State of Florida Auditor General

Financial Audit

Report No. 2019-148
March 2019

NORTHWEST FLORIDA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2018

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2017-18 fiscal year, Dr. Devin Stephenson served as President of Northwest Florida State College and the following individuals served as Members of the Board of Trustees:

[a] Trustee position vacant from 7-1-17, through 2-19-18.
[b] Vice Chair position vacant from 6-1-18, through 6-25-18.
[c] Trustee position vacant from 11-30-17, through 6-27-18.
[d] Trustee position vacant from 12-23-17, through 2-19-18.

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 Barbara J. Sturdivant, 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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State of Florida Auditor General

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NORTHWEST FLORIDA STATE COLLEGE

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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

We noted a certain matter involving the College's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness.

Significant Deficiency

Finding No. 2018-001: College procedures need improvement to ensure that account balances and transactions associated with State capital appropriations are properly recorded and reported.

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, 2018. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
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Tallahassee, Florida 32399-1450

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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, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2. to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is a change in accounting principle that addresses accounting and financial reporting for other postemployment benefits. This affects the comparability of amounts reported for the 2017-18 fiscal year with amounts reported for the 2016-17 fiscal year. Our opinion is not modified with respect to this matter.

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 Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios**, **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 our report dated March 12, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

Sherrill F. Norman, CPA
Tallahassee, Florida
March 12, 2019

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, 2018, 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, 2018, and June 30, 2017.

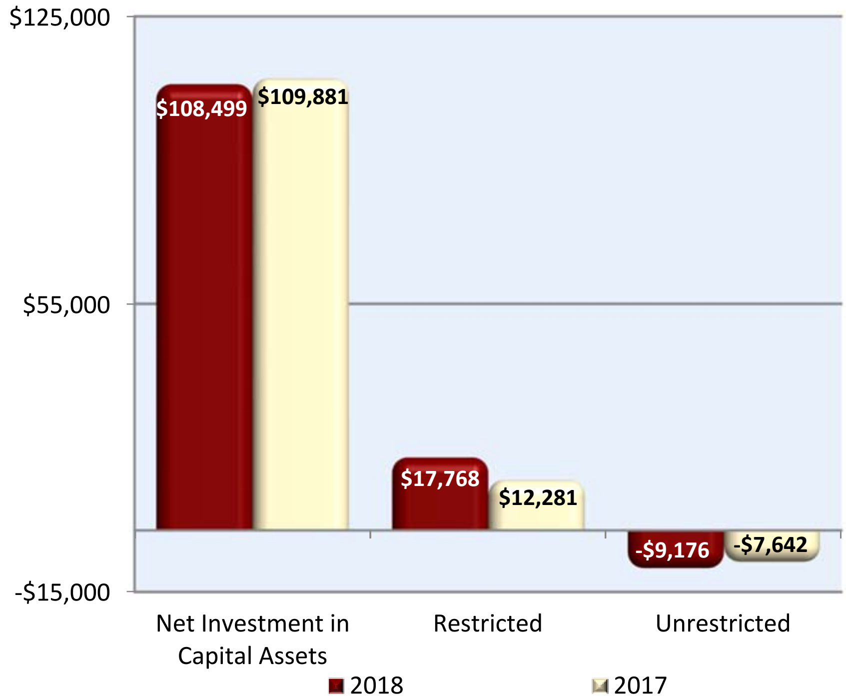
FINANCIAL HIGHLIGHTS

The College's assets and deferred outflows of resources totaled $162.5 million at June 30, 2018. This balance reflects a $27 million, or 19.9 percent, increase as compared to the 2016-17 fiscal year, resulting mainly from new debt proceeds and capital assets related to a new energy performance-based contract, and capital appropriations due from the State. While assets and deferred outflows of resources grew, liabilities and deferred inflows of resources increased by $24.4 million, or 116.7 percent, totaling $45.4 million at June 30, 2018, resulting mainly from new debt related to a new energy performance-based contract. As a result, the College's net position increased by $2.6 million, resulting in a fiscal year-end balance of $117.1 million.

The College's operating revenues totaled $13.1 million for the 2017-18 fiscal year, representing a 4.4 percent decrease compared to the 2016-17 fiscal year. Operating expenses totaled $48.3 million for the 2017-18 fiscal year, representing only the slightest decrease as compared to the 2016-17 fiscal year of $48.7 million.

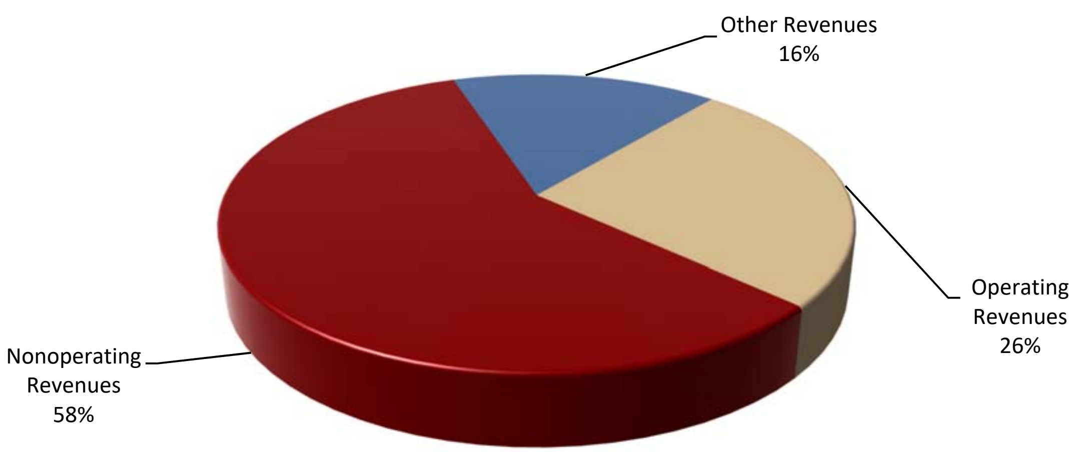
Net position represents the residual interest in the College's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The College's comparative total net position by category for the fiscal years ended June 30, 2018, and June 30, 2017, is shown in the following graph:

Net Position
(In Thousands)



The following chart provides a graphical presentation of College revenues by category for the 2017-18 fiscal year:

Total Revenues
2017-18 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, the 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 and its component unit, using the accrual basis of accounting, and presents the financial position of the College and its component unit 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 and its component unit's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the College's and its component unit's financial condition.

The following summarizes the 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	
	2018	**2017**	**2018**	**2017**
Assets				
Current Assets	$ 27,077	$ 11,708	$ 14,653	$ 12,679
Capital Assets, Net	121,508	110,412	3,907	4,074
Other Noncurrent Assets	7,545	7,763	32,919	32,174
Total Assets	156,130	129,883	51,479	48,927
Deferred Outflows of Resources	6,336	5,574	-	-
Liabilities				
Current Liabilities	2,457	1,327	97	58
Noncurrent Liabilities	41,316	18,687	-	-
Total Liabilities	43,773	20,014	97	58
Deferred Inflows of Resources	1,602	923	-	-
Net Position				
Net Investment in Capital Assets	108,499	109,881	3,907	4,074
Restricted	17,768	12,281	49,663	47,356
Unrestricted	(9,176)	(7,642)	(2,188)	(2,561)
Total Net Position	$ 117,091	$ 114,520	$ 51,382	$ 48,869

The increase of $15.4 million in College current assets is mainly due to the new debt proceeds related to a new energy performance-based contract, and capital appropriations due from the State. The increase of $11.1 million in College capital assets is mainly due to construction in progress associated with a new energy performance-based contract. The increase of $22.6 million in College noncurrent liabilities is mainly due to the new debt related to a new energy performance-based contract.

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the College's and its component unit'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 College's and its component unit's activity for the 2017-18 and 2016-17 fiscal years:

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

(In Thousands)

	College		Component Unit	
	2017-18	**2016-17**	**2017-18**	**2016-17**
Operating Revenues	$ 13,067	$ 13,675	$ 625	$ 619
Less, Operating Expenses	48,294	48,695	2,883	2,811
Operating Loss	(35,227)	(35,020)	(2,258)	(2,192)
Net Nonoperating Revenues	29,534	29,984	4,619	5,757
Income (Loss) Before Other Revenues	(5,693)	(5,036)	2,361	3,565
Other Revenues	8,248	2,330	152	261
Net Increase (Decrease) In Net Position	2,555	(2,706)	2,513	3,826
Net Position, Beginning of Year	114,520	117,226	48,869	45,043
Adjustment to Beginning Net Position (1)	16	-	-	-
Net Position, Beginning of Year, as Restated	114,536	117,226	48,869	45,043
Net Position, End of Year	$ 117,091	$ 114,520	$ 51,382	$ 48,869

(1) For the 2017-18 fiscal year, the College's beginning net position was increased due to the adoption of GASB Statement No. 75 related to other postemployment benefits.

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 2017-18 and 2016-17 fiscal years:

Operating Revenues
For the Fiscal Years

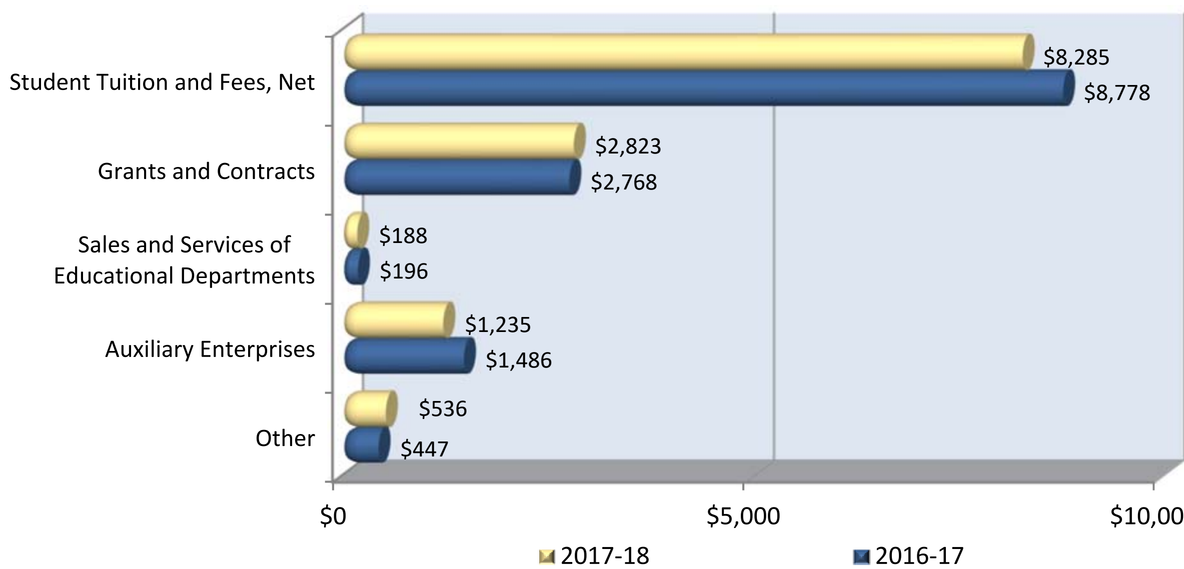
(In Thousands)

	College		Component Unit	
	2017-18	**2016-17**	**2017-18**	**2016-17**
Student Tuition and Fees, Net	$ 8,285	$ 8,778	$ -	$ -
Grants and Contracts	2,823	2,768	-	-
Sales and Services of Educational Departments	188	196	-	-
Auxiliary Enterprises	1,235	1,486	-	-
Other	536	447	625	619
Total Operating Revenues	$ 13,067	$ 13,675	$ 625	$ 619

The following chart presents the College's operating revenues for the 2017-18 and 2016-17 fiscal years:

Operating Revenues

(In Thousands)



College operating revenue changes were mainly the result of the slight decline in student tuition 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 2017-18 and 2016-17 fiscal years:

Operating Expenses
For the Fiscal Years

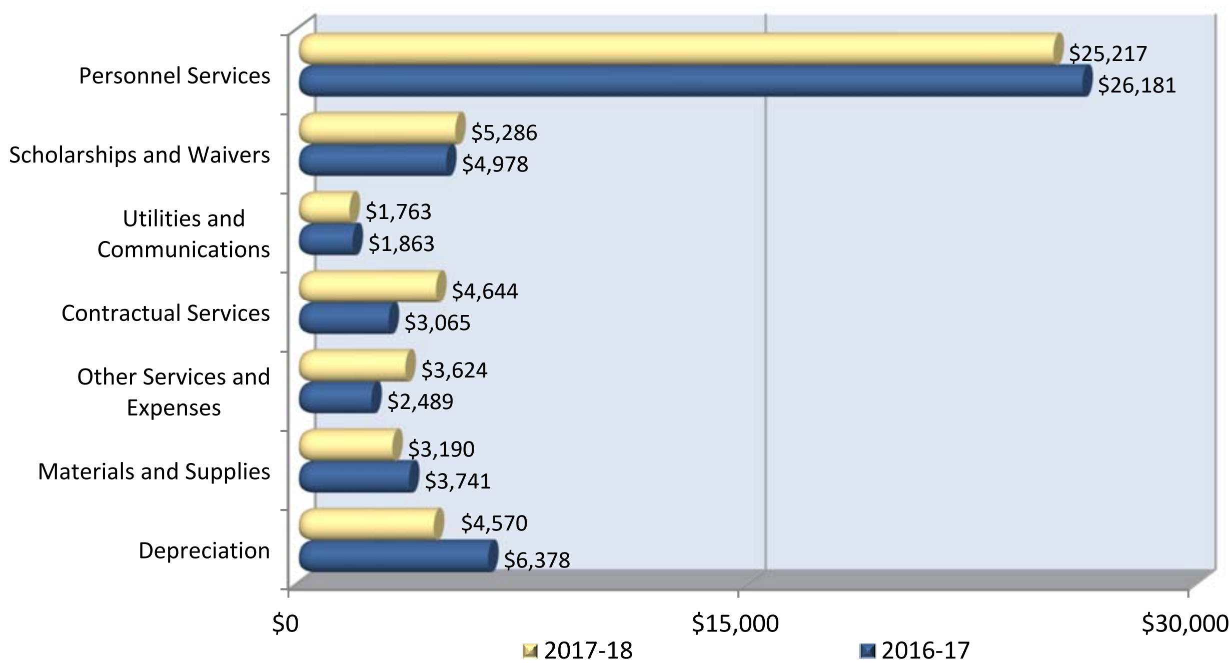
(In Thousands)

	College		**Component Unit**	
	2017-18	**2016-17**	**2017-18**	**2016-17**
Personnel Services	$ 25,217	$ 26,181	$ -	$ -
Scholarships and Waivers	5,286	4,978	439	478
Utilities and Communications	1,763	1,863	118	117
Contractual Services	4,644	3,065	-	-
Other Services and Expenses	3,624	2,489	2,113	2,031
Materials and Supplies	3,190	3,741	46	16
Depreciation	4,570	6,378	167	169
Total Operating Expenses	$ 48,294	$ 48,695	$ 2,883	$ 2,811

The following chart presents the College's operating expenses for the 2017-18 and 2016-17 fiscal years:

Operating Expenses

(In Thousands)



College operating expense changes were mainly the result of the following factors: Contractual Services increased $1.6 million due primarily to increased consulting, custodial and grounds, and grant writing expenses. Depreciation decreased $1.8 million due to older assets being fully depreciated.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, certain gifts and grants, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College's nonoperating revenues and expenses for the 2017-18 and 2016-17 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
State Noncapital Appropriations	$ 19,003	$ 19,615
Federal and State Student Financial Aid	7,186	6,639
Gifts and Grants	3,124	3,539
Investment Income	253	144
Other Nonoperating Revenues	-	97
Interest on Capital Asset-Related Debt	(32)	(50)
Net Nonoperating Revenues	$ 29,534	$ 29,984

Nonoperating revenues did not change significantly from the prior 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 2017-18 and 2016-17 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2017-18	**2016-17**
State Capital Appropriations	$ 6,722	$ 929
Capital Grants, Contracts, Gifts, and Fees	1,526	1,401
Total	$ 8,248	$ 2,330

The increase in State capital appropriations totaling $5.8 million is mainly due to Public Education Capital Outlay funds appropriated for capital projects started during the current 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 2017-18 and 2016-17 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2017-18	2016-17
Cash Provided (Used) by:		
Operating Activities	$ (30,060)	$ (27,919)
Noncapital Financing Activities	29,313	29,793
Capital and Related Financing Activities	10,252	(1,921)
Investing Activities	253	145
Net Increase in Cash and Cash Equivalents	9,758	98
Cash and Cash Equivalents, Beginning of Year	17,592	17,494
Cash and Cash Equivalents, End of Year	$ 27,350	$ 17,592

Major sources of funds are proceeds from capital debt ($22.2 million), State noncapital appropriations ($19 million), net student tuition and fees ($8.4 million), Federal and State student financial aid ($7.2 million), and grants, contracts, and gifts ($6.1 million). Major uses of funds were for payments to employees and for employee benefits ($24.6 million), purchases of capital assets ($14.4 million), payments to providers of goods and services ($11.4 million), and payments for scholarships ($5.3 million).

Cash and cash equivalents increased by $9.8 million during the 2017-18 fiscal year mainly due to proceeds from new capital debt which were offset by purchases of capital assets relating to a new energy performance-based contract.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the College had $199.5 million in capital assets, less accumulated depreciation of $78 million, for net capital assets of $121.5 million. Depreciation charges for the current fiscal year totaled $4.6 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)

	2018	2017
Land	$ 2,909	$ 2,909
Capitalized Collections	755	755
Software License	232	232
Construction in Progress	15,167	105
Buildings	98,092	101,446
Other Structures and Improvements	3,213	3,725
Furniture, Machinery, and Equipment	1,079	1,117
Assets Under Capital Lease	61	123
Capital Assets, Net	$ 121,508	$ 110,412

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

Capital Expenses and Commitments

Major capital expenses through June 30, 2018, were incurred on the following projects: capital improvements from an energy performance-based contract; renovations of the Student Services Center, Building 400; and the Engineering Tech Lab, Building 310. The College's construction commitments at June 30, 2018, are as follows:

	Amount (In Thousands)
Total Committed	$ 34,619
Completed to Date	15,159
Balance Committed	$ 19,460

Additional information about the College's construction commitments is presented in the notes to financial statements.

Debt Administration

As of June 30, 2018, the College had $22.9 million in outstanding bonds payable, notes payable, and capital lease payable, representing an increase of $22 million mainly due to the new debt related to a new energy performance-based contract. 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)

	2018	2017
Bonds Payable	$ 147	$ 164
Notes Payable	22,616	560
Capital Lease Payable	111	174
Total	$ 22,874	$ 898

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. During the 2017-18 fiscal year, there were no bond sales and debt repayments totaled $17,000. 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 2018-19 fiscal year. The Board of Trustees voted to maintain the same tuition rates for the 2018-19 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President of Administration, Chief Financial Officer, Northwest Florida State College, 100 College Boulevard, Niceville, Florida 32578.

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

June 30, 2018

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 4,634,475	$ 338,552
Restricted Cash and Cash Equivalents	15,170,521	-
Restricted Investments	4,464	14,293,879
Accounts Receivable, Net	1,025,816	-
Notes Receivable, Net	1,369	-
Due from Other Governmental Agencies	5,833,530	-
Due from Component Unit	37,005	-
Inventories	27,386	-
Prepaid Expenses	342,771	20,467
Total Current Assets	27,077,337	14,652,898
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	7,544,990	-
Restricted Investments	-	32,919,620
Depreciable Capital Assets, Net	102,445,327	3,652,848
Nondepreciable Capital Assets	19,063,225	254,001
Total Noncurrent Assets	129,053,542	36,826,469
TOTAL ASSETS	156,130,879	51,479,367
DEFERRED OUTFLOWS OF RESOURCES		
Other Postemployment Benefits	11,533	-
Pensions	6,324,209	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,335,742	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	136,115	59,982
Accrued Interest Payable	892	-
Salary and Payroll Taxes Payable	140,152	-
Construction Contracts Payable	1,261,729	-
Due to College	-	37,005
Unearned Revenue	74,531	-
Deposits Held for Others	202,329	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	18,000	-
Notes Payable	189,438	-
Capital Lease Payable	65,562	-
Special Termination Benefits Payable	163,173	-
Compensated Absences Payable	63,062	-
Other Postemployment Benefits Payable	11,533	-
Net Pension Liability	131,125	-
Total Current Liabilities	2,457,641	96,987

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

June 30, 2018

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	129,000	-
Notes Payable	22,426,521	-
Capital Lease Payable	44,960	-
Special Termination Benefits Payable	149,724	-
Compensated Absences Payable	3,090,039	-
Other Postemployment Benefits Payable	341,436	-
Net Pension Liability	15,133,952	-
Total Noncurrent Liabilities	41,315,632	-
TOTAL LIABILITIES	43,773,273	96,987
DEFERRED INFLOWS OF RESOURCES		
Other Postemployment Benefits	13,426	-
Pensions	1,588,770	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,602,196	-
NET POSITION		
Net Investment in Capital Assets	108,499,495	3,906,849
Restricted:		
Nonexpendable:		
Endowment	-	35,369,318
Expendable:		
Grants and Loans	4,387,329	-
Scholarships	93,331	-
Capital Projects	13,019,230	-
Debt Service	267,281	-
Other	-	14,293,879
Unrestricted	(9,175,514)	(2,187,666)
TOTAL NET POSITION	$ 117,091,152	$ 51,382,380

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 Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2018

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $2,985,001	$ 8,284,815	$ -
Federal Grants and Contracts	3,185	-
State and Local Grants and Contracts	2,157,927	-
Nongovernmental Grants and Contracts	661,355	-
Sales and Services of Educational Departments	188,127	-
Auxiliary Enterprises	1,235,012	-
Other Operating Revenues	536,268	625,361
Total Operating Revenues	13,066,689	625,361
EXPENSES		
Operating Expenses:		
Personnel Services	25,217,219	-
Scholarships and Waivers	5,286,360	439,000
Utilities and Communications	1,762,915	117,958
Contractual Services	4,643,723	-
Other Services and Expenses	3,623,589	2,113,709
Materials and Supplies	3,190,075	45,761
Depreciation	4,570,353	166,733
Total Operating Expenses	48,294,234	2,883,161
Operating Loss	(35,227,545)	(2,257,800)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,003,277	-
Federal and State Student Financial Aid	7,185,870	-
Gifts and Grants	3,124,157	613,293
Investment Income	253,006	1,363,129
Net Gain on Investments	-	2,484,004
Other Nonoperating Revenues	-	159,101
Interest on Capital Asset-Related Debt	(31,902)	-
Net Nonoperating Revenues	29,534,408	4,619,527
Income (Loss) Before Other Revenues	(5,693,137)	2,361,727
State Capital Appropriations	6,722,063	-
Capital Grants, Contracts, Gifts, and Fees	1,526,133	-
Additions to Permanent Endowments	-	152,062
Total Other Revenues	8,248,196	152,062
Increase in Net Position	2,555,059	2,513,789
Net Position, Beginning of Year	114,520,419	48,868,591
Adjustment to Beginning Net Position	15,674	-
Net Position, Beginning of Year, as Restated	114,536,093	48,868,591
Net Position, End of Year	$ 117,091,152	$ 51,382,380

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

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

For the Fiscal Year Ended June 30, 2018

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 8,410,024
Grants and Contracts	3,025,410
Payments to Suppliers	(11,384,692)
Payments for Utilities and Communications	(1,762,915)
Payments to Employees	(19,955,042)
Payments for Employee Benefits	(4,663,707)
Payments for Scholarships	(5,286,360)
Loans to Students	(305)
Auxiliary Enterprises	1,029,556
Sales and Services of Educational Departments	188,127
Other Receipts	339,619
Net Cash Used by Operating Activities	(30,060,285)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,003,277
Federal and State Student Financial Aid	7,185,870
Federal Direct Loan Program Receipts	840,345
Federal Direct Loan Program Disbursements	(840,345)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	3,124,157
Net Cash Provided by Noncapital Financing Activities	29,313,304
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	22,237,083
State Capital Appropriations	1,147,159
Capital Grants and Gifts	1,566,756
Purchases of Capital Assets	(14,405,303)
Principal Paid on Capital Debt and Lease	(261,817)
Interest Paid on Capital Debt and Lease	(31,902)
Net Cash Provided by Capital and Related Financing Activities	10,251,976
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	253,006
Net Increase in Cash and Cash Equivalents	9,758,001
Cash and Cash Equivalents, Beginning of Year	17,591,985
Cash and Cash Equivalents, End of Year	$ 27,349,986

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

For the Fiscal Year Ended June 30, 2018

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$(35,227,545)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	4,570,353
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	120,978
Inventories	(2,843)
Prepaid Expenses	63,698
Accounts Payable	(59,847)
Salaries and Payroll Taxes Payable	(41,673)
Unearned Revenue	73,100
Deposits Held for Others	(196,649)
Special Termination Benefits Payable	162,382
Compensated Absences Payable	(236,373)
Other Postemployment Benefits Payable	7,645
Net Pension Liability	788,730
Deferred Outflows of Resources Related to Other Postemployment Benefits	(11,533)
Deferred Inflows of Resources Related to Other Postemployment Benefits	13,426
Deferred Outflows of Resources Related to Pensions	(749,721)
Deferred Inflows of Resources Related to Pensions	665,587
NET CASH USED BY OPERATING ACTIVITIES	$(30,060,285)

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, 2018.

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. 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:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
- Other Required Supplementary Information

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 accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, 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, cash with escrow agent, 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 SBA Florida PRIME investment pool to be cash equivalents.

College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets are classified as restricted.

At June 30, 2018, the College reported as cash equivalents $10,579,005 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 30 days as of June 30, 2018. 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, provides 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, 2018, 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 lease, 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:
  - Computer Equipment – 3 years
  - Vehicles, Athletic and Minor Equipment – 5 years
  - Office Furniture and Equipment – 7 years
  - 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, notes 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. 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. Reporting Change

The College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This statement addresses accounting and financial reporting for postemployment benefits other than pensions (OPEB) provided to employees of state and local government employers; establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses; requires governments to report a liability, deferred outflows of resources, deferred inflows of resources, and expenses on the face of the financial statement for the OPEB they provide; and requires more extensive note disclosures and supplementary information about a government's OPEB liability.

3. Adjustment to Beginning Net Position

The beginning net position of the College was increased by $15,674 due to implementation of GASB Statement No. 75. The College's total OPEB liability reported at June 30, 2017, increased by $1,922 to $347,246, and related deferred outflows of resources increased by $17,596 as of July 1, 2017, due to the transition in the valuation methods under GASB Statement No. 45 to GASB Statement No. 75.

4. 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., compensated absences payable, OPEB payable, and net pension liability) in the current unrestricted funds.

Fund	Net Position
Current Funds - Unrestricted	$ (10,386,461)
Auxiliary Funds	1,210,947
Total	$ (9,175,514)

5. 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 \$4,464 at June 30, 2018, 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 these accounts. 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, and 5 to 15 percent for alternative investments, and 2 to 8 percent for cash and cash equivalents, in order to reduce risk by investing in a diversified portfolio of financial assets, primarily stock funds, bonds or bond funds, and cash equivalents.

The investments held by the Foundation at June 30, 2018, are reported at fair value as follows:

		Fair Value Measurements Using		
Investments by fair value level	**Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
United States Government and Federally Guaranteed Bonds	$ 8,543,072	$ -	$ 8,543,072	$ -
Equity Mutual Funds	34,959,928	29,752,168	-	5,207,760
Money Market Funds	1,360,114	1,360,114	-	-
Life Insurance/Annuities	2,350,385	-	-	2,350,385
Total investments by fair value level	$ 47,213,499	$ 31,112,282	$ 8,543,072	$ 7,558,145

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, 2018, 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, 2018, were rated as follows: $3,812,404 AAA to A- and $2,545,379 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, 2018, 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.

6. 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 $144,776 allowance for doubtful accounts.

7. Due From Other Governmental Agencies

The amount due from other governmental agencies primarily consists of $5,479,700 of Public Education Capital Outlay allocations due from the State for upgrades and renovations to College facilities.

8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2018, is shown in the following table:

Description	Beginning Balance	Adjustment (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	104,623	-	15,159,342	97,226	15,166,739
Total Nondepreciable Capital Assets	$ 4,001,109	$ -	$ 15,159,342	$ 97,226	$ 19,063,225
Depreciable Capital Assets:					
Buildings	$ 157,228,080	$ -	$ 120,487	$ -	$ 157,348,567
Other Structures and Improvements	8,997,097	-	112,967	-	9,110,064
Furniture, Machinery, and Equipment	6,091,438	-	371,467	67,269	6,395,636
Assets Under Capital Lease	308,303	-	-	-	308,303
Computer Software	7,226,006	-	-	-	7,226,006
Total Depreciable Capital Assets	179,850,924	-	604,921	67,269	180,388,576
Less, Accumulated Depreciation:					
Buildings	55,782,919	-	3,473,580	-	59,256,499
Other Structures and Improvements	5,271,933	-	625,507	-	5,897,440
Furniture, Machinery, and Equipment	4,974,324	-	409,605	67,269	5,316,660
Assets Under Capital Lease	184,983	-	61,661	-	246,644
Computer Software	7,226,001	5	-	-	7,226,006
Total Accumulated Depreciation	73,440,160	5	4,570,353	67,269	77,943,249
Total Depreciable Capital Assets, Net	$ 106,410,764	$ (5)	$ (3,965,432)	$ -	$ 102,445,327

(1) Adjustment was made to correct a prior year error.

9. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2018, is shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 164,000	$ -	$ 17,000	$ 147,000	$ 18,000
Notes Payable	560,317	22,237,083	181,441	22,615,959	189,438
Capital Lease Payable	173,898	-	63,376	110,522	65,562
Special Termination Benefits Payable	150,515	259,970	97,588	312,897	163,173
Compensated Absences Payable	3,389,474	22,675	259,048	3,153,101	63,062
Other Postemployment Benefits Payable (1)	347,246	38,367	32,644	352,969	11,533
Net Pension Liability	14,476,347	7,951,991	7,163,261	15,265,077	131,125
Total Long-Term Liabilities	$ 19,261,797	$ 30,510,086	$ 7,814,358	$ 41,957,525	$ 641,893

(1) The beginning balance of the Other Postemployment Benefits Payable was adjusted for adoption of GASB Statement No. 75, as described in Notes 2. and 3.

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, 2018:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2014A	$ 147,000	3 - 5	2025

Annual requirements to amortize all bonded debt outstanding as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
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	22,000	2,970	24,970
2024-2025	47,000	2,590	49,590
Total	$ 147,000	$ 27,440	$ 174,440

Notes 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.

On January 22, 2018, the College borrowed $22,237,083, at a stated interest rate of 2.649 percent to finance the cost of an energy performance-based contract that includes equipment purchases and related services performed. The note matures on May 1, 2034, and principal and interest payments are made quarterly. Annual requirements to amortize the outstanding notes as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	$ 189,438	$ 26,148	$ 215,586
2020	584,011	1,360,197	1,944,208
2021	1,191,590	566,836	1,758,426
2022	1,244,470	534,749	1,779,219
2023	1,299,395	501,240	1,800,635
2024-2028	7,393,906	1,950,063	9,343,969
2029-2033	9,000,429	871,454	9,871,883
2034	1,712,720	25,347	1,738,067
Total	$ 22,615,959	$ 5,836,034	$ 28,451,993

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, 2018, are as follows:

Fiscal Year Ending June 30		Amount
2019	$	68,302
2020		45,534
Total Minimum Payments		113,836
Less, Amount Representing Interest		3,314
Present Value of Minimum Payments	$	110,522

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 $312,897 as of June 30, 2018, for ten employees who gave notice to retire under the Program, of which $163,173 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, 2018, the estimated liability for compensated absences, which includes the College's share of the FRS and FICA contributions, totaled $3,153,101. The current portion of the compensated absences liability, $63,062, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for other postemployment benefits administered by the Florida College System Risk Management Consortium (Consortium).

General Information about the OPEB Plan

Plan Description. The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the Consortium. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's health, dental, vision, and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the 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 coverage as soon as they are eligible. The OPEB Plan contribution requirements and benefit terms of the College and the OPEB Plan members are established and may be amended by action from the Board. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided. The OPEB Plan provides healthcare benefits for retirees and their dependents. The OPEB Plan only provides an implicit subsidy as described above.

Employees Covered by Benefit Terms. At June 30, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	11
Deferred Retirement Option Program Members	11
Active Employees	300
Total	322

Total OPEB Liability

The College's total OPEB liability of $352,969 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.60 percent
Real Wage Growth	0.65 percent
Wage Inflation	3.25 percent
Salary increases	4.00 – 7.80 percent, average, including inflation
Discount rate	3.56 percent
Healthcare cost trend rates	Pre-Medicare – 7.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2023 Medicare – 5.50 percent for 2017, decreasing to an ultimate rate of 5.00 percent by 2020

The discount rate was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates were based on the RP-2014 mortality tables with adjustments for FRS experience and generational mortality improvements using Scale MP-2014.

The demographic actuarial assumptions for mortality, retirement, disability incidence, and withdrawal used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013, adopted by the FRS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017, valuation were based on a review of recent plan experience done concurrently with the June 30, 2017, valuation.

Changes in the Total OPEB Liability

	Amount
Balance at 7/1/17, as Restated	$ 347,246
Changes for the Year:	
Service Cost	28,178
Interest	10,189
Changes in Assumptions or Other Inputs	(15,048)
Benefit Payments	(17,596)
Net Changes	5,723
Balance at 6/30/18	$ 352,969

Changes of assumptions and other inputs reflect a change in the discount rate from 3.01 percent in 2016 to 3.56 percent in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following table presents the total OPEB liability of the College, as well as what the College's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.56 percent) or 1 percentage point higher (4.56 percent) than the current rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	$381,283	$352,969	$328,394

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following table presents the total OPEB liability of the College, as well as what the College's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Total OPEB liability	$310,565	$352,969	$405,138

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the College recognized OPEB expense of $36,745. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions or other inputs	$ -	$ 13,426
Benefits paid subsequent to the measurement date	11,533	-
Total	$ 11,533	$ 13,426

The amount reported as deferred outflows of resources related to OPEB, $11,533 resulting from benefits paid subsequent to the measurement date will be included as a reduction of the total OPEB liability in the year ended June 30, 2019. Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (1,622)
2020	(1,622)
2021	(1,622)
2022	(1,622)
2023	(1,622)
Thereafter	(5,316)
Total	$ (13,426)

Net Pension Liability. As a participating employer in the FRS, 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, 2018, the College's proportionate share of the net pension liabilities totaled $15,265,077. Note 10. includes a complete discussion of defined benefit pension plans.

10. 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 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. 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.

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 $1,895,148 for the fiscal year ended June 30, 2018.

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 creditable 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 creditable 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 creditable 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.

The 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:

Class, Initial Enrollment, and Retirement Age/Years of Service	% Value
Regular Class members initially enrolled before July 1, 2011	
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
Regular Class members initially enrolled on or after July 1, 2011	
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
Senior Management Service Class	2.00
Special Risk Class	3.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the Plan 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 has 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 2017-18 fiscal year were:

	Percent of Gross Salary	
Class	**Employee**	**Employer** (1)
FRS, Regular	3.00	7.92
FRS, Senior Management Service	3.00	22.71
FRS, Special Risk	3.00	23.27
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	13.26
FRS, Reemployed Retiree	(2)	(2)

(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 $934,339 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a liability of $10,391,265 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.035130157 percent, which was a decrease of 0.000456952 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $1,610,106. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 953,668	$ 57,562
Change of assumptions	3,492,199	-
Net difference between projected and actual earnings on FRS Plan investments	-	257,522
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	-	457,223
College FRS contributions subsequent to the measurement date	934,339	-
Total	$ 5,380,206	$ 772,307

The deferred outflows of resources totaling $934,339, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ 418,548
2020	1,312,458
2021	907,421
2022	125,431
2023	654,805
Thereafter	254,897
Total	$ 3,673,560

Actuarial Assumptions. The total pension liability in the July 1, 2017, 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	7.10 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, 2017, 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:

Asset Class	**Target Allocation** (1)	**Annual Arithmetic Return**	**Compound Annual (Geometric) Return**	**Standard Deviation**
Cash	1%	3.0%	3.0%	1.8%
Fixed Income	18%	4.5%	4.4%	4.2%
Global Equity	53%	7.8%	6.6%	17.0%
Real Estate (Property)	10%	6.6%	5.9%	12.8%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	9.7%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.10 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. The discount rate used in the 2017 valuation was updated from 7.60 percent to 7.10 percent.

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 7.10 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 (6.10 percent) or 1 percentage point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
College's proportionate share of the net pension liability	$18,807,562	$10,391,265	$3,403,810

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, 2018, 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, 2018, 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 $256,210 for the fiscal year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the College reported a net pension liability of $4,873,812 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 1 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, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, and update procedures were used to determine liabilities as of July 1, 2017. The College's proportionate share of the net pension liability was based on the College's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the College's proportionate share was 0.045581760 percent, which was a decrease of 0.001529083 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the College recognized pension expense of $285,042. In addition, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 10,148
Change of assumptions	685,090	421,444
Net difference between projected and actual earnings on HIS Plan investments	2,703	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	384,871
College contributions subsequent to the measurement date	256,210	-
Total	$ 944,003	$ 816,463

The deferred outflows of resources totaling $256,210, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30	Amount
2019	$ (5,799)
2020	(6,310)
2021	(6,556)
2022	5,670
2023	(21,090)
Thereafter	(94,585)
Total	$ (128,670)

Actuarial Assumptions. The total pension liability at July 1, 2017, 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	3.58 percent

Mortality rates were based on the Generational RP-2000 with Projection 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 3.58 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 in the 2017 valuation was updated from 2.85 percent to 3.58 percent.

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 3.58 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 (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
College's proportionate share of the net pension liability	$5,561,665	$4,873,812	$4,300,869

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.

11. 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's 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 2017-18 fiscal year were as follows:

Class	Percent of Gross Compensation
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, 2018, 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 roll over 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 $240,512 for the fiscal year ended June 30, 2018.

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 and 3.3 percent to cover the unfunded actuarial liability of the FRS pension plan, for a total of 8.45 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 $122,721 and employee contributions totaled $71,500 for the 2017-18 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. Employees 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 $55,762 for the 2017-18 fiscal year.

12. Construction Commitments

The College's construction commitments at June 30, 2018, were as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Energy Management	$ 25,234,583	$ 12,617,291	$ 12,617,292
Buildings 310 and 400 Renovations	8,319,265	2,454,588	5,864,677
Subtotal	33,553,848	15,071,879	18,481,969
Other Projects (1)	1,065,371	87,464	977,907
Total	$ 34,619,219	$ 15,159,343	$ 19,459,876

(1) Individual projects with a current balance committed of less than $1 million at June 30, 2018.

13. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and 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 to February 28, 2018, and up to $100 million from March 1, 2018, 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.

14. Functional Distribution of Operating Expenses

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

Functional Classification	Amount
Instruction	$ 14,227,471
Public Services	867,711
Academic Support	3,277,638
Student Services	3,297,824
Institutional Support	8,160,450
Operation and Maintenance of Plant	7,472,770
Scholarships and Waivers	5,286,360
Depreciation	4,570,353
Auxiliary Enterprises	1,133,657
Total Operating Expenses	$ 48,294,234

Schedule of Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios

	2017
Total OPEB Liability	
Service Cost	$ 28,178
Interest	10,189
Changes of Assumptions or Other Iinputs	(15,048)
Benefit Payments	(17,596)
Net Change in Total OPEB liability	5,723
Total OPEB Liability - Beginning, as Restated	347,246
Total OPEB Liability - Ending	$ 352,969
Covered-Employee Payroll	$ 13,583,167
Total OPEB Liability as a Percentage of Covered-Employee Payroll	2.60%

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

	2017 (1)	**2016** (1)	**2015** (1)	**2014** (1)	**2013** (1)
College's proportion of the FRS net pension liability	0.035130157%	0.035587109%	0.038607095%	0.038845457%	0.040206490%
College's proportionate share of the FRS net pension liability	$ 10,391,265	$ 8,985,773	$ 4,986,624	$ 2,730,144	$ 6,921,326
College's covered payroll (2)	$ 16,938,197	$ 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	61.35%	52.43%	27.70%	13.45%	38.17%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	83.89%	84.88%	92.00%	96.09%	88.54%

(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

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	$ 934,339	$ 914,524	$ 867,848	$ 941,274	$ 850,880
FRS contributions in relation to the contractually required contribution	(934,339)	(914,524)	(867,848)	(941,274)	(850,880)
FRS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 15,894,022	$ 16,938,197	$ 17,138,610	$ 18,000,576	$ 17,622,678
FRS contributions as a percentage of covered payroll	5.88%	5.40%	5.06%	5.23%	4.83%

(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

	2017 (1)	2016 (1)	2015 (1)	2014 (1)	2013 (1)
College's proportion of the HIS net pension liability	0.045581760%	0.047110843%	0.048895787%	0.049011107%	0.052321728%
College's proportionate share of the HIS net pension liability	$ 4,873,812	$ 5,490,574	$ 4,986,601	$ 4,582,658	$ 4,555,294
College's covered payroll (2)	$ 14,564,136	$ 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	33.46%	32.04%	27.70%	26.00%	25.12%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	1.64%	0.97%	0.50%	0.99%	1.78%

(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

	2018 (1)	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required HIS contribution	$ 256,210	$ 241,232	$ 241,473	$ 186,910	$ 167,896
HIS contributions in relation to the contractually required HIS contribution	(256,210)	(241,232)	(241,473)	(186,910)	(167,896)
HIS contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
College's covered payroll (2)	$ 13,752,903	$ 14,564,136	$ 17,138,610	$ 18,000,576	$ 17,622,678
HIS contributions as a percentage of covered payroll	1.86%	1.66%	1.41%	1.04%	0.95%

(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 Changes in the College's Total Other Postemployment Benefits Liability and Related Ratios

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Changes of Assumptions. The Municipal Bond Index Rate increased from 3.01 percent at the prior measurement date to 3.56 percent at the current measurement date.

2. 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 7.60 percent to 7.10 percent, and the active member mortality assumption was updated.

3. 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 increased from 2.85 percent to 3.58 percent.

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The President of the Senate, the Speaker of the
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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 the 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, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 12, 2019, 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, as described in the accompanying ***FINDING AND RECOMMENDATION*** section of this report as Financial Statement Finding No. 2018-001 that we consider to be a significant deficiency.

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.*

Management's Response to Finding

Management's response to the finding identified in our audit is included as Management's Response in Financial Statement Finding No. 2018-001. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 communication is not suitable for any other purpose.

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
March 12, 2019

FINDING AND RECOMMENDATION

SIGNIFICANT DEFICIENCY

FINANCIAL REPORTING

Finding Number	**2018-001**
Opinion Unit	Northwest Florida State College
Financial Statements Account Titles	Due from Other Governmental Agencies; State Capital Appropriations
Adjustment Amounts	Adjustments to increase: Due from Other Governmental Agencies - $5,479,700 State Capital Appropriations - $5,479,700
Prior Year Finding	Not Applicable
Finding	College procedures need improvement to ensure that account balances and transactions associated with State capital appropriations are properly recorded and reported.
Criteria	Generally accepted accounting principles and the *Accounting Manual for Florida's College System* require the College to record revenue in the fiscal year in which the revenue is earned and measurable, even if cash is not received in that year. For nonexchange activities, such as legislatively authorized State capital appropriations for Public Education Capital Outlay (PECO) funds, the College should record revenue when all applicable eligibility requirements, including time requirements, are met. For example, eligibility requirements to record and report State capital appropriations revenue are met when contracts for applicable capital outlay services have been executed and the Florida Department of Education (FDOE) has approved the entity to receive and use the PECO funds.
Condition	During the 2017-18 fiscal year, the Legislature appropriated State PECO funds totaling $6,506,863 to the College for remodeling, renovations, and facility upgrades. As of June 30, 2018, the College had entered into applicable capital outlay service contracts and received FDOE approval to use the funds. In addition, as of that date, the College had received State PECO funds totaling $1,027,163 and recorded and reported revenue for those funds. However, $5,479,700 had not been received and the College erroneously did not record or report that amount in the Due from Governmental Agencies asset and State Capital Appropriations revenue accounts for the fiscal year ended June 30, 2018.
Cause	In response to our inquiries, College personnel indicated that the error occurred due to an oversight, and supervisory review of the AFR did not detect the error.
Effect	Financial statement users may misunderstand College State capital appropriation activities and incorrectly assess the College financial position. We extended our audit procedures to determine the adjustments necessary to properly report these account balances and transactions, and College personnel accepted the adjustments. However, our audit procedures cannot substitute for management's responsibility for proper financial recording and reporting.
Recommendation	The College should enhance procedures to ensure that account balances and transactions associated with State capital appropriations are properly recorded and reported.
Institution Response	Northwest Florida State College has adopted a new procedure for recording PECO Appropriations. Previously, the College recognized the revenue when it was disbursed by the State. New procedure will be to record the Revenue and

appropriate Receivable in Unexpended Plant Fund at the same time the Capital Outlay Request Encumbrance Authorization, Form 352, is submitted to the Florida Department of Education for appropriated PECO funds.

The fiscal year-end checklist has been amended to include final reconciliation of the previously recorded accounts receivable, using the FDOE Project Disbursement Report, Form 442. The current reconciliation, using same Form 442, reconciles PECO funds received with posted revenue. This reconciliation does occur monthly when project expenses and encumbrances are reviewed to request appropriate funds for cash flow.

When the error was brought to our attention in January 2019, the entry to record the prior year revenue adjustment was recorded, as well as the current fiscal year undisbursed appropriations. As of February 26, 2019, we are reconciled to the accounts receivable and disbursements as shown on the most recent DOE Project Disbursement Report.

Estimated Corrective Action Date	Completed February 26th, 2019
Institution Contact and Telephone Number	Randall White, Vice President of Business Operations and Finance 850-729-6404