

# NORTHWEST FLORIDA STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2012



STATE OF FLORIDA  
AUDITOR GENERAL  
DAVID W. MARTIN, CPA

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- 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, 2012. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2013-022.

### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street  
Tallahassee, Florida 32399-1450



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FAX: 850-488-6975

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, 2012, 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, 2012, 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, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, 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  
January 18, 2013

**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, 2012, 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 activity of the College for the fiscal years ended June 30, 2012, and June 30, 2011, and its component unit, the Northwest Florida State College Foundation, Inc., for the fiscal years ended September 30, 2011, and September 30, 2010.

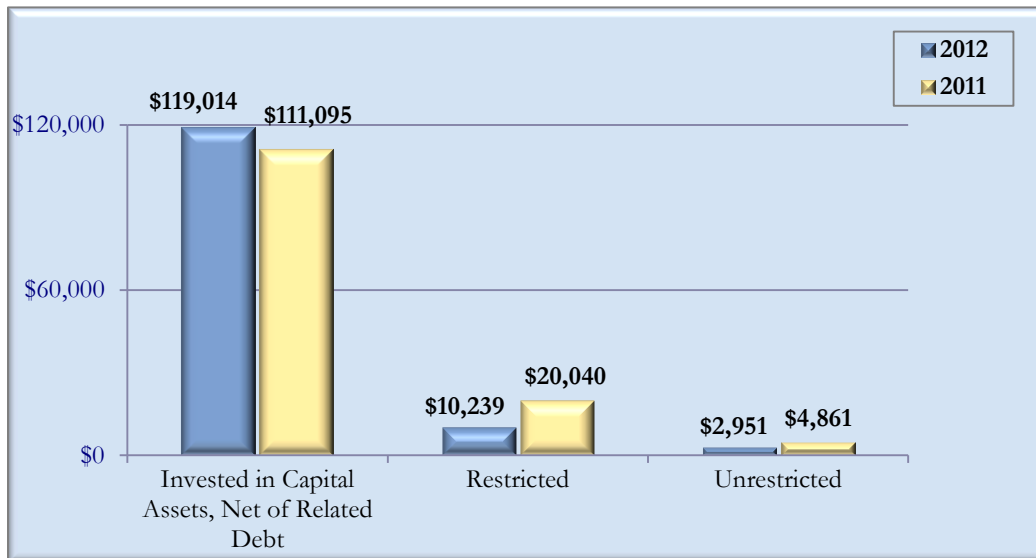
**FINANCIAL HIGHLIGHTS**

The College’s assets totaled \$140 million at June 30, 2012. This balance reflects a \$3.1 million, or 2.2 percent, decrease as compared to the 2010-11 fiscal year, resulting primarily from decreases in current assets. While assets decreased, liabilities increased by \$712 thousand, or 10.1 percent, totaling \$7.8 million at June 30, 2012, compared to \$7.1 million at June 30, 2011. As a result, the College’s net assets decreased by \$3.8 million, resulting in a year-end balance of \$132.2 million.

The College’s operating revenues totaled \$17.6 million for the 2011-12 fiscal year, representing a 4.4 percent increase as compared to the 2010-11 fiscal year due mainly to an increase in student tuition and fees. Operating expenses totaled \$54 million for the 2011-12 fiscal year, representing an increase of 4 percent as compared to the 2010-11 fiscal year due mainly to increases in materials and supplies and depreciation expenses.

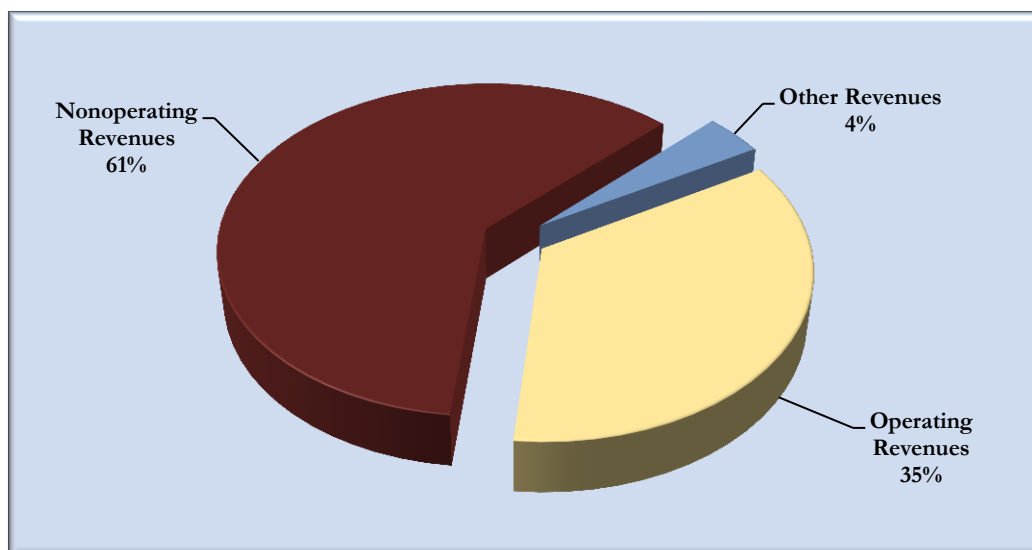
Net assets represent the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

**Net Assets: College  
(In Thousands)**



The following chart provides a graphical presentation of College revenues by category for the 2011-12 fiscal year:

**Total Revenues: College**



### OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

A condensed statement of assets, liabilities, and net assets of the College and its component unit for the respective fiscal years ended is shown in the following table:

	College		Component Unit	
	6-30-12	6-30-11	9-30-11	9-30-10
<b>Assets</b>				
Current Assets	\$ 18,325	\$ 29,242	\$ 1,787	\$ 2,064
Capital Assets, Net	119,659	111,900	5,599	5,705
Other Noncurrent Assets	2,009	1,931	28,087	27,763
<b>Total Assets</b>	<b>139,993</b>	<b>143,073</b>	<b>35,473</b>	<b>35,532</b>
<b>Liabilities</b>				
Current Liabilities	4,051	3,325	305	51
Noncurrent Liabilities	3,738	3,752		
<b>Total Liabilities</b>	<b>7,789</b>	<b>7,077</b>	<b>305</b>	<b>51</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	119,014	111,095	5,599	5,705
Restricted	10,239	20,040	36,270	29,188
Unrestricted	2,951	4,861	(6,701)	588
<b>Total Net Assets</b>	<b>\$ 132,204</b>	<b>\$ 135,996</b>	<b>\$ 35,168</b>	<b>\$ 35,481</b>
<b>Decrease in Net Assets</b>	<b>\$ (3,792)</b>	<b>-2.8%</b>	<b>\$ (313)</b>	<b>-0.9%</b>

Current assets decreased by \$10.9 million, or 37.3 percent. The decrease was primarily due to a reduction in Public Education Capital Outlay receivables totaling \$11.7 million. Noncurrent assets increased by \$7.8 million, or 6.9 percent, resulting mainly from the addition of a new building. Liabilities increased \$712 thousand, or 10 percent, due primarily to purchasing a portion of the College's new Enterprise Resource Planning system.

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)**

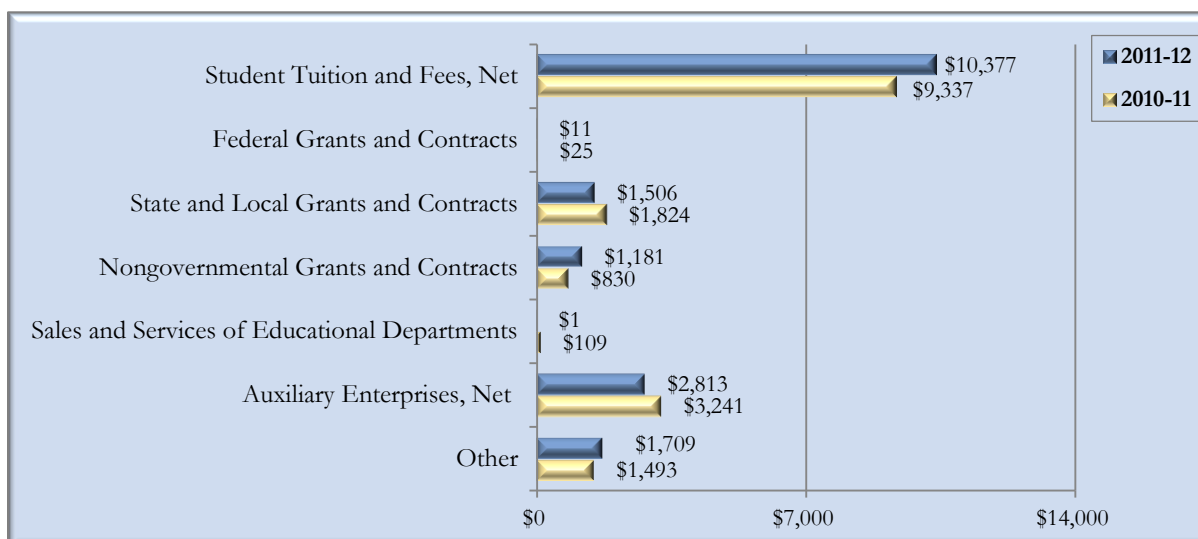
	College		Component Unit	
	6-30-12	6-30-11	9-30-11	9-30-10
<b>Operating Revenues</b>				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 10,377	\$ 9,337	\$	\$
Federal Grants and Contracts	11	25		
State and Local Grants and Contracts	1,506	1,824		
Nongovernmental Grants and Contracts	1,181	830		
Sales and Services of Educational Departments	1	109		
Auxiliary Enterprises, Net of Scholarship Allowances	2,813	3,241		
Other Operating Revenues	1,709	1,493	422	112
<b>Total Operating Revenues</b>	17,598	16,859	422	112
Less, Operating Expenses	54,021	51,934	1,893	1,755
<b>Operating Loss</b>	(36,423)	(35,075)	(1,471)	(1,643)
<b>Nonoperating Revenues (Expenses)</b>				
State Noncapital Appropriations	17,849	18,026		
Other Nonoperating Revenues	12,757	15,574	1,002	3,208
Interest on Capital Asset-Related Debt	(40)	(45)		
Other Nonoperating Expenses	(1)			
<b>Net Nonoperating Revenues</b>	30,565	33,555	1,002	3,208
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>				
	(5,858)	(1,520)	(469)	1,565
State Capital Appropriations	695	1,678		
Capital Grants, Contracts, Gifts, and Fees	1,371	1,492		
Additions to Permanent Endowments			156	80
<b>Increase (Decrease) in Net Assets</b>	(3,792)	1,650	(313)	1,645
Net Assets, Beginning of Year	135,996	134,346	35,481	33,836
<b>Net Assets, End of Year</b>	\$ 132,204	\$ 135,996	\$ 35,168	\$ 35,481

**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 2011-12 and 2010-11 fiscal years:

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



Other than the change in student tuition and fees which increased by \$1 million in the 2011-12 fiscal year, the College had no significant changes in operating revenues from the prior fiscal year. Student tuition and fees increased because the College increased student tuition and fee rates to offset reductions in State funding.

**Operating Expenses**

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

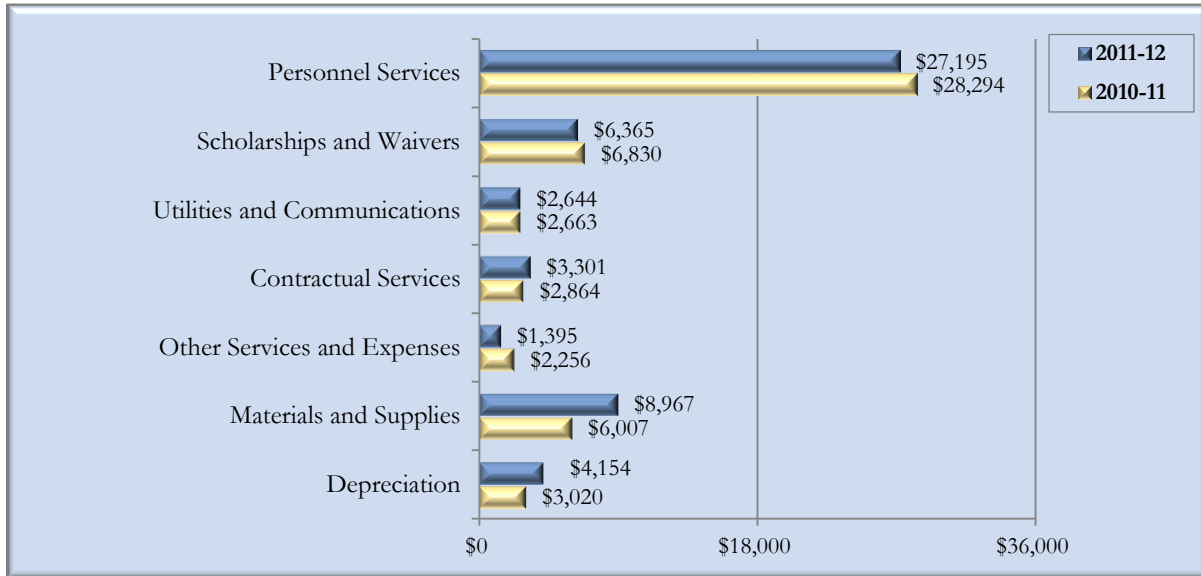
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

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

	College		Component Unit	
	6-30-12	6-30-11	9-30-11	9-30-10
<b>Operating Expenses</b>				
Personnel Services	\$ 27,195	\$ 28,294	\$	\$
Scholarships and Waivers	6,365	6,830	189	340
Utilities and Communications	2,644	2,663	106	101
Contractual Services	3,301	2,864		
Other Services and Expenses	1,395	2,256	1,423	1,120
Materials and Supplies	8,967	6,007	5	25
Depreciation	4,154	3,020	170	169
<b>Total Operating Expenses</b>	<b>\$ 54,021</b>	<b>\$ 51,934</b>	<b>\$ 1,893</b>	<b>\$ 1,755</b>

The following chart presents the College’s operating expenses for the 2011-12 and 2010-11 fiscal years:

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



Other than changes in depreciation expense, which increased \$1.1 million, and materials and supplies, which increased \$3 million, the College had no significant changes in operating expenses from the prior fiscal year. Depreciation on the College’s new Student Services Building and related equipment additions was the primary reason that depreciation expense increased during the 2011-12 fiscal year. During the 2011-12 fiscal year, materials and supplies expenses were higher because the College incurred non-recurring startup expenses, including purchases of non-capitalized equipment, related to occupying of the new Student Services Building.

**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 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
State Noncapital Appropriations	\$ 17,849	\$ 18,026
Federal and State Student Financial Aid	11,161	12,925
Gifts and Grants	1,554	2,642
Investment Income (Loss)	(10)	(16)
Other Nonoperating Revenues	52	23
Interest on Capital Asset-Related Debt	(40)	(45)
Other Nonoperating Expenses	(1)	
<b>Net Nonoperating Revenues</b>	<b>\$ 30,565</b>	<b>\$ 33,555</b>

Nonoperating revenues and expenses decreased \$3 million, or 8.9 percent, due primarily to a reduction in Federal and State student financial assistance grants and a decrease in gifts and grants due to a reduction in Federal American Reinvestment and Recovery Act (ARRA) funding.

### 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 2011-12 and 2010-11 fiscal years:

<b>Other Revenues, Expenses, Gains, or Losses: College</b>		
<b>(In Thousands)</b>		
	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 695	\$ 1,678
Capital Grants, Contracts, Gifts, and Fees	1,371	1,492
<b>Total</b>	<b><u>\$ 2,066</u></b>	<b><u>\$ 3,170</u></b>

Other revenues decreased by \$1.1 million, or 34.8 percent, mainly due to reductions in Public Education Capital Outlay appropriations.

### 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 2011-12 and 2010-11 fiscal years is presented in the following table:

<b>Condensed Statement of Cash Flows: College</b>		
<b>(In Thousands)</b>		
	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (30,628)	\$ (31,227)
Noncapital Financing Activities	30,328	33,656
Capital and Related Financing Activities	1,235	(3,190)
Investing Activities	29	34
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>964</b>	<b>(727)</b>
Cash and Cash Equivalents, Beginning of Year	<u>12,119</u>	<u>12,846</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 13,083</u></b>	<b><u>\$ 12,119</u></b>

Major sources of funds came from State noncapital appropriations (\$17.8 million), State capital appropriations (\$11.9 million), Federal and State student financial aid (\$11.4 million), and net student tuition and fees (\$10.2 million). Major uses of funds were for payments to employees (\$22.3 million), payments to suppliers (\$12.2 million), and purchases of capital assets (\$11.9 million).

The College's cash and cash equivalents increased by \$1 million, or 8 percent, and was primarily the result of the following factors:

- Cash outflows for operating activities decreased primarily due to a reduction in employee benefits.
- Cash flows from noncapital financing activities decreased mainly due to a reduction in Federal and State student financial aid and Federal and State grants.
- Cash flows from capital and related financing increased due to the receipt of Public Education Capital Outlay for construction projects completed during the fiscal year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2012, the College had \$165 million in capital assets, less accumulated depreciation of \$45.3 million, for net capital assets of \$119.7 million. Depreciation charges for the current fiscal year totaled \$4.2 million. The following table summarizes the College’s capital assets at June 30:

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

Capital Assets	2012	2011
Land	\$ 2,909	\$ 2,909
Capitalized Collections	761	762
Construction in Progress	3,459	46,748
Buildings	148,452	93,781
Other Structures and Improvements	4,450	4,350
Furniture, Machinery, and Equipment	4,974	5,022
<b>Total</b>	<b>165,005</b>	<b>153,572</b>
Less, Accumulated Depreciation:		
Buildings	38,421	35,102
Other Structures and Improvements	2,947	2,646
Furniture, Machinery, and Equipment	3,978	3,924
<b>Total Accumulated Depreciation</b>	<b>45,346</b>	<b>41,672</b>
<b>Capital Assets, Net</b>	<b>\$ 119,659</b>	<b>\$ 111,900</b>

The College had \$3 million in construction commitments at June 30, 2012. The commitments are for the Student Services Bldg/Bldg K Remodel and Boiler Retrofit projects. Given the current economic conditions, no additional major construction is planned for the near future. State appropriations together with local funds are expected to finance the renovation of existing 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 \$645 thousand in long-term debt outstanding as compared to \$805 thousand at the end of the prior fiscal year, a decrease of 19.9 percent.

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2011-12 fiscal year, the SBE issued \$53.8 million Capital Outlay Refunding Bonds, Series 2011A, of which the College’s portion of the bonds, \$290 thousand, was used to refund outstanding SBE Capital Outlay bonds, Series 2002B. Debt repayments totaled \$450 thousand. Additional information about the College’s long-term debt is presented in the notes to financial statements.

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

Northwest Florida State College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a decrease in State funding is anticipated in the 2012-13 fiscal year. In response to the anticipated decrease in State appropriations, the Board of Trustees increased the tuition rate 2.5 percent to take effect beginning with the Fall 2012 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 Business Services, Northwest Florida State College, 100 College Boulevard, Niceville, Florida 32578.

**BASIC FINANCIAL STATEMENTS**

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS  
June 30, 2012**

	<b>College</b>	<b>Component Unit</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 5,005,582	\$ 194,943
Restricted Cash and Cash Equivalents	6,249,874	
Investments		662,421
Restricted Investments		882,289
Accounts Receivable, Net	1,694,188	27,045
Notes Receivable, Net	14,034	
Due from Other Governmental Agencies	5,143,810	
Due from Component Unit	66,934	
Inventories	110,527	
Prepaid Expenses	39,953	19,833
Other Assets		1,190
<b>Total Current Assets</b>	<b>18,324,902</b>	<b>1,787,721</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,827,687	391,593
Restricted Investments	181,446	27,695,224
Depreciable Capital Assets, Net	112,529,374	5,147,608
Nondepreciable Capital Assets	7,129,387	451,200
<b>Total Noncurrent Assets</b>	<b>121,667,894</b>	<b>33,685,625</b>
<b>TOTAL ASSETS</b>	<b>\$ 139,992,796</b>	<b>\$ 35,473,346</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 2,054,382	\$
Salary and Payroll Taxes Payable	455,037	
Retainage Payable	867,923	
Due to College		304,921
Deferred Revenue	69,808	
Deposits Held for Others	319,751	
Long-Term Liabilities - Current Portion:		
Bonds Payable	140,000	
Special Termination Benefits Payable	82,505	
Compensated Absences Payable	61,127	
<b>Total Current Liabilities</b>	<b>4,050,533</b>	<b>304,921</b>
Noncurrent Liabilities:		
Bonds Payable	505,000	
Special Termination Benefits Payable	28,010	
Compensated Absences Payable	2,995,243	
Other Postemployment Benefits Payable	209,890	
<b>Total Noncurrent Liabilities</b>	<b>3,738,143</b>	
<b>TOTAL LIABILITIES</b>	<b>7,788,676</b>	<b>304,921</b>

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET ASSETS (Continued)  
June 30, 2012**

	<b>College</b>	<b>Component Unit</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 119,013,761	\$ 5,598,808
Restricted:		
Nonexpendable:		
Endowment		35,388,006
Expendable:		
Grants and Loans	2,824,877	
Scholarships	55,215	
Capital Projects	7,341,864	
Debt Service	17,083	882,289
Unrestricted	2,951,320	(6,700,678)
<b>Total Net Assets</b>	132,204,120	35,168,425
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 139,992,796</b>	<b>\$ 35,473,346</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, 2012**

	<u>College</u>	<u>Component Unit</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$4,902,890	\$ 10,377,253	\$
Federal Grants and Contracts	11,217	
State and Local Grants and Contracts	1,505,387	
Nongovernmental Grants and Contracts	1,180,448	
Sales and Services of Educational Departments	1,166	
Auxiliary Enterprises, Net of Scholarship Allowances of \$1,129,606	2,813,235	
Other Operating Revenues	1,708,853	421,807
<b>Total Operating Revenues</b>	<u>17,597,559</u>	<u>421,807</u>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	27,195,228	
Scholarships and Waivers	6,364,506	189,425
Utilities and Communications	2,644,120	105,683
Contractual Services	3,300,648	
Other Services and Expenses	1,394,756	1,422,967
Materials and Supplies	8,967,350	4,948
Depreciation	4,153,914	169,768
<b>Total Operating Expenses</b>	<u>54,020,522</u>	<u>1,892,791</u>
<b>Operating Loss</b>	<u>(36,422,963)</u>	<u>(1,470,984)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	17,848,908	20,429
Federal and State Student Financial Aid	11,161,333	
Gifts and Grants	1,554,381	716,047
Investment Income (Loss)	(10,482)	235,833
Other Nonoperating Revenues	51,609	
Interest on Capital Asset-Related Debt	(39,773)	
Other Nonoperating Expenses	(815)	29,581
<b>Net Nonoperating Revenues</b>	<u>30,565,161</u>	<u>1,001,890</u>
<b>Loss Before Other Revenues, Expenses, Gains, or Losses</b>	<u>(5,857,802)</u>	<u>(469,094)</u>
State Capital Appropriations	694,863	
Capital Grants, Contracts, Gifts, and Fees	1,370,867	
Additions to Permanent Endowments		156,005
<b>Total Other Revenues</b>	<u>2,065,730</u>	<u>156,005</u>
<b>Decrease in Net Assets</b>	<u>(3,792,072)</u>	<u>(313,089)</u>
Net Assets, Beginning of Year	135,996,192	35,481,514
<b>Net Assets, End of Year</b>	<u>\$ 132,204,120</u>	<u>\$ 35,168,425</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, 2012**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 10,173,929
Grants and Contracts	2,697,052
Payments to Suppliers	(12,155,842)
Payments for Utilities and Communications	(2,644,120)
Payments to Employees	(22,285,241)
Payments for Employee Benefits	(4,595,836)
Payments for Scholarships	(6,364,506)
Loans Issued to Students	(896,809)
Collection on Loans to Students	885,214
Auxiliary Enterprises, Net	2,813,235
Sales and Service of Educational Departments	1,166
Other Receipts	1,743,397
	<b>(30,628,361)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	17,848,908
Federal and State Student Financial Aid	11,369,988
Federal Direct Loan Program Receipts	2,368,186
Federal Direct Loan Program Disbursements	(2,368,186)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,109,582
	<b>30,328,478</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Sale of Refunding Bonds	312,890
State Capital Appropriations	11,926,216
Capital Grants and Gifts	1,370,867
Proceeds from Sale of Capital Assets	50,794
Purchases of Capital Assets	(11,932,662)
Principal Paid on Capital Debt	(450,000)
Interest Paid on Capital Debt	(42,663)
	<b>1,235,442</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	28,573
	<b>964,132</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>964,132</b>
Cash and Cash Equivalents, Beginning of Year	12,119,011
	<b>13,083,143</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 13,083,143</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, 2012**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (36,422,963)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	4,153,914
Changes in Assets and Liabilities:	
Accounts Receivables, Net	(200,885)
Note Receivables, Net	(14,034)
Inventories	533,695
Prepaid Expenses	21,129
Accounts Payable	1,150,086
Deferred Revenue	(2,424)
Deposits Held for Others	36,968
Special Termination Benefits Payable	(71,384)
Compensated Absences Payable	150,774
Other Postemployment Benefits Payable	36,763
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$ (30,628,361)</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 is not a cash transaction on the statement of cash flows.	\$ (32,524)

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, 2012**

**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, 2011.

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 business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

**NORTHWEST FLORIDA STATE COLLEGE**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

- 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 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.

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

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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 SBA 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, 2012, the College reported as cash equivalents \$6,172,996 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, 2012, 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 38 days as of June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

**Capital Assets.** College capital assets consist of land; capitalized collections; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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 net of accumulated depreciation of \$1,234,561. The Foundation depreciated 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 (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education (SBE)

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B Surplus Funds Trust Fund	\$ 164,363
State Board of Administration Debt Service Accounts	<u>17,083</u>
<b>Total College Investments</b>	<b><u>\$ 181,446</u></b>

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

The Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and 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 on December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2012, the College reported investments at fair value of \$164,363 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 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 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, 2012. 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 totaling \$17,083 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**Component Unit Investments**

Investments held by the Northwest Florida State College Foundation, Inc., at September 30, 2011, are reported at fair value as follows:

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>
Money Market Accounts		<u>\$ 2,426,978</u>
Life Insurance/Annuities		<u>913,356</u>
United States Government Securities:		
United States Government (2)		3,853,219
Federal Home Loan Mortgage Corp.	AAA	1,125,504
Accrued Interest		<u>60,010</u>
<b>Total United States Government Securities</b>		<u><b>5,038,733</b></u>
Corporate Bonds	AAA to BBB-	<u>3,474,521</u>
Equity Mutual Funds: (1)		
Alternative Investments		2,822,767
American Century 20th		895,579
Blackrock US Opportunites Port Inst		419,241
Cullen High Dividend		1,460,444
Davis New York Venture		302,980
Dreyfus Emerging Markets		187,395
Canada		42,083
First Eagle		290,710
Harbor International Fund Investor		1,056,694
Ishares Russell Growth		1,473,449
Ishares Russell Value		1,105,486
Mainstay large Cap Growth		3,412,441
Oppenheimer Developing Markets		350,671
RS Small Cap Growth		1,065,190
Sunamerica Focused		141,728
Perkins Mid Cap Value		252,992
Yachtman Fund		<u>2,106,496</u>
<b>Total Equity Mutual Funds</b>		<u><b>17,386,346</b></u>
<b>Total Investments</b>		<u><b>\$ 29,239,934</b></u>

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

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

The Foundation's investments are managed in accordance with an investment policy. The investment policy sets target allocations of investments of 25 percent to 35 percent for fixed income, 55 percent to 65 percent for equities, and 4 percent to 6 percent 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.

*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 percent of the 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 greater than two years and less than five years and no more than 25 percent may

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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 at September 30, 2011, 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. The Foundation does not have a policy addressing credit risk.

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

*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.

*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 on a margin, or result in open-hedge positions.

### **3. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts for student fee deferrals, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$163,452 allowance for doubtful accounts.

### **4. NOTES RECEIVABLE**

Notes receivable represent student loans made under the short-term loan program and are reported net of a \$2,894 allowance for doubtful notes.

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

This amount primarily consists of \$4,843,606 of Public Education Capital Outlay allocations due from the State for construction, remodeling, and renovation of College facilities.

### **6. DUE FROM COMPONENT UNIT**

The \$66,934 reported as due from component unit consists of amounts owed to the College by the Foundation for services provided by the College. The College's financial statements are reported for the fiscal year ended June 30, 2012. The Foundation's financial statements are reported for the fiscal year ended September 30, 2011.

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

Accordingly, the amount reported by the College as due from component unit on the statement of net assets does not agree with the amount reported by the component unit as due to the College.

## 7. INVENTORIES

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

## 8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	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	46,747,946	3,280,012	46,568,907	3,459,051
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 50,418,282</b>	<b>\$ 3,280,012</b>	<b>\$ 46,568,907</b>	<b>\$ 7,129,387</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 93,781,448	\$ 54,670,348	\$	\$ 148,451,796
Other Structures and Improvements	4,349,536	100,269		4,449,805
Furniture, Machinery, and Equipment	5,022,270	450,266	498,607	4,973,929
<b>Total Depreciable Capital Assets</b>	<b>103,153,254</b>	<b>55,220,883</b>	<b>498,607</b>	<b>157,875,530</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	35,101,531	3,319,261		38,420,792
Other Structures and Improvements	2,646,297	300,700		2,946,997
Furniture, Machinery, and Equipment	3,923,759	533,953	479,345	3,978,367
<b>Total Accumulated Depreciation</b>	<b>41,671,587</b>	<b>4,153,914</b>	<b>479,345</b>	<b>45,346,156</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 61,481,667</b>	<b>\$ 51,066,969</b>	<b>\$ 19,262</b>	<b>\$ 112,529,374</b>

## 9. DEFERRED REVENUE

Deferred revenue includes student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2012, the College reported \$69,808 as deferred revenue.

## 10. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, 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, 2012, is shown below:

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JUNE 30, 2012**

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 805,000	\$ 290,000	\$ 450,000	\$ 645,000	\$ 140,000
Special Termination Benefits Payable	181,899	86,579	157,963	110,515	82,505
Compensated Absences Payable	2,905,596	284,451	133,677	3,056,370	61,127
Other Postemployment Benefits Payable	173,127	49,662	12,899	209,890	
<b>Total Long-Term Liabilities</b>	<b>\$ 4,065,622</b>	<b>\$ 710,692</b>	<b>\$ 754,539</b>	<b>\$ 4,021,775</b>	<b>\$ 283,632</b>

**Bonds Payable.** The State Board of Education (SBE) 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 SBE and the State Board of Administration (SBA) 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, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<b>SBE Capital Outlay Bonds:</b>			
Series 2005A	\$ 355,000	4 - 5	2025
Series 2011A	290,000	4 - 5	2015
<b>Total</b>	<b>\$ 645,000</b>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2013	\$ 140,000	\$ 29,307	\$ 169,307
2014	150,000	23,556	173,556
2015	110,000	16,056	126,056
2016	45,000	10,556	55,556
2017	20,000	8,306	28,306
2018-2022	115,000	27,931	142,931
2023-2025	65,000	5,231	70,231
<b>Total</b>	<b>\$ 645,000</b>	<b>\$ 120,943</b>	<b>\$ 765,943</b>

On January 5, 2012, the SBE issued \$53,785,000 of SBE Capital Outlay Refunding Bonds, Series 2011A. A portion of these bonds were used to advance refund \$28,990,000 SBE Capital Outlay Bonds, Series 2002B, that were called for redemption on January 6, 2012. The College’s portion of the Series 2011A bonds totaled \$290,000, and was used to refund \$310,000 of the Series 2002B bonds. As a result of the refunding, the College had a debt service savings of \$22,362 and obtained an economic gain of \$22,096.

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**Special Termination Benefits Payable.** The Board has established a retirement incentive program (program) that is available to certain College employees based on age and years of service. Under the program, eligible employees receive payment for accumulated sick leave based on years of service as defined in Section 1012.865, Florida Statutes, and a salary bonus equal to no more than 10 percent of the final year's annual contract salary. The College reported a special termination benefits payable of \$110,515 as of June 30, 2012, for 12 employees who gave notice to retire under the Retirement Incentive program, of which \$82,505 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, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,056,370. The current portion of the compensated absences liability, \$61,127, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage applied to total accrued leave liability.

**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).

*Plan Description.* The College contributes to an agent, multiple-employer, defined-benefit plan administered by the Consortium for postemployment benefits. 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 another 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 benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 27 retirees received postemployment healthcare benefits. The College provided required contributions of \$12,899 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$136,547.

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JUNE 30, 2012**

*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)	\$ 36,291
Amortization of Unfunded Actuarial Accrued Liability	<u>12,217</u>
<b>Annual Required Contribution</b>	48,508
Interest on Net OPEB Obligation	6,925
Adjustment to Annual Required Contribution	<u>(5,771)</u>
<b>Annual OPEB Cost (Expense)</b>	49,662
Contribution Toward the OPEB Cost	<u>12,899</u>
<b>Increase in Net OPEB Obligation</b>	36,763
Net OPEB Obligation, Beginning of Year	<u>173,127</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 209,890</u></u>

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, 2012, and for the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 54,093	57.7%	\$ 144,797
2010-11	78,062	63.7%	173,127
2011-12	49,662	26.0%	209,890

*Funded Status and Funding Progress.* As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$366,500, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$366,500 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$15,489,857 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.4 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

**NORTHWEST FLORIDA STATE COLLEGE  
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JUNE 30, 2012**

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, 2011, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the College's 2011-12 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 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year, and an annual healthcare cost trend rate of 10.5 percent for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 7 years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

## 11. 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 the 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. The 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 Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Members of both Plans may include up to 4 years of credit for military service toward creditable 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.

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A COMPONENT UNIT OF THE STATE OF FLORIDA  
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JUNE 30, 2012**

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.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan 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 the Investment Plan. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee 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 Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
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 Investment Plan.

(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 including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$1,357,685, \$1,463,733, and \$1,010,114, respectively, which were equal to the required contributions for each fiscal year.

There were 64 College participants in the Investment Plan during the 2011-12 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$166,897, which was equal to the required contribution for the 2011-12 fiscal year.

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 40 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$195,636, and employee contributions totaled \$78,992 for the 2011-12 fiscal year.

**Senior Management Service Optional Annuity Program.** Section 121.055, Florida Statutes, created the Senior Management Service Optional Annuity Program (Annuity Program) as an optional retirement program for College employees that are members of the FRS Senior Management Service Class.

The Annuity 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. College employees in eligible positions make an irrevocable election to participate in the Annuity Program in lieu of the Senior Management Service Class of FRS, and purchase retirement and death benefits through contracts with participating provider companies. The College contributes 9.49 percent and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by salary reduction, an additional amount not to exceed the percentage contributed by the College. These contributions are invested in the companies selected by the employee to create a fund for the purchase of annuities at retirement.

There was one College participant during the 2011-12 fiscal year. The College's contributions to the Annuity Program totaled \$27,062 and employee contributions totaled \$6,495 for the 2011-12 fiscal year.

**NORTHWEST FLORIDA STATE COLLEGE  
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JUNE 30, 2012**

**12. CONSTRUCTION COMMITMENTS**

The College's construction commitments at June 30, 2012, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Student Services Bldg/Bldg K Remodel	\$ 18,388,687	\$ 15,400,160	\$ 2,988,527
Boiler Retrofit	262,727	207,574	55,153
<b>Total</b>	<b>\$ 18,651,414</b>	<b>\$ 15,607,734</b>	<b>\$ 3,043,680</b>

**13. 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 to February 29, 2012, and up to \$90 million from March 1, 2012. 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.

**14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

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

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JUNE 30, 2012**

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 15,718,148
Public Services	707,366
Academic Support	3,618,401
Student Services	3,125,306
Institutional Support	8,373,111
Operation and Maintenance of Plant	6,886,376
Scholarships and Waivers	6,364,506
Depreciation	4,153,914
Auxiliary Enterprises	<u>5,073,394</u>
<b>Total Operating Expenses</b>	<b><u>\$ 54,020,522</u></b>

**15. SUBSEQUENT EVENT**

The College entered into a loan agreement with a financial institution on June 28, 2012, that was fully executed on July 10, 2012, upon issuance of the financing documents and the receipt of \$5 million. The loan agreement has a stated interest rate of 1.711 percent. Minimum future payments under the agreement total \$5,316,988. Capital improvement fees have been pledged to repay the loan. The loan proceeds will be used to purchase a new enterprise resource planning (ERP) computer system.

**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%
7/1/2011		366,500	366,500	0%	15,489,857	2.4%

Note: (1) The actuarial cost method used to estimate the actuarial acccrued liability is the projected unit credit method.

**NORTHWEST FLORIDA STATE COLLEGE  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**

The July 1, 2011, unfunded actuarial accrued liability of \$366,500 was significantly lower than the July 1, 2009, liability of \$666,384 due to:

- The investment rate of return (discount rate) was increased from 3 percent to 4 percent.
- Demographic assumptions (rates of withdrawal, retirement, disability, and mortality) were revised to be consistent with those used for the Florida Retirement System.
- The assumed per capita costs of healthcare were updated, including a change to the methodology used to relate healthcare costs between ages.
- The rates of healthcare inflation used to project the per capita healthcare costs were revised.
- The rates of participation in the Plan were adjusted to reflect current experience.
- The payroll growth rate was increased from 3 percent to 4 percent.



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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, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

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

We noted certain matters that we reported to College management in our operational audit report No. 2013-022.

Our **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*** 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  
January 18, 2013