

# NORTHWEST FLORIDA STATE COLLEGE

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2014



STATE OF FLORIDA  
AUDITOR GENERAL  
DAVID W. MARTIN, CPA

## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

	<u>County</u>
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Rachel R. Gillis, Vice Chair (2)	Walton
C. Wayne Ansley	Okaloosa
Patrick E. Byrne, II to 7-9-13 (3)	Okaloosa
D. Bradley Drake	Walton
Michael M. Flynt, Sr.	Walton
Paul A Foster to 10-21-13 (4)	Okaloosa
Marijo Strauss	Okaloosa

Dr. Ty Handy, President

- Notes: (1) Board member served beyond the end of term, May 31, 2011.
- (2) Board member served beyond the end of term, May 31, 2013.
- (3) Board member resigned on July 9, 2013, and the position remained vacant from July 10, 2013, through June 30, 2014.
- (4) Board member served through October 21, 2013, and the position remained vacant through June 30, 2014.

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 Debbie S. Jabaley, and the audit was supervised by Kenneth C. Danley, 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) 412-2869.

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NORTHWEST FLORIDA STATE COLLEGE  
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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:

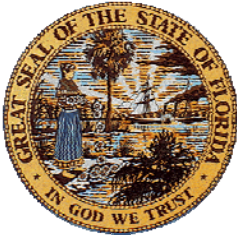
- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied 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, 2014. 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. 2015-022.

### 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

### Report on the 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, 2014, and the related notes to the financial statements, which collectively comprise the College'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 opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, 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 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 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 opinions.

***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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the financial data for Northwest Florida State College Foundation, Inc., a discretely presented component unit, is for the 21-month period ended June 30, 2014. This affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year. Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

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* in considering Northwest Florida State College's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
March 12, 2015

**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, 2014, and should be read in conjunction with the financial statements and notes thereto. 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, 2014, and June 30, 2013, and its component unit, Northwest Florida State College Foundation, Inc. (Foundation), for the 21-month period ended June 30, 2014, and the 12-month period ended September 30, 2012. Effective October 1, 2013, the Foundation changed its fiscal year-end to June 30; previously its fiscal year-end had been September 30. Therefore, the financial data for the Foundation for the period ended June 30, 2014, is for a 21-month period. This affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year.

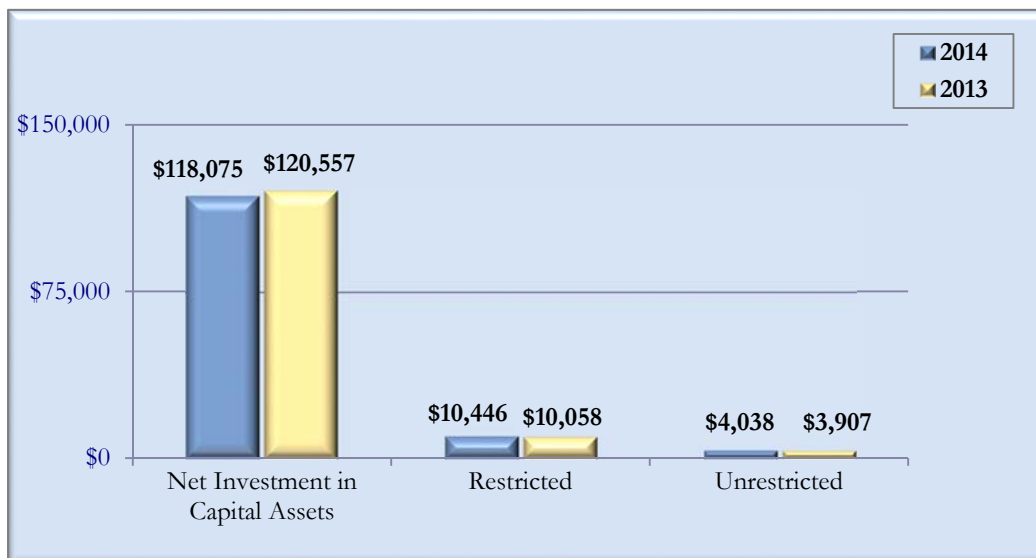
**FINANCIAL HIGHLIGHTS**

The College’s assets totaled \$141.4 million at June 30, 2014. This balance reflects a \$2.4 million, or 1.7 percent, decrease as compared to the 2012-13 fiscal year. Liabilities decreased by \$411 thousand, or 4.4 percent, totaling \$8.9 million at June 30, 2014, as compared to \$9.3 million at June 30, 2013. As a result, the College’s net position decreased by \$2 million, resulting in a year-end balance of \$132.6 million.

The College’s operating revenues totaled \$14.7 million for the 2013-14 fiscal year, representing a 2.9 percent decrease as compared to the 2012-13 fiscal year. Operating expenses totaled \$50.8 million for the 2013-14 fiscal year, representing an increase of 13.1 percent as compared to the 2012-13 fiscal year primarily due to an increase in materials and supplies expense.

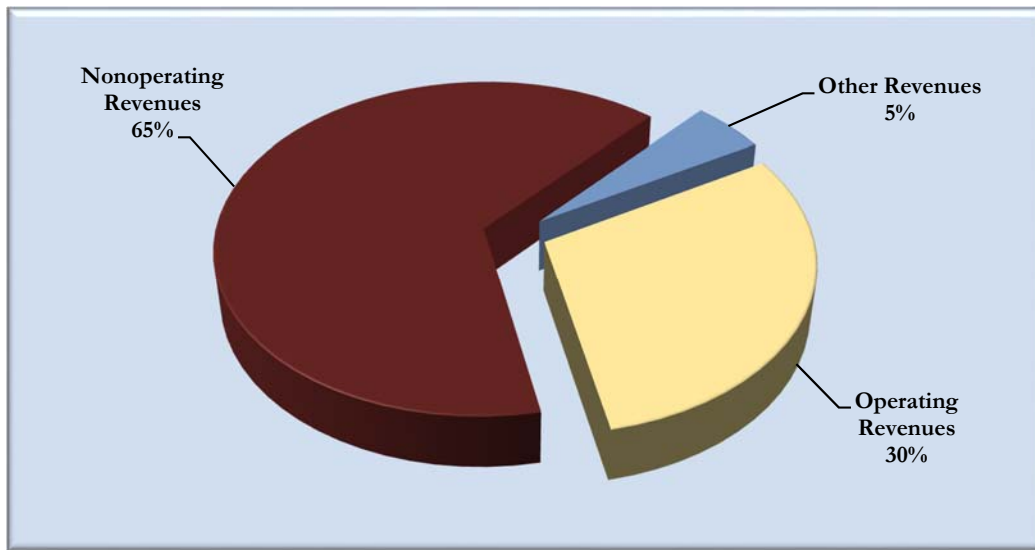
Net position represents the residual interest in the College’s assets after deducting liabilities. The College’s comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

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



The following chart provides a graphical presentation of College revenues by category for the 2013-14 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 position; the statement of revenues, expenses, and changes in net position; 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 POSITION**

The statement of net position reflects the assets and liabilities of the College using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets, less liabilities, equals net position, which is one indicator of the College’s current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College’s financial condition.

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

**Condensed Statement of Net Position at  
(In Thousands)**

	College		Component Unit	
	6-30-14	6-30-13	6-30-14 (1)	9-30-12
<b>Assets</b>				
Current Assets	\$ 8,903	\$ 14,326	\$ 12,130	\$ 1,769
Capital Assets, Net	122,039	123,645	430	5,420
Other Noncurrent Assets	10,479	5,824	34,415	32,001
<b>Total Assets</b>	<u>141,421</u>	<u>143,795</u>	<u>46,975</u>	<u>39,190</u>
<b>Liabilities</b>				
Current Liabilities	1,954	1,813	27	117
Noncurrent Liabilities	6,908	7,460		
<b>Total Liabilities</b>	<u>8,862</u>	<u>9,273</u>	<u>27</u>	<u>117</u>
<b>Net Position</b>				
Net Investment in Capital Assets	118,075	120,557	430	5,420
Restricted	10,446	10,058	45,534	36,710
Unrestricted	4,038	3,907	984	(3,057)
<b>Total Net Position</b>	<u>\$ 132,559</u>	<u>\$ 134,522</u>	<u>\$ 46,948</u>	<u>\$ 39,073</u>

Note (1): For the 21-month period ended June 30, 2014.

College assets, liabilities, and net position did not change significantly from the prior fiscal year.

**THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

The statement of revenues, expenses, and changes in net position presents the College's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the activities of the College and its component unit for the respective periods ended:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position  
For the Periods Ended  
(In Thousands)**

	College		Component Unit	
	6-30-14	6-30-13	6-30-14 (1)	9-30-12
Operating Revenues	\$ 14,708	\$ 15,155	\$ 1,113	\$ 580
Less, Operating Expenses	50,763	44,890	2,941	1,575
<b>Operating Loss</b>	(36,055)	(29,735)	(1,828)	(995)
Net Nonoperating Revenues	31,658	29,988	8,576	4,662
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	(4,397)	253	6,748	3,667
Other Revenues	2,434	2,065	1,127	238
<b>Net Increase (Decrease) In Net Position</b>	(1,963)	2,318	7,875	3,905
Net Position, Beginning of Year	134,522	132,204	39,073	35,168
<b>Net Position, End of Year</b>	<u>\$ 132,559</u>	<u>\$ 134,522</u>	<u>\$ 46,948</u>	<u>\$ 39,073</u>

Note (1): For the 21-month period ended June 30, 2014.

**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 summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the respective periods ended:

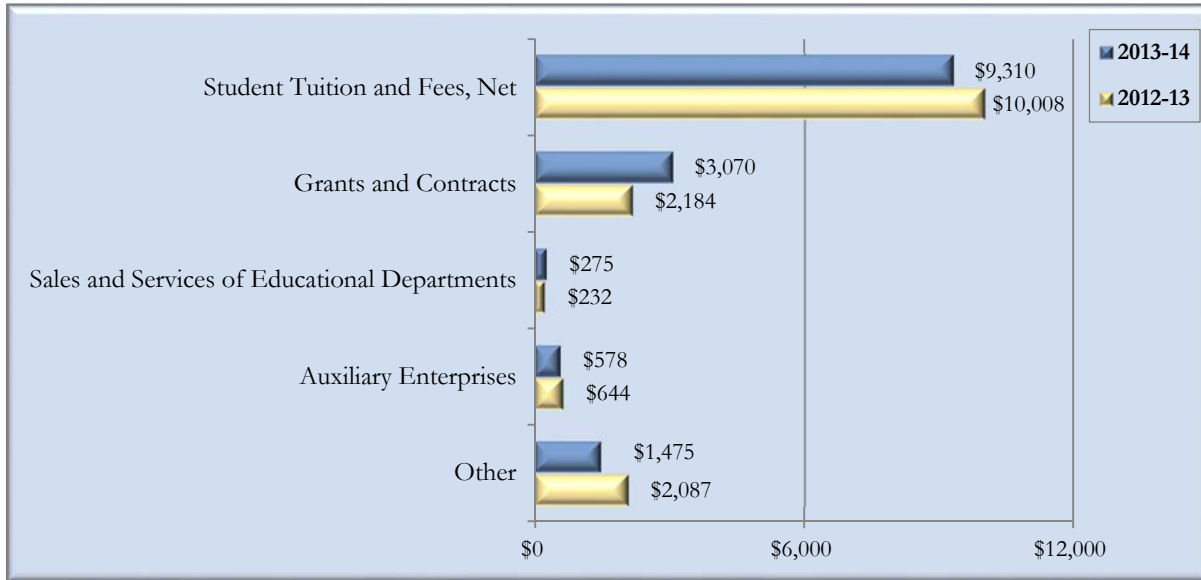
**Operating Revenues  
For the Periods Ended  
(In Thousands)**

	College		Component Unit	
	6-30-14	6-30-13	6-30-14 (1)	9-30-12
Student Tuition and Fees, Net	\$ 9,310	\$ 10,008	\$	\$
Grants and Contracts	3,070	2,184		
Sales and Services of Educational Departments	275	232		
Auxiliary Enterprises	578	644		
Other	1,475	2,087	1,113	580
<b>Total Operating Revenues</b>	<u>\$ 14,708</u>	<u>\$ 15,155</u>	<u>\$ 1,113</u>	<u>\$ 580</u>

Note (1): For the 21-month period ended June 30, 2014.

The following chart presents the College’s operating revenues for the 2013-14 and 2012-13 fiscal years:

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



College operating revenues did not significantly change from the prior fiscal year.

**Operating Expenses**

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

The following summarizes operating expenses by natural classification for the College and its component unit for the respective periods ended:

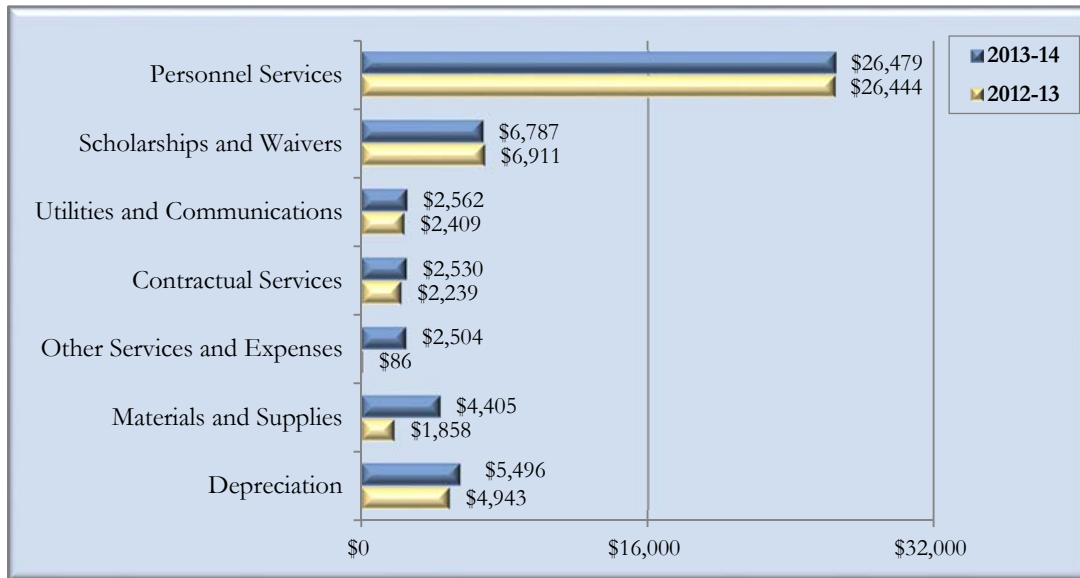
**Operating Expenses  
For the Periods Ended  
(In Thousands)**

	College		Component Unit	
	6-30-14	6-30-13	6-30-14 (1)	9-30-12
Personnel Services	\$ 26,479	\$ 26,444	\$	\$
Scholarships and Waivers	6,787	6,911	559	228
Utilities and Communications	2,562	2,409	164	104
Contractual Services	2,530	2,239		
Other Services and Expenses	2,504	86	2,190	1,061
Materials and Supplies	4,405	1,858	2	3
Depreciation	5,496	4,943	26	179
<b>Total Operating Expenses</b>	<b>\$ 50,763</b>	<b>\$ 44,890</b>	<b>\$ 2,941</b>	<b>\$ 1,575</b>

Note (1): For the 21-month period ended June 30, 2014.

The following chart presents the College’s operating expenses for the 2013-14 and 2012-13 fiscal years:

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



College operating expenses increased primarily due to an increase in materials and supplies for educational materials, software, noncapitalized equipment, and remodeling and renovation projects.

**Nonoperating Revenues and Expenses**

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
State Noncapital Appropriations	\$ 18,625	\$ 18,230
Federal and State Student Financial Aid	10,064	10,355
Gifts and Grants	2,988	1,405
Investment Income	40	69
Other Nonoperating Revenues	36	42
Interest on Capital Asset-Related Debt	(95)	(113)
<b>Net Nonoperating Revenues</b>	<b>\$ 31,658</b>	<b>\$ 29,988</b>

College net nonoperating revenues increased primarily due to an increase in gifts and grants as a result of the receipt of dual enrollment revenue collected from local county school districts in accordance with State statute and the receipt of a new Federal grant.

**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 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
State Capital Appropriations	\$ 906	\$ 308
Capital Grants, Contracts, Gifts, and Fees	1,528	1,757
<b>Total</b>	<b>\$ 2,434</b>	<b>\$ 2,065</b>

College other revenues did not significantly change from the prior fiscal year.

**THE STATEMENT OF CASH FLOWS**

The statement of cash flows provides information about the College’s financial results by reporting the major sources and uses of cash and cash equivalents. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections. 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.

The following summarizes the College’s cash flows for the 2013-14 and 2012-13 fiscal years:

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

	2013-14	2012-13
Cash Provided (Used) by:		
Operating Activities	\$ (30,492)	\$ (26,655)
Noncapital Financing Activities	33,343	28,813
Capital and Related Financing Activities	42	(1,333)
Investing Activities	21	58
<b>Net Increase in Cash and Cash Equivalents</b>	2,914	883
Cash and Cash Equivalents, Beginning of Year	13,966	13,083
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 16,880</b>	<b>\$ 13,966</b>

Major sources of cash inflows came from State noncapital appropriations (\$18.6 million), Federal and State student financial aid (\$11.1 million), and net student tuition and fees (\$9 million). Major cash outflows were for payments to employees (\$21.2 million), payments to suppliers of goods and services (\$9.6 million), and payments for scholarships (\$6.8 million).

Changes in cash and cash equivalents were primarily the result of the following factors:

- Cash outflows for operating activities increased primarily due to increased payments to suppliers.

- Cash inflows from noncapital financing activities increased primarily due to an increase in noncapital gifts and grants and in Federal student financial aid.
- Cash inflows from capital and related financing activities increased primarily due to a decrease in the purchase of capital assets.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,  
AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2014, the College had \$177.6 million in capital assets, less accumulated depreciation of \$55.6 million, for net capital assets of \$122 million. Depreciation charges for the current fiscal year totaled \$5.5 million. The following table summarizes the College’s capital assets, net of accumulated depreciation, at June 30:

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

<u>Capital Assets</u>	<u>2014</u>	<u>2013</u>
Land	\$ 2,909	\$ 2,909
Capitalized Collections	761	761
Construction in Progress	840	154
Buildings	111,631	114,574
Other Structures and Improvements	1,491	1,724
Furniture, Machinery, and Equipment	837	720
Data Software	<u>3,570</u>	<u>2,803</u>
<b>Capital Assets, Net</b>	<b><u>\$122,039</u></b>	<b><u>\$123,645</u></b>

Additional information about the College’s capital assets is presented in the notes to financial statements.

**CAPITAL EXPENSES AND COMMITMENTS**

The College had \$3.69 million in capital expenses for capitalized capital assets for the 2013-14 fiscal year. The College had no significant construction commitments at June 30, 2014.

**DEBT ADMINISTRATION**

As of June 30, 2014, the College had \$4 million in outstanding bonds payable and a note payable, representing a decrease of \$0.8 million, or 17.9 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2014, and June 30, 2013:

**Long-Term Debt at June 30: College  
(In Thousands)**

	<u>2014</u>	<u>2013</u>
Bonds Payable	\$ 332	\$ 505
Note Payable	<u>3,632</u>	<u>4,322</u>
<b>Total</b>	<b><u>\$ 3,964</u></b>	<b><u>\$ 4,827</u></b>

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2013-14 fiscal year, the SBE issued Capital Outlay Bonds, Series 2014A. The College’s portion of the bonds, \$197 thousand, was used to partially refund \$220,000 of outstanding SBE Capital Outlay Bonds, Series 2005A debt. Debt repayments and retirements during the 2013-14 fiscal year totaled \$1.1 million. Additional information about the College’s long-term debt is presented in the notes to financial statements.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The 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, only a modest increase in State funding is anticipated in the 2014-15 fiscal year. Nonetheless, the Board of Trustees did not increase the tuition rate, and only increased the Capital Improvement Fee by \$2 per credit hour to take effect beginning with the Fall 2014 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 in future years unless there is a significant change in the level of State funding.

**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 Vice President for Administrative 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 POSITION  
June 30, 2014**

	<u>College</u>	<u>Component Unit</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 3,194,769	\$ 767,392
Restricted Cash and Cash Equivalents	3,481,031	571,469
Investments		283,773
Restricted Investments		10,472,517
Accounts Receivable, Net	1,681,321	1,381
Notes Receivable, Net	71,680	
Due from Other Governmental Agencies	415,453	
Inventories	13,328	
Prepaid Expenses	45,494	33,850
<b>Total Current Assets</b>	<b>8,903,076</b>	<b>12,130,382</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	10,203,930	
Restricted Investments	274,992	34,414,762
Depreciable Capital Assets, Net	117,529,400	266,800
Nondepreciable Capital Assets	4,509,882	163,150
<b>Total Noncurrent Assets</b>	<b>132,518,204</b>	<b>34,844,712</b>
<b>TOTAL ASSETS</b>	<b>141,421,280</b>	<b>46,975,094</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	158,313	27,036
Accrued Interest Payable	2,327	
Salary and Payroll Taxes Payable	465,241	
Unearned Revenue	53,989	
Deposits Held for Others	456,159	
Long-Term Liabilities - Current Portion:		
Bonds Payable	110,000	
Note Payable	525,283	
Special Termination Benefits Payable	117,300	
Compensated Absences Payable	65,675	
<b>Total Current Liabilities</b>	<b>1,954,287</b>	<b>27,036</b>
Noncurrent Liabilities:		
Bonds Payable	222,000	
Note Payable	3,107,133	
Special Termination Benefits Payable	106,770	
Compensated Absences Payable	3,218,062	
Other Postemployment Benefits Payable	254,482	
<b>Total Noncurrent Liabilities</b>	<b>6,908,447</b>	
<b>TOTAL LIABILITIES</b>	<b>8,862,734</b>	<b>27,036</b>

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF NET POSITION (CONTINUED)  
June 30, 2014**

	<b>College</b>	<b>Component Unit</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 118,074,866	\$ 429,950
Restricted:		
Nonexpendable:		
Endowment		35,061,797
Expendable:		
Grants and Loans	3,173,648	
Scholarships	22,316	
Capital Projects	7,015,032	
Debt Service	234,793	
Other		10,472,517
Unrestricted	4,037,891	983,794
<b>TOTAL NET POSITION</b>	<b>\$ 132,558,546</b>	<b>\$ 46,948,058</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 POSITION  
For the Fiscal Year Ended June 30, 2014**

	<b>College</b>	<b>Component Unit</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship		
Allowances of \$4,451,588	\$ 9,310,403	\$
Federal Grants and Contracts	7,464	
State and Local Grants and Contracts	1,994,125	
Nongovernmental Grants and Contracts	1,068,817	
Sales and Services of Educational Departments	274,520	
Auxiliary Enterprises	578,213	
Other Operating Revenues	1,474,675	1,113,108
<b>Total Operating Revenues</b>	<b>14,708,217</b>	<b>1,113,108</b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	26,478,936	
Scholarships and Waivers	6,786,876	559,156
Utilities and Communications	2,561,771	163,476
Contractual Services	2,530,440	
Other Services and Expenses	2,504,122	2,189,719
Materials and Supplies	4,405,684	2,302
Depreciation	5,495,930	26,760
<b>Total Operating Expenses</b>	<b>50,763,759</b>	<b>2,941,413</b>
<b>Operating Loss</b>	<b>(36,055,542)</b>	<b>(1,828,305)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Noncapital Appropriations	18,624,941	
Federal and State Student Financial Aid	10,064,442	
Gifts and Grants	2,987,757	1,302,470
Investment Income	39,697	2,205,873
Net Gain on Investments		5,060,924
Other Nonoperating Revenues	35,998	8,114
Loss on Disposal of Capital Assets		(1,336)
Interest on Capital Asset-Related Debt	(94,664)	
<b>Net Nonoperating Revenues</b>	<b>31,658,171</b>	<b>8,576,045</b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(4,397,371)</b>	<b>6,747,740</b>
State Capital Appropriations	906,628	
Capital Grants, Contracts, Gifts, and Fees	1,527,727	
Additions to Permanent Endowments		1,127,696
<b>Total Other Revenues</b>	<b>2,434,355</b>	<b>1,127,696</b>
<b>Increase (Decrease) in Net Position</b>	<b>(1,963,016)</b>	<b>7,875,436</b>
Net Position, Beginning of Year	134,521,562	39,072,622
<b>Net Position, End of Year</b>	<b>\$ 132,558,546</b>	<b>\$ 46,948,058</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 CASH FLOWS  
For the Fiscal Year Ended June 30, 2014**

	<b>College</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Student Tuition and Fees, Net	\$ 8,985,726
Grants and Contracts	3,070,406
Payments to Suppliers	(9,578,640)
Payments for Utilities and Communications	(2,561,771)
Payments to Employees	(21,201,924)
Payments for Employee Benefits	(4,892,172)
Payments for Scholarships	(6,786,876)
Loans Issued to Students	(575,695)
Collection on Loans to Students	531,503
Sales and Service of Educational Departments	274,520
Auxiliary Enterprises	578,213
Other Receipts	1,664,666
	<b>(30,492,044)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Noncapital Appropriations	18,624,941
Federal and State Student Financial Aid	11,065,973
Federal Direct Loan Program Receipts	2,209,934
Federal Direct Loan Program Disbursements	(1,961,548)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,403,334
	<b>33,342,634</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	197,000
State Capital Appropriations	3,326,379
Capital Grants and Gifts	1,527,727
Proceeds from Sale of Capital Assets	35,998
Purchases of Capital Assets	(3,890,244)
Principal Paid on Capital Debt	(1,059,990)
Interest Paid on Capital Debt	(94,664)
	<b>42,206</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income	21,293
	<b>2,914,089</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>2,914,089</b>
Cash and Cash Equivalents, Beginning of Year	13,965,641
	<b>\$ 16,879,730</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 16,879,730</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, 2014**

	<b>College</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (36,055,542)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	5,495,930
Changes in Assets and Liabilities:	
Accounts Receivable, Net	(324,677)
Notes Receivable, Net	(44,192)
Inventories	1,450
Prepaid Expenses	(17,910)
Accounts Payable	(124,261)
Accrued Interest Payable	2,327
Salaries and Payroll Taxes Payable	98,938
Unearned Revenue	11,453
Deposits Held for Others	178,538
Special Termination Benefits Payable	40,417
Compensated Absences Payable	220,311
Other Postemployment Benefits Payable	25,174
	<b>\$ (30,492,044)</b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES</b>	
An unrealized gain on investments was recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but is not a cash transaction for the statement of cash flows.	\$ 18,404

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, 2014**

**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. 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, Northwest Florida State College Foundation, Inc. (Foundation), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

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. Effective October 1, 2013, the Foundation changed its fiscal year-end to June 30; previously its fiscal year-end had been September 30. Therefore, the financial data for the Foundation for the period ended June 30, 2014, is for a 21-month period. This affects the comparability of amounts reported for the 2013-14 fiscal year with amounts reported for the 2012-13 fiscal year.

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.

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - 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 follows GASB standards of accounting and financial reporting.

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.

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, gifts and grants, 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 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 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 position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference 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

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

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 invested in 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 with 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, 2014, the College reported as cash equivalents \$10,031,256 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, 2014, 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 40 days as of June 30, 2014. 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; furniture, machinery, and equipment; and data software. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 years
- Other Structures and Improvements – 10 years

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

- 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
- Data Software – 5 years

**Component Unit Capital Assets.** The Foundation's capital assets consist of land and buildings 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

Land and buildings are stated at cost, except for donated property which is stated at fair market value at the date of the donation.

**Noncurrent Liabilities.** Noncurrent liabilities include bonds payable, note 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. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

The College’s investments at June 30, 2014, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
SBA Fund B Surplus Funds Trust Fund	\$ 40,199
SBA Debt Service Accounts	<u>234,793</u>
<b>Total College Investments</b>	<b><u>\$ 274,992</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, 2014, the College reported investments at fair value of \$40,199 in Fund B. The College’s investments in Fund B are accounted for as a fluctuating net position value pool, with a fair value factor of 1.84438408 at June 30, 2014. The weighted-average life (WAL) of Fund B at June 30, 2014, was 2.86 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, 2014. 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 \$234,793 at June 30, 2014, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the College. The College’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

**Component Unit Investments**

Investments held by Northwest Florida State College Foundation, Inc., at June 30, 2014, 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, 2014**

<u>Investment Type</u>	<u>Amount</u>
Money Market Accounts	\$ 1,120,465
Life Insurance/Annuities	1,007,725
United States Government Securities:	
United States Government	2,401,743
Accrued Interest	67,896
Corporate Bonds	6,660,348
Equities and Mutual Funds	8,994,522
Alternative Investments	3,743,875
Corporate Stocks	16,495,809
Real Estate	4,678,669
<b>Total Foundation Investments</b>	<b><u>\$ 45,171,052</u></b>

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 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 United States (U.S.) government or agencies, obligations of agencies with implied Federal sponsorship and guarantees, certificates of deposit, deposits that are insured by the Federal Deposit Insurance Corporation, repurchase agreements, money market accounts, or government security mutual funds. The investments at June 30, 2014, 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 at June 30, 2014, were rated as follows: \$5,766,639 AAA to A- and \$893,709 BBB+ to BBB-.

*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. As of June 30, 2014, the Foundation does not have a concentration of credit risk.

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

*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 on 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 deferments, 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 \$224,205 allowance for doubtful accounts.

**4. NOTES RECEIVABLE**

Notes receivable represent student loans made under the short-term loan program. Notes receivable are reported net of a \$6,751 allowance for doubtful notes.

**5. INVENTORIES**

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

**6. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

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	154,344	839,546	154,344	839,546
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 3,824,680</b>	<b>\$ 839,546</b>	<b>\$ 154,344</b>	<b>\$ 4,509,882</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 156,425,878	\$ 515,541	\$	\$ 156,941,419
Other Structures and Improvements	5,029,848	139,166		5,169,014
Furniture, Machinery, and Equipment	5,018,343	593,497	94,359	5,517,481
Data Software	3,503,726	1,956,838		5,460,564
<b>Total Depreciable Capital Assets</b>	<b>169,977,795</b>	<b>3,205,042</b>	<b>94,359</b>	<b>173,088,478</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	41,852,233	3,457,737		45,309,970
Other Structures and Improvements	3,305,702	372,621		3,678,323
Furniture, Machinery, and Equipment	4,298,827	475,618	94,359	4,680,086
Data Software	700,745	1,189,954		1,890,699
<b>Total Accumulated Depreciation</b>	<b>50,157,507</b>	<b>5,495,930</b>	<b>94,359</b>	<b>55,559,078</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 119,820,288</b>	<b>\$ (2,290,888)</b>	<b>\$</b>	<b>\$ 117,529,400</b>

**7. LONG-TERM LIABILITIES**

Long-term liabilities of the College at June 30, 2014, include bonds payable, note payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2014, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 505,000	\$ 197,000	\$ 370,000	\$ 332,000	\$ 110,000
Note Payable	4,322,406		689,990	3,632,416	525,283
Special Termination Benefits Payable	183,653	186,195	145,778	224,070	117,300
Compensated Absences Payable	3,063,426	407,656	187,345	3,283,737	65,675
Other Postemployment Benefits Payable	229,308	44,180	19,006	254,482	
<b>Total Long-Term Liabilities</b>	<b>\$ 8,303,793</b>	<b>\$ 835,031</b>	<b>\$ 1,412,119</b>	<b>\$ 7,726,705</b>	<b>\$ 818,258</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 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, 2014:

**NORTHWEST FLORIDA STATE COLLEGE  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014**

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<b>SBE Capital Outlay Bonds:</b>			
Series 2005A	\$ 70,000	5	2016
Series 2011A	65,000	5	2015
Series 2014A	197,000	2 - 5	2025
<b>Total</b>	<b>\$ 332,000</b>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2015	\$ 110,000	\$ 14,479	\$ 124,479
2016	41,000	10,130	51,130
2017	17,000	8,400	25,400
2018	17,000	7,720	24,720
2019	18,000	6,870	24,870
2020-2024	105,000	19,850	124,850
2025	24,000	720	24,720
<b>Total</b>	<b>\$ 332,000</b>	<b>\$ 68,169</b>	<b>\$ 400,169</b>

On May 22, 2014, the SBE issued Capital Outlay Refunding Bonds, Series 2014A. The College’s portion of the bonds was used to partially refund \$220,000 of outstanding SBE Capital Outlay Bonds, Series 2005A.

**Note Payable.** On July 10, 2012, the College borrowed \$5 million, at a stated interest rate of 1.711 percent, to finance the cost of a portion of the College’s new enterprise resource planning system. The note matures on July 1, 2019, and principal and interest payments are made quarterly. Annual requirements to amortize the outstanding note as of June 30, 2014, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2015	\$ 525,283	\$ 44,394	\$ 569,677
2016	710,928	48,642	759,570
2017	723,176	36,394	759,570
2018	735,636	23,934	759,570
2019	748,310	11,260	759,570
2020	189,083	809	189,892
<b>Total</b>	<b>\$ 3,632,416</b>	<b>\$ 165,433</b>	<b>\$ 3,797,849</b>

**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,

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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 \$224,070 as of June 30, 2014, for 13 employees who gave notice to retire under the Retirement Incentive program, of which \$117,300 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, 2014, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,283,737. The current portion of the compensated absences liability, \$65,675, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used 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 healthcare 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 2013-14 fiscal year, 21 retirees received postemployment healthcare benefits. The College provided required contributions of \$19,006 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$125,754, which represents 0.9 percent of covered payroll.

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*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 fiscal 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)	\$ 29,181
Amortization of Unfunded Actuarial Accrued Liability	<u>13,471</u>
<b>Annual Required Contribution</b>	42,652
Interest on Net OPEB Obligation	9,172
Adjustment to Annual Required Contribution	<u>(7,644)</u>
<b>Annual OPEB Cost (Expense)</b>	44,180
Contribution Toward the OPEB Cost	<u>(19,006)</u>
<b>Increase in Net OPEB Obligation</b>	25,174
Net OPEB Obligation, Beginning of Year	<u>229,308</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 254,482</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, 2014, 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>
2011-12	\$ 49,662	26.0%	\$ 209,890
2012-13	49,908	61.1%	229,308
2013-14	44,180	43.0%	254,482

*Funded Status and Funding Progress.* As of July 1, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$404,125 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$404,125 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$14,787,636 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of

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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, 2013, used the projected unit credit actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the College's 2013-14 fiscal year ARC. 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, an inflation rate of 3 percent per year, and an annual healthcare cost trend rate of 8.5 percent pre-Medicare and 6.25 percent Medicare for the 2013-14 fiscal year, reduced by decrements to an ultimate rate of 5 percent after 5 years for pre-Medicare and 4 years for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2014, was 23 years.

## **8. 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS 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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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 DROP are not eligible to participate in the Investment Plan. Employer and employee 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 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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, 2012, June 30, 2013, and June 30, 2014, totaled \$1,010,114, \$1,047,970, and \$1,391,557, respectively, which were equal to the required contributions for each fiscal year.

There were 89 College participants in the Investment Plan during the 2013-14 fiscal year. The College’s contributions including employee contributions to the Investment Plan totaled \$236,220, which was equal to the required contribution for the 2013-14 fiscal year.

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JUNE 30, 2014**

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' Web site ([www.myfloridacfo.com](http://www.myfloridacfo.com)). 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 Division of Retirement's Web site ([www.frs.myflorida.com](http://www.frs.myflorida.com)).

**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 eight 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, 7.34 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 48 College participants during the 2013-14 fiscal year. The College's contributions to the Program totaled \$146,278 and employee contributions totaled \$85,193 for the 2013-14 fiscal year.

**Senior Management Service Local Annuity Program.** Section 121.055(1)(b)2., Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class, may elect to withdraw from the FRS altogether and participate in a local annuity program. Pursuant thereto, the College established the Senior Management Service Class Local Annuity Program (Local Annuity Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Local Annuity Program, rather than the FRS.

The Local 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 employee. The College contributes 12.5 percent of the employee's salary to the Local Annuity Program.

There was one College participant during the 2013-14 fiscal year. The College's contributions to the Annuity Program totaled \$25,627 for the 2013-14 fiscal year.

## **9. 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

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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 purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage for property insurance of up to \$125 million to February 28, 2014, and up to \$150 million from March 1, 2014. 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.

Dental, vision, and long-term disability coverage are provided through purchased commercial insurance.

**10. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

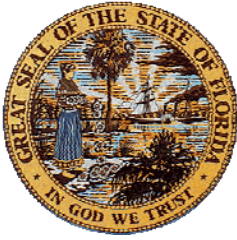
The functional classification of an operating expense (instruction, academic support, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which 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 position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 14,570,933
Public Services	677,357
Academic Support	3,736,951
Student Services	3,377,064
Institutional Support	6,659,983
Operation and Maintenance of Plant	8,228,554
Scholarships and Waivers	6,786,876
Depreciation	5,495,930
Auxiliary Enterprises	<u>1,230,111</u>
<b>Total Operating Expenses</b>	<b><u>\$ 50,763,759</u></b>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2009	\$ -	\$ 666,384	\$ 666,384	0%	\$ 15,343,303	4.3%
7/1/2011	-	366,500	366,500	0%	15,489,857	2.4%
7/1/2013	-	404,125	404,125	0%	14,787,636	2.7%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate the actuarial accrued liability.



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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*

### Report on the Financial Statements

We have audited, in accordance with the 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, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 12, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who 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 of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College'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 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. 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 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. 2015-022.

**Purpose of this Report**

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA  
Tallahassee, Florida  
March 12, 2015