

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-137
March 2018

NORTHWEST FLORIDA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Devin Stephenson served as President of Northwest Florida State College from 1-1-17, and Dr. Sasha Jarrell served as Interim President before that date. The following individuals served as Members of the Board of Trustees:

	<u>County</u>
Brian S. Pennington, Chair	Okaloosa
William "Jeff" Floyd, Vice Chair	Walton
Shane Abbott	Walton
Craig Barker	Okaloosa
Major General (Ret.) Robert Chedister	Okaloosa
Michael M. Flynt Sr.	Walton
Marijo Strauss ^a	Okaloosa

^a Member resigned 10-15-16, position remained vacant at fiscal year end.

Note: One member position was vacant during the period.

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 team leader was Debbie S. Jabaley, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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NORTHWEST FLORIDA STATE COLLEGE
TABLE OF CONTENTS

	<u>Page No.</u>
SUMMARY	i
INDEPENDENT AUDITOR'S REPORT	1
Report on the Financial Statements	1
Other Reporting Required by <i>Government Auditing Standards</i>	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Revenues, Expenses, and Changes in Net Position	16
Statement of Cash Flows	18
Notes to Financial Statements	20
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	42
Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan	42
Schedule of College Contributions – Florida Retirement System Pension Plan	43
Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan	43
Schedule of College Contributions – Health Insurance Subsidy Pension Plan	43
Notes to Required Supplementary Information	44
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	45
Internal Control Over Financial Reporting	45
Compliance and Other Matters	46
Purpose of this Report	46

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Northwest Florida State College (a component unit of the State of Florida) 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, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

We conducted our audit in accordance with 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.



Sherrill F. Norman, CPA
Auditor General

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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

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, 2017, 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's columns. Those 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 solely 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 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, 2017, 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.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension 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 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 and other auditors 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 dated March 8, 2018, on our consideration of the 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 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 the results of that testing, and not to provide an opinion on the effectiveness of 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 the Northwest Florida State College's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

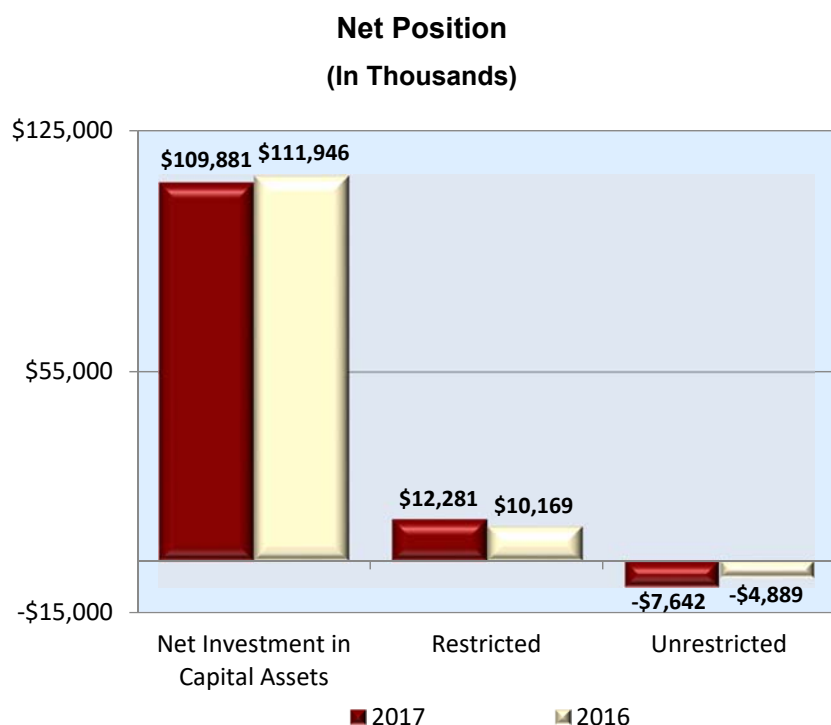
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains financial activity of the College and its discretely presented component unit, Northwest Florida State College Foundation, Inc. (Foundation) for the fiscal years ended June 30, 2017, and June 30, 2016.

FINANCIAL HIGHLIGHTS

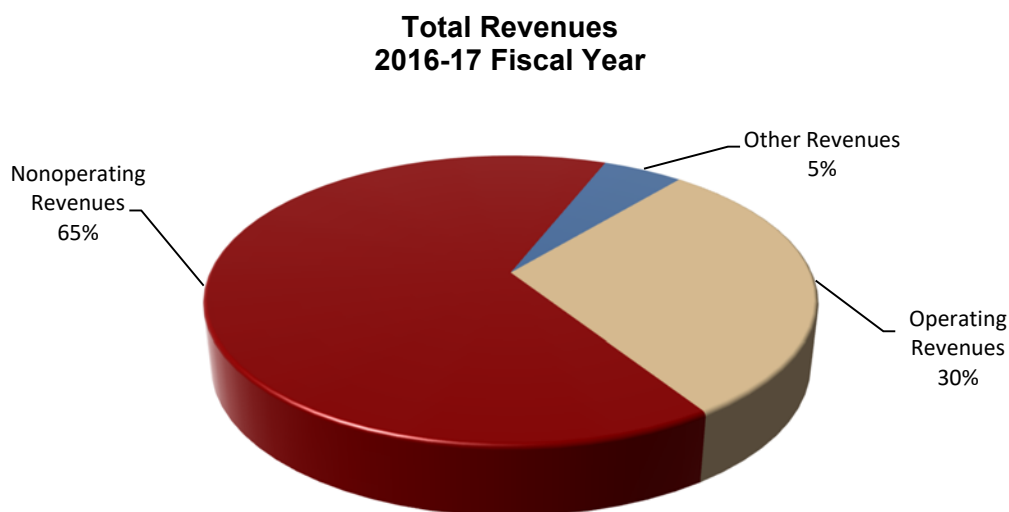
The College's assets and deferred outflows of resources totaled \$135.5 million at June 30, 2017. This balance reflects a \$1.6 million, or 1.2 percent, decrease as compared to the 2015-16 fiscal year, resulting mainly from the net of depreciation of capital assets and an increase in deferred outflows. While assets and deferred outflows of resources decreased, liabilities and deferred inflows of resources increased by \$1.1 million, or 5.6 percent, totaling \$20.9 million at June 30, 2017, resulting mainly from pension activity during the 2016-17 fiscal year related to Governmental Accounting Standards Board (GASB) Statement No. 68 reporting requirements. As a result, the College's net position decreased by \$2.7 million, resulting in a fiscal year-end balance of \$114.5 million.

The College's operating revenues totaled \$13.7 million for the 2016-17 fiscal year, representing a 4.4 percent increase compared to the 2015-16 fiscal year. Operating expenses totaled \$48.7 million for the 2016-17 fiscal year, increasing 1.7 percent as compared to the 2015-16 fiscal year.

Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:



The following chart provides a graphical presentation of College revenues by category for the 2016-17 fiscal year:



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. The financial statements, and notes thereto, encompass the College and its component unit, Northwest Florida State College Foundation, Inc. (Foundation). Based

on the application of the criteria for determining component units, the Foundation is included within the College reporting entity as a discretely presented component unit.

Information regarding this component unit is presented in the notes to financial statements.

The Statement of Net Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the College, using the accrual basis of accounting, and presents the financial position of the College at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, 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.

The following summarizes the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the College and its component unit at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	College		Component Unit	
	2017	2016	2017	2016
Assets				
Current Assets	\$ 11,708	\$ 14,848	\$ 12,679	\$ 7,857
Capital Assets, Net	110,412	114,816	4,074	4,242
Other Noncurrent Assets	7,763	5,028	32,174	32,992
Total Assets	129,883	134,692	48,927	45,091
Deferred Outflows of Resources	5,574	2,362	-	-
Liabilities				
Current Liabilities	1,327	1,608	58	48
Noncurrent Liabilities	18,687	16,503	-	-
Total Liabilities	20,014	18,111	58	48
Deferred Inflows of Resources	923	1,717	-	-
Net Position				
Net Investment in Capital Assets	109,881	111,946	4,074	4,242
Restricted	12,281	10,169	47,356	43,746
Unrestricted	(7,642)	(4,889)	(2,561)	(2,945)
Total Net Position	\$ 114,520	\$ 117,226	\$ 48,869	\$ 45,043

The decrease of \$4.8 million in the College's total assets is primarily due to the depreciation of capital assets. The \$3.2 million increase in deferred outflows of resources, the \$0.8 million decrease in deferred inflows of resources, and the \$1.9 million increase in liabilities are mainly related to the pension activity during the 2016-17 fiscal year. As a result, the College's net position decreased by \$2.7 million.

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 2016-17 and 2015-16 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Years

(In Thousands)

	College		Component Unit	
	2016-17	2015-16	2016-17	2015-16
Operating Revenues	\$ 13,675	\$ 13,102	\$ 619	\$ 673
Less, Operating Expenses	48,695	47,890	2,811	3,098
Operating Loss	(35,020)	(34,788)	(2,192)	(2,425)
Net Nonoperating Revenues (Expenses)	29,984	30,623	5,757	(368)
Income (Loss) Before Other Revenues	(5,036)	(4,165)	3,565	(2,793)
Other Revenues	2,330	2,255	261	149
Net Increase (Decrease) In Net Position	(2,706)	(1,910)	3,826	(2,644)
Net Position, Beginning of Year	117,226	119,136	45,043	47,687
Net Position, End of Year	<u>\$ 114,520</u>	<u>\$ 117,226</u>	<u>\$ 48,869</u>	<u>\$ 45,043</u>

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.

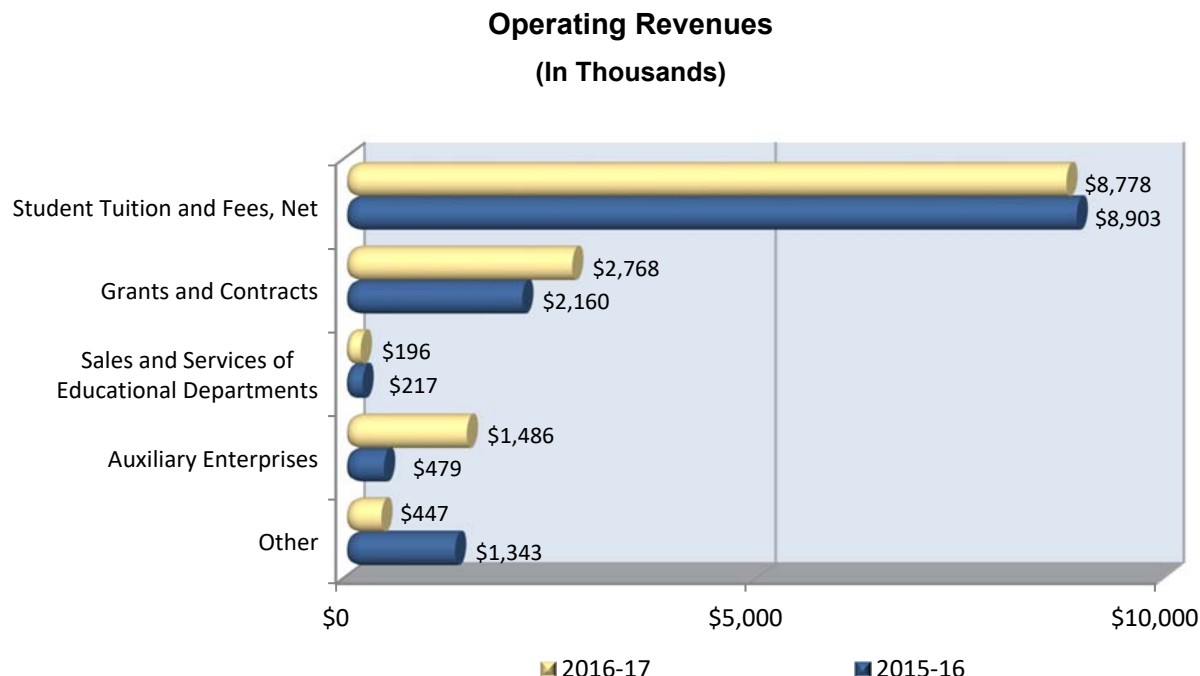
The following summarizes the operating revenues for the College and its component unit by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

Operating Revenues For the Fiscal Years

(In Thousands)

	College		Component Unit	
	2016-17	2015-16	2016-17	2015-16
Student Tuition and Fees, Net	\$ 8,778	\$ 8,903	\$ -	\$ -
Grants and Contracts	2,768	2,160	-	-
Sales and Services of Educational Departments	196	217	-	-
Auxiliary Enterprises	1,486	479	-	-
Other	447	1,343	619	673
Total Operating Revenues	<u>\$ 13,675</u>	<u>\$ 13,102</u>	<u>\$ 619</u>	<u>\$ 673</u>

The following chart presents the College's operating revenues for the 2016-17 and 2015-16 fiscal years:



College operating revenues did not change significantly from the prior fiscal year. The 2016-17 fiscal year reflects a change in how certain revenues, previously recorded as other revenues, are recorded as auxiliary enterprises revenue.

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 2016-17 and 2015-16 fiscal years:

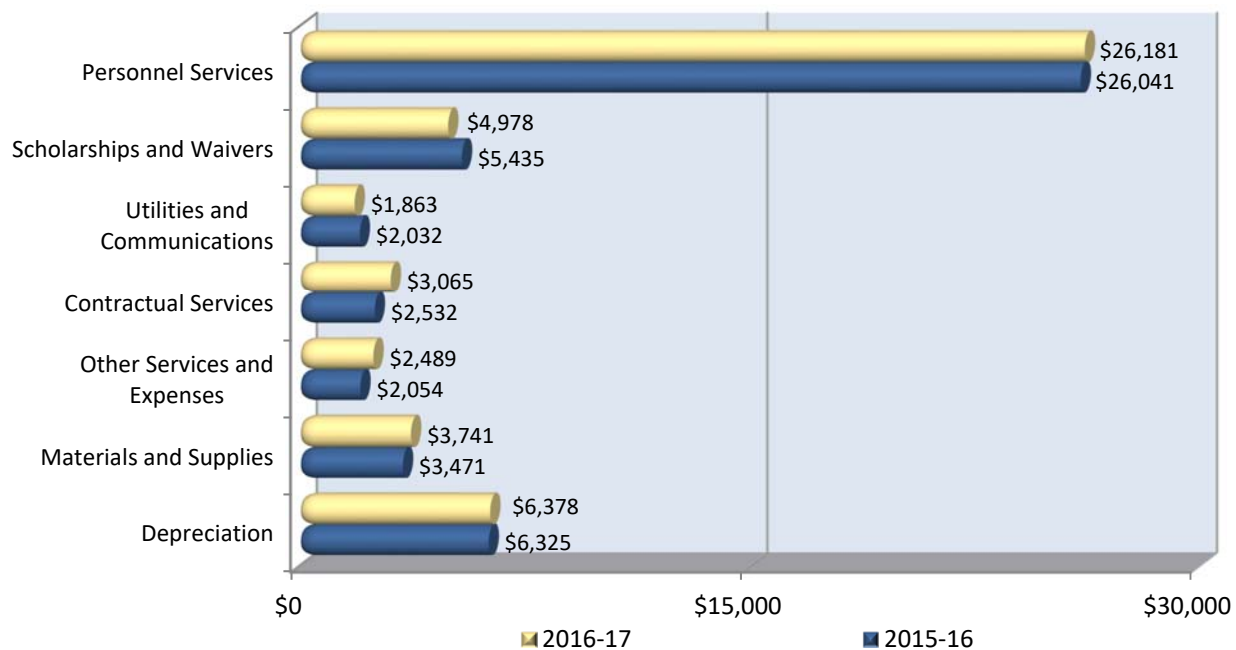
Operating Expenses For the Fiscal Years

(In Thousands)

	College		Component Unit	
	2016-17	2015-16	2016-17	2015-16
Personnel Services	\$ 26,181	\$ 26,041	\$ -	\$ -
Scholarships and Waivers	4,978	5,435	478	448
Utilities and Communications	1,863	2,032	117	110
Contractual Services	3,065	2,532	-	-
Other Services and Expenses	2,489	2,054	2,031	2,348
Materials and Supplies	3,741	3,471	16	12
Depreciation	6,378	6,325	169	180
Total Operating Expenses	\$ 48,695	\$ 47,890	\$ 2,811	\$ 3,098

The following chart presents the College's operating expenses for the 2016-17 and 2015-16 fiscal years:

Operating Expenses (In Thousands)



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

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs. The following summarizes the College's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years
(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
State Noncapital Appropriations	\$ 19,615	\$ 19,140
Federal and State Student Financial Aid	6,639	7,542
Gifts and Grants	3,539	3,931
Investment Income	144	64
Other Nonoperating Revenues	97	14
Interest on Capital Asset-Related Debt	<u>(50)</u>	<u>(68)</u>
Net Nonoperating Revenues	<u><u>\$ 29,984</u></u>	<u><u>\$ 30,623</u></u>

The 12 percent decrease in Federal and State student financial aid is directly attributed to the decline in enrollment experienced by the College in the 2016-17 fiscal year.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, gifts, and fees. The following summarizes the College's other revenues for the 2016-17 and 2015-16 fiscal years:

Other Revenues
For the Fiscal Years
(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
State Capital Appropriations	\$ 929	\$ 624
Capital Grants, Contracts, Gifts, and Fees	<u>1,401</u>	<u>1,631</u>
Total	<u><u>\$ 2,330</u></u>	<u><u>\$ 2,255</u></u>

The College's other revenues did not change significantly 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. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. 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 following summarizes the College's cash flows for the 2016-17 and 2015-16 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years
(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Cash Provided (Used) by:		
Operating Activities	\$ (27,919)	\$ (30,726)
Noncapital Financing Activities	29,793	32,126
Capital and Related Financing Activities	(1,921)	300
Investing Activities	<u>145</u>	<u>64</u>
Net Increase in Cash and Cash Equivalents	98	1,764
Cash and Cash Equivalents, Beginning of Year	<u>17,494</u>	<u>15,730</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 17,592</u></u>	<u><u>\$ 17,494</u></u>

Major sources of funds came from State noncapital appropriations (\$19.6 million), net student tuition and fees (\$9.3 million), Federal and State student financial aid (\$6.6 million), gifts and grants received for other than capital or endowment purposes (\$3.5 million), and grants and contracts (\$3 million). Major uses of funds were for payments to employees and for employee benefits (\$26.1 million), payments to suppliers (\$9.2 million), and payments for scholarships (\$5 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
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Capital Assets

At June 30, 2017, the College had \$183.8 million in capital assets, less accumulated depreciation of \$73.4 million, for net capital assets of \$110.4 million. Depreciation charges for the current fiscal year totaled \$6.4 million. The following table summarizes the College's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30		
(In Thousands)		
	<u>2017</u>	<u>2016</u>
Land	\$ 2,909	\$ 2,909
Capitalized Collections	755	755
Software License	232	232
Construction in Progress	105	851
Buildings	101,446	104,642
Other Structures and Improvements	3,725	2,394
Furniture, Machinery, and Equipment	1,117	1,070
Assets Under Capital Lease	123	185
Computer Software	<u>-</u>	<u>1,778</u>
Capital Assets, Net	<u><u>\$ 110,412</u></u>	<u><u>\$ 114,816</u></u>

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

Capital Expenses and Commitments

Capital expenses through June 30, 2017, were incurred on the following projects: An expansion of the College's welding lab and the Allied Health Simulation Lab in building 420 due to growth and opportunities in those programs. The College's construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	\$ 318
Completed to Date	105
Balance Committed	\$ 213

Debt Administration

As of June 30, 2017, the College had \$0.9 million in outstanding bonds payable, note payable, and capital lease payable, representing a decrease of \$2.4 million, or 72.4 percent, from the prior fiscal year. This decrease was due primarily to the early retirement of note payable debt. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	2017	2016
Bonds Payable	\$ 164	\$ 187
Note Payable	560	2,829
Capital Lease Payable	174	235
Total	\$ 898	\$ 3,251

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales and debt repayments totaled \$23,000. 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 2017-18 fiscal year. The Board of Trustees voted to maintain the same tuition rates for the 2017-18 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from the State and students may be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President, Administration and Chief Financial Officer, 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, 2017

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 5,658,960	\$ 521,105
Restricted Cash and Cash Equivalents	4,173,417	-
Restricted Investments	-	12,138,573
Accounts Receivable, Net	1,049,422	-
Notes Receivable, Net	1,064	-
Due from Other Governmental Agencies	344,546	-
Due from Component Unit	49,352	-
Inventories	24,543	-
Prepaid Expenses	406,469	19,101
Total Current Assets	11,707,773	12,678,779
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	7,759,608	-
Restricted Investments	3,873	32,174,232
Depreciable Capital Assets, Net	106,410,764	3,819,581
Nondepreciable Capital Assets	4,001,109	254,001
Total Noncurrent Assets	118,175,354	36,247,814
TOTAL ASSETS	129,883,127	48,926,593
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	5,574,488	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	155,338	8,650
Accrued Interest Payable	892	-
Salary and Payroll Taxes Payable	197,499	-
Due to College	-	49,352
Unearned Revenue	1,431	-
Deposits Held for Others	398,978	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	17,000	-
Note Payable	162,781	-
Capital Lease Payable	63,376	-
Special Termination Benefits Payable	97,588	-
Compensated Absences Payable	67,789	-
Net Pension Liability	164,289	-
Total Current Liabilities	1,326,961	58,002

NORTHWEST FLORIDA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	<u>College</u>	<u>Component Unit</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	147,000	-
Note Payable	397,536	-
Capital Lease Payable	110,522	-
Special Termination Benefits Payable	52,927	-
Compensated Absences Payable	3,321,685	-
Other Postemployment Benefits Payable	345,324	-
Net Pension Liability	14,312,058	-
Total Noncurrent Liabilities	<u>18,687,052</u>	<u>-</u>
TOTAL LIABILITIES	<u>20,014,013</u>	<u>58,002</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>923,183</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	109,880,606	4,073,582
Restricted:		
Nonexpendable:		
Endowment	-	35,217,256
Expendable:		
Grants and Loans	4,263,976	-
Scholarships	30,568	-
Capital Projects	7,983,793	-
Debt Service	3,873	-
Other	-	12,138,573
Unrestricted	<u>(7,642,397)</u>	<u>(2,560,820)</u>
TOTAL NET POSITION	<u>\$ 114,520,419</u>	<u>\$ 48,868,591</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 Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$2,762,865	\$ 8,778,267	\$ -
Federal Grants and Contracts	25,130	-
State and Local Grants and Contracts	2,244,205	-
Nongovernmental Grants and Contracts	498,220	-
Sales and Services of Educational Departments	196,344	-
Auxiliary Enterprises	1,485,844	-
Other Operating Revenues	446,864	619,052
Total Operating Revenues	<u>13,674,874</u>	<u>619,052</u>
EXPENSES		
Operating Expenses:		
Personnel Services	26,180,682	-
Scholarships and Waivers	4,977,829	478,062
Utilities and Communications	1,863,130	117,105
Contractual Services	3,065,381	-
Other Services and Expenses	2,488,886	2,031,225
Materials and Supplies	3,740,543	16,025
Depreciation	6,378,383	168,256
Total Operating Expenses	<u>48,694,834</u>	<u>2,810,673</u>
Operating Loss	<u>(35,019,960)</u>	<u>(2,191,621)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,614,815	-
Federal and State Student Financial Aid	6,639,284	-
Gifts and Grants	3,538,724	404,603
Investment Income	144,136	1,281,323
Net Gain on Investments	-	3,996,821
Other Nonoperating Revenues	96,820	73,776
Interest on Capital Asset-Related Debt	(49,908)	-
Net Nonoperating Revenues	<u>29,983,871</u>	<u>5,756,523</u>
Income (Loss) Before Other Revenues	<u>(5,036,089)</u>	<u>3,564,902</u>
State Capital Appropriations	929,241	-
Capital Grants, Contracts, Gifts, and Fees	1,401,352	-
Additions to Permanent Endowments	-	261,117
Total Other Revenues	<u>2,330,593</u>	<u>261,117</u>
Increase (Decrease) in Net Position	<u>(2,705,496)</u>	<u>3,826,019</u>
Net Position, Beginning of Year	<u>117,225,915</u>	<u>45,042,572</u>
Net Position, End of Year	<u>\$ 114,520,419</u>	<u>\$ 48,868,591</u>

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

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NORTHWEST FLORIDA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 9,344,222
Grants and Contracts	3,010,351
Payments to Suppliers	(9,212,960)
Payments for Utilities and Communications	(1,863,130)
Payments to Employees	(21,229,647)
Payments for Employee Benefits	(4,843,639)
Payments for Scholarships	(4,977,829)
Auxiliary Enterprises	1,173,573
Sales and Services of Educational Departments	196,344
Other Receipts	484,027
Net Cash Used by Operating Activities	<u>(27,918,688)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,614,815
Federal and State Student Financial Aid	6,639,284
Federal Direct Loan Program Receipts	923,671
Federal Direct Loan Program Disbursements	(923,671)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,538,724
Net Cash Provided by Noncapital Financing Activities	<u>29,792,823</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	841,008
Capital Grants and Gifts	1,444,299
Proceeds from Sale of Capital Assets	96,820
Purchases of Capital Assets	(1,900,068)
Principal Paid on Capital Debt and Leases	(2,353,214)
Interest Paid on Capital Debt and Leases	(49,908)
Net Cash Used by Capital and Related Financing Activities	<u>(1,921,063)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	892
Investment Income	144,136
Net Cash Provided by Investing Activities	<u>145,028</u>
Net Increase in Cash and Cash Equivalents	98,100
Cash and Cash Equivalents, Beginning of Year	17,493,885
Cash and Cash Equivalents, End of Year	<u><u>\$ 17,591,985</u></u>

NORTHWEST FLORIDA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2017

	<u>College</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (35,019,960)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	6,378,383
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	484,428
Inventories	5,209
Prepaid Expenses	(15,228)
Accounts Payable	103,921
Salaries and Payroll Taxes Payable	98,036
Deposits Held for Others	37,163
Special Termination Benefits Payable	(78,360)
Compensated Absences Payable	(438,282)
Other Postemployment Benefits Payable	29,739
Net Pension Liability	4,503,122
Deferred Outflows of Resources Related to Pensions	(3,212,734)
Deferred Inflows of Resources Related to Pensions	(794,125)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (27,918,688)</u></u>

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

NOTES TO FINANCIAL STATEMENTS

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 College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of eight members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education (SBE) rules. However, the 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 SBE rules. The College serves 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 Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based on 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 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.

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 and can be obtained from the Vice President of College Advancement, Northwest Florida State College, 100 College Boulevard, Niceville, Florida 32578. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2017.

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:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - o Statement of Net Position
 - o Statement of Revenues, Expenses, and Changes in Net Position
 - o Statement of Cash Flows
 - o Notes to Financial Statements
- Other Required Supplementary Information

Measurement Focus and Basis of Accounting. Basis of accounting refers to when revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 the accrual basis of accounting, 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, and investment income. Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

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 party making payment on behalf of the student. To the extent these resources

are used to pay student charges, the College records a scholarship allowance against student tuition and fees.

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 State Board of Administration (SBA) Florida PRIME investments. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less, that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the Florida PRIME investment pools 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, 2017, the College reported as cash equivalents \$12,839,277 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, 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 39 days as of June 30, 2017. 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 amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the

trustees exceed 15 days.” As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant’s daily access to 100 percent of their account value.

Inventories. Inventories consist of items for resale by the College’s Graphic Services department, and are valued using the last invoice cost, which approximates the first-in, first-out, method of inventory valuation. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - o Computer Equipment – 3 years
 - o Vehicles, Athletic and Minor Equipment – 5 years
 - o Office Furniture and Equipment – 7 years
 - o Educational Furniture and Equipment – 7 to 10 years
- Assets Under Capital Lease – 5 years
- Computer Software – 5 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, note payable, capital lease payable, special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liability that are not scheduled to be paid within the next fiscal year.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

The College reported an unrestricted net position which included a deficit in the current funds - unrestricted, as shown below. This deficit can be attributed to the full recognition of long-term liabilities (i.e., special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liability) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (9,039,267)
Auxiliary Funds	1,396,870
Total	<u><u>\$ (7,642,397)</u></u>

3. Investments

The 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 SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; 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; and other investments approved by the 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.

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

State Board of Administration Debt Service Accounts

The College reported investments totaling \$3,873 at June 30, 2017, 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 6 months or less, and are reported at fair value (Level 1 inputs). The College relies on policies developed by the SBA for managing interest rate risk and 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

The Foundation's investments are managed in accordance with an investment policy. The investment policy sets target allocations of investments of 25 percent to 45 percent for fixed income, 45 percent to

65 percent for equities, 5 to 15 percent for alternative investments, and 2 to 8 percent of financial assets, primarily stock funds, bonds or bond funds, and cash equivalents.

The investments held by the Foundation at June 30, 2017, are reported at fair value as follows:

Investments by fair value level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 1,272,721	\$ 1,272,721	\$ -	\$ -
United States Government and Federally Guaranteed Bonds	7,983,977	-	7,983,977	-
Equity Mutual Funds	32,680,867	27,880,672	-	4,800,195
Life Insurance/Annuities	2,375,240	-	-	2,375,240
Total investments by fair value level	<u>\$ 44,312,805</u>	<u>\$ 29,153,393</u>	<u>\$ 7,983,977</u>	<u>\$ 7,175,435</u>

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 2 years. No more than 25 percent may be invested in instruments that have maturities greater than 2 years and less than 5 years, and no more than 25 percent may be invested in instruments that have maturities greater than 5 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, 2017, 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 (included in equity mutual funds above) held by the Foundation at June 30, 2017, were rated as follows: \$3,732,970 AAA to A- and \$2,348,640 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, 2017, the Foundation does not have a concentration of credit risk.

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

4. 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. The accounts receivable are reported net of a \$144,217 allowance for doubtful accounts.

5. Notes Receivable

Notes receivable represent student loans made under the short-term loan program. Notes receivable are reported net of a \$305 allowance for doubtful notes.

6. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 2,908,883	\$ -	\$ -	\$ -	\$ 2,908,883
Capitalized Collections	755,453	-	-	-	755,453
Software License	232,150	-	-	-	232,150
Construction in Progress	851,482	-	104,623	851,482	104,623
Total Nondepreciable Capital Assets	\$ 4,747,968	\$ -	\$ 104,623	\$ 851,482	\$ 4,001,109
Depreciable Capital Assets:					
Buildings	\$ 156,941,419	\$ -	\$ 286,661	\$ -	\$ 157,228,080
Other Structures and Improvements	6,995,241	-	2,001,856	-	8,997,097
Furniture, Machinery, and Equipment	6,285,980	-	358,410	552,952	6,091,438
Assets Under Capital Lease	308,303	-	-	-	308,303
Computer Software	7,226,006	-	-	-	7,226,006
Total Depreciable Capital Assets	177,756,949	-	2,646,927	552,952	179,850,924
Less, Accumulated Depreciation:					
Buildings	52,299,118	14,012	3,469,789	-	55,782,919
Other Structures and Improvements	4,601,884	-	670,049	-	5,271,933
Furniture, Machinery, and Equipment	5,216,239	(87,412)	398,449	552,952	4,974,324
Assets Under Capital Lease	123,322	-	61,661	-	184,983
Computer Software	5,447,570	(4)	1,778,435	-	7,226,001
Total Accumulated Depreciation	67,688,133	(73,404)	6,378,383	552,952	73,440,160
Total Depreciable Capital Assets, Net	\$ 110,068,816	\$ 73,404	\$ (3,731,456)	\$ -	\$ 106,410,764

Note: (1) Adjustments were made to correct errors in the depreciation schedules for certain assets.

7. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable	\$ 187,000	\$ -	\$ 23,000	\$ 164,000	\$ 17,000
Note Payable	2,829,270	-	2,268,953	560,317	162,781
Capital Lease Payable	235,159	-	61,261	173,898	63,376
Special Termination Benefits Payable	228,875	137,040	215,400	150,515	97,588
Compensated Absences Payable	3,827,756	15,417	453,699	3,389,474	67,789
Other Postemployment Benefits Payable	315,585	47,335	17,596	345,324	-
Net Pension Liability	9,973,225	7,379,741	2,876,619	14,476,347	164,289
Total Long-Term Liabilities	\$ 17,596,870	\$ 7,579,533	\$ 5,916,528	\$ 19,259,875	\$ 572,823

Bonds Payable. The 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, 2017:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
SBE Capital Outlay Bonds: Series 2014A	<u>\$ 164,000</u>	3 - 5	2025

Annual requirements to amortize all bonded debt outstanding as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>SBE Capital Outlay Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 17,000	\$ 7,720	\$ 24,720
2019	18,000	6,870	24,870
2020	19,000	5,970	24,970
2021	20,000	5,020	25,020
2022	21,000	4,020	25,020
2023-2025	69,000	5,560	74,560
Total	\$ 164,000	\$ 35,160	\$ 199,160

Note Payable. On September 23, 2015, the College borrowed \$662,703, at an imputed interest rate of 2.22 percent, to finance the cost of a portion of a software license and related support services. The note matures on November 24, 2019, and principal and interest payments are made annually. Annual requirements to amortize the outstanding note as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 162,781	\$ 37,916	\$ 200,697
2019	174,549	26,148	200,697
2020	222,987	16,530	239,517
Total	\$ 560,317	\$ 80,594	\$ 640,911

Capital Lease Payable. Telephone equipment in the amount of \$308,303 is being acquired under a capital lease agreement. The stated interest rate is 3.397 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2017, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 68,302
2019	68,302
2020	45,534
Total Minimum Payments	182,138
Less, Amount Representing Interest	8,240
Present Value of Minimum Payments	\$ 173,898

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 \$150,515 as of June 30, 2017, for seven employees who gave notice to retire under the Program, of which \$97,588 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, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$3,389,474. The current portion of the compensated absences liability, \$67,789, 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 health, dental, vision, and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB 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 OPEB 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 (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 OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB 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 OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 78 retirees received postemployment healthcare benefits. The College provided required contributions of \$17,596 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$84,792, which represents 0.5 percent of covered payroll.

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 OPEB Plan, and changes in the College's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 30,682
Amortization of Unfunded Actuarial Accrued Liability	15,691
Annual Required Contribution	46,373
Interest on Net OPEB Obligation	12,623
Adjustment to Annual Required Contribution	(11,661)
Annual OPEB Cost (Expense)	47,335
Contribution Toward the OPEB Cost	(17,596)
Increase in Net OPEB Obligation	29,739
Net OPEB Obligation, Beginning of Year	315,585
Net OPEB Obligation, End of Year	<u><u>\$ 345,324</u></u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 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>
2014-15	\$ 46,419	41.1%	\$ 281,840
2015-16	44,759	24.6%	315,585
2016-17	47,335	37.2%	345,324

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was \$389,633 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$389,633 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$15,700,325 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.5 percent.

Actuarial valuations for an OPEB 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. Actuarially determined amounts regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB 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 OPEB 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 calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. This method was selected in anticipation of the change outlined in GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. 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 3.25 percent per year, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent beginning with the 2020-21 fiscal year for pre-Medicare and the 2017-18 fiscal year 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, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the College recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the College's proportionate share of the net pension liabilities totaled \$14,476,347. Note 8. includes a complete discussion of defined benefit pension plans.

8. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the HIS Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees of State colleges.

Essentially all regular employees of the College are eligible to enroll as members of the State-administered 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 FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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 Web site (www.dms.myflorida.com).

The College's FRS and HIS pension expense totaled \$1,652,019 for the fiscal year ended June 30, 2017.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service, and employees enrolled in the Plan on or after July 1, 2011, vest at 8 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 except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 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 except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan 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 to eligible participants.

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-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<u>Senior Management Service Class</u>	2.00
<u>Special Risk Class</u>	
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and had service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

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

The College's contributions to the Plan totaled \$914,524 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of \$8,985,773 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined

by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.035587109 percent, which was a decrease of 0.003019986 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$1,260,580. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 688,020	\$ 83,664
Change of assumptions	543,612	-
Net difference between projected and actual earnings on FRS Plan investments	2,322,713	-
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	-	507,034
College FRS contributions subsequent to the measurement date	914,524	-
Total	\$ 4,468,869	\$ 590,698

The deferred outflows of resources \$914,524, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 368,509
2019	368,509
2020	1,274,047
2021	863,402
2022	71,042
Thereafter	18,138
Total	\$ 2,963,647

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
College's proportionate share of the net pension liability	\$16,543,416	\$8,985,773	\$2,695,033

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled \$241,232 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a net pension liability of \$5,490,574 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.047110843 percent, which was a decrease of 0.001784944 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the College recognized pension expense of \$391,439. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 12,506
Change of assumptions	861,611	-
Net difference between projected and actual earnings on HIS Plan investments	2,776	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	319,979
College contributions subsequent to the measurement date	241,232	-
Total	<u>\$ 1,105,619</u>	<u>\$ 332,485</u>

The deferred outflows of resources totaling \$241,232, resulting from College contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ 87,787
2019	87,787
2020	87,258
2021	87,005
2022	98,566
Thereafter	83,499
Total	<u>\$ 531,902</u>

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was

adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
College's proportionate share of the net pension liability	\$6,298,935	\$5,490,574	\$4,819,677

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

9. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

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. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The College's Investment Plan pension expense totaled \$236,259 for the fiscal year ended June 30, 2017.

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 8 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 5.15 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.99 percent, 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.

The College's contributions to the Program totaled \$121,792 and employee contributions totaled \$70,947 for the 2016-17 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 10 percent or 13.5 percent, dependent on position, of the employee's salary to the Local Annuity Program. The participants may make contributions toward the Local Annuity Program by way of salary reduction or by deduction of a percentage of the employee's gross compensation not to exceed the percentage contributed by the employer.

The College's contributions to the Local Annuity Program totaled \$39,803 for the 2016-17 fiscal year.

10. 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 purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to \$200 million for property insurance. 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 3 fiscal years.

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

11. 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	\$ 14,471,835
Public Services	818,362
Academic Support	3,469,595
Student Services	3,554,784
Institutional Support	7,082,558
Operation and Maintenance of Plant	6,741,195
Scholarships and Waivers	4,977,829
Depreciation	6,378,383
Auxiliary Enterprises	1,200,293
Total Operating Expenses	\$ 48,694,834

12. Subsequent Event

On January 22, 2018, the College entered into a \$22,237,083 energy equipment lease/purchase agreement bearing interest at a fixed rate of 2.649 percent and maturing on May 1, 2034.

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]
7/1/2011	\$ -	\$ 366,500	\$ 366,500	0%	\$ 15,489,857	2.4%
7/1/2013	-	404,125	404,125	0%	14,787,636	2.7%
7/1/2015	-	389,633	389,633	0%	15,210,998	2.6%

Note: (1) The OPEB actuarial valuation used the projected unit credit actuarial valuation method in the 7/1/2011, and 7/1/2013, valuations and the entry age normal actuarial valuation method in the 7/1/2015, valuation to estimate the actuarial accrued liability.

Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the FRS net pension liability	0.035587109%	0.038607095%	0.038845457%	0.040206490%
College's proportionate share of the FRS net pension liability	\$ 8,985,773	\$ 4,986,624	\$ 2,370,144	\$ 6,921,326
College's covered payroll (2)	\$ 17,138,610	\$ 18,000,576	\$ 17,622,678	\$ 18,134,771
College's proportionate share of the FRS net pension liability as a percentage of its covered payroll	52.43%	27.70%	13.45%	38.17%
FRS Plan fiduciary net position as a percentage of the total pension liability	84.88%	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State college system optional retirement plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of College Contributions –
Florida Retirement System Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required FRS contribution	\$ 914,524	\$ 867,848	\$ 941,274	\$ 850,880
FRS contributions in relation to the contractually required contribution	(914,524)	(867,848)	(971,274)	(850,880)
FRS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 16,938,197	\$ 17,138,610	\$ 18,000,576	\$ 17,622,678
FRS contributions as a percentage of covered payroll	5.40%	5.06%	5.23%	4.83%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State college system optional retirement plan members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of the College's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan**

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
College's proportion of the HIS net pension liability	0.047110843%	0.048895787%	0.049011107%	0.052321728%
College's proportionate share of the HIS net pension liability	\$ 5,490,574	\$ 4,986,601	\$ 4,582,658	\$ 4,555,294
College's covered payroll (2)	\$ 17,138,610	\$ 18,000,576	\$ 17,622,678	\$ 18,134,771
College's proportionate share of the HIS net pension liability as a percentage of its covered payroll	32.04%	27.70%	26.00%	25.12%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.97%	0.50%	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of College Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 241,232	\$ 241,473	\$ 186,910	\$ 167,896
HIS contributions in relation to the contractually required HIS contribution	(241,232)	(241,473)	(186,910)	(167,896)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll (2)	\$ 14,564,136	\$ 17,138,610	\$ 18,000,576	\$ 17,622,678
HIS contributions as a percentage of covered payroll	1.66%	1.41%	1.04%	0.95%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**1. Schedule of Net Pension Liability and Schedule of Contributions –
Florida Retirement System Pension Plan**

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

**2. Schedule of Net Pension Liability and Schedule of Contributions –
Health Insurance Subsidy Pension Plan**

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2017, 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 8, 2018, 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 from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 8, 2018