rented by students with athletic scholarships. For the year ended June 30, 2019, rental income for the apartments totaled \$582,062, of which \$264,600 was paid by the College for units rented by students with athletic scholarships.

The Foundation owns rights to broadband waves which are leased to a telecommunication entity. The initial five year lease agreement became effective October 2, 2006, and has five automatic additional five year renewals, for a maximum of thirty years, unless the telecommunication entity notifies the Foundation in writing at least six months prior to the end of any renewal term that it declines to renew the agreement. The Foundation has not recognized the broadband waves as an asset since there was no cost incurred by the Foundation for its rights. Rental income earned by the Foundation for the years ended June 30, 2020 and 2019, under this rental agreement totaled \$36,000. Minimum future rental income is as follows:

2021	\$	36,000
2022		42,000
2023		42,000
2024		42,000
2025		42,000
		<hr/>
	\$	<u>204,000</u>

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8. NATURAL CLASSIFICATION OF EXPENSES

The expenses recognized by the Foundation in the statement of revenues, expenses and changes in net assets are classified based on function, that is, the purpose for which they are incurred. The Foundation's expenses on a natural classification basis are as follows as of June 30:

	2020	2019
Accounting and auditing	\$ 15,750	\$ 15,350
Advertising	409	399
Bank fees	3,749	2,826
Depreciation	153,608	161,825
Food and beverage	25,682	40,823
Gifts and contributions to College	1,568,870	2,223,626
Gifts, prizes and awards	4,600	1,375
Insurance	33,796	30,738
Internal support services	80,000	80,000
Investment management fee	200,147	201,902
Minor equipment	609	12,481
Miscellaneous supplies	18,601	2,691
Postage and freight	247	214
Printing and distribution	1,857	5,733
Professional fees	32,098	25,800
Professional development fees	161,983	156,497
Repairs and maintenance	79,149	77,656
Scholarships	663,719	433,118
Taxes and licenses	20,305	18,785
Travel	276	2,329
Utilities	114,505	124,156
	\$ 3,179,960	\$ 3,618,324

NOTE 9. SUBSEQUENT EVENTS

The Foundation did not have any subsequent events through November 17, 2020, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2020.



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

Board of Directors
Northwest Florida State College Foundation, Inc.
Niceville, Florida

We have audited 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, the financial statements of Northwest Florida State College Foundation, Inc. (the "Foundation"), a direct support organization and component unit of the Northwest Florida State College, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated November 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Bradenton, Florida
November 17, 2020