RESTORE DIRECT COMPONENT

PROPOSER / SUBRECIPIENT QUESTIONNAIRE

RESTORE Direct Component
Proposer / Subrecipient Questionnaire

Okaloosa County may at times, decide to engage the services of another entity to assist the county in carrying out projects under its federal or state financial assistance award. The County can do so by entering into a subrecipient or contractor (vendor) relationship. This document is intended to assist a Program Manager that is contemplating entering into a subaward agreement to pass-through federal or state financial assistance funds to a subrecipient. It describes the pre-award risk assessment that a Program Manager must conduct with respect to a subrecipient pursuant to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 C.F.R. Part 200 (the Uniform Guidance) prior to entering into a subaward agreement. Based on the results of the pre-award risk assessment, the Program Manager will enter into a subaward agreement that implements appropriate oversight and monitoring mechanisms to ensure that the subrecipient uses the funds for authorized purposes and in compliance with all applicable laws.

Subrecipient vs. Contractor Determination

Because different rules govern the process by which the County selects a subrecipient or contractor and the level of oversight the Program Manager is required to perform, it is important to determine whether the party receiving the County's federal or state funds is a subrecipient or a contractor. The County must evaluate each agreement on a case-by-case basis, and the Uniform Guidance provides a list of factors that describe each relationship. The substance of the relationship, however, is determinative, and the County should use judgment in classifying each agreement as a subaward or procurement contract, as not all characteristics listed below will be present in every relationship.

A **subrecipient** is an entity that receives a subaward from a pass-through entity to carry out part of a federal or state program (but does not include an individual who is a beneficiary of the program). Factors suggesting that the entity is a **subrecipient** include:

- the entity determines who is eligible to receive what federal or state assistance;
- the entity's performance is measured in relation to whether objectives of a federal or state program were met;
- the entity has responsibility for programmatic decision making;
- the entity is responsible for adherence to applicable federal and state program requirements specified in the federal or state award; and
- in accordance with its agreement, the entity uses the federal or state funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.[1]

An example of a subrecipient: (i) an entity that provides supervised visitation of children in a safe environment; and (ii) a housing assistance program that provides financial assistance for qualified applicants. **If the County determines the entity to be a subrecipient, the County must conduct the pre-award risk assessment described in this tool prior to entering into a subaward agreement with the subrecipient.**

[1] 2 C.F.R. §200.330(a)., F.S. 215.97

A **contractor**, on the other hand, is an entity that is defined as a dealer, distributor, merchant or other seller providing goods or services that is required to carry out a project or program under a federal award.

Factors suggesting that an entity is a **contractor** for goods or services include:

- the entity provides the goods and services within normal business operations;
- the entity provides similar goods or services to many different purchasers;
- the entity normally operates in a competitive environment;
- the entity provides goods or services that are ancillary to the operation of the federal or state program; and
- the entity is not subject to compliance requirements of the federal or state program as a result of the agreement, though similar requirements may apply for other reasons.[2]

Common examples of contractors are entities or individuals providing design and maintenance services for a county's website or engineering design services. **If the County determines the entity to be a contractor, the County must follow its procurement procedures and policy to select the contractor.**

Pre-Award Risk Assessment

To determine whether to make a subaward and the appropriate level of monitoring to undertake if an award is made, the Program Manager must first evaluate each subrecipient's risk of noncompliance with federal and/or state statutes, regulations, and the terms and conditions of the subaward.[3] In doing so, the Program Manager will need to consider factors such as: (i) the subrecipient's prior experience with the same or similar subawards; (ii) the results of previous audits; (iii) whether the subrecipient has new personnel or new or substantially changed systems; and (iv) if the subrecipient receives direct federal or state awards, the extent and results of the federal or state awarding agency's monitoring process.[4]

A pre-award risk assessment questionnaire based on the requirements of the Uniform Guidance, 2 C.F.R. § 200.331, is provided in ***Exhibit A***. **All potential subrecipients must complete this questionnaire prior to entering into a subaward agreement.** This document will be maintained as part of the Subrecipient Monitoring file.

Based upon the results of the pre-award risk assessment, Program Managers should consider imposing specific subaward conditions upon a subrecipient, as appropriate.[5]

[2] 2 C.F.R. §200.330(b)., F.S. 215.97
[3] 2 C.F.R. §200.331(b).
[4] 2 C.F.R. §200.331(b).
[5] 2 C.F.R. §200.331(c).

These additional subaward conditions may include items such as the following:[6]

1. Requiring payments as reimbursements rather than advance payments;
2. Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
3. Requiring additional, more detailed financial reports;
4. Requiring additional project monitoring;
5. Requiring the non-Federal entity to obtain technical or management assistance; or
6. Establishing additional prior approvals.

If the Program Manager imposes additional subaward conditions, it must notify the subrecipient as to:[7]

- The nature of the additional requirements;
- The reason why the additional requirements are being imposed;
- The nature of the action needed to remove the additional requirement, if applicable;
- The time allowed for completing the actions if applicable, and
- The method for requesting reconsideration of the additional requirements imposed.

Any specific conditions must be promptly removed once the conditions that prompted them have been corrected.[8]

Monitoring a Subrecipient

At a minimum, all Program Managers subawarding federal or state financial assistance funds are required to conduct the following monitoring activities during their relationship with their subrecipients: (i) review financial and performance reports required under the subaward agreement; (ii) verify that an audit or other on-site review is being performed pursuant to the Uniform Guidance and that the subrecipient receives a Single Audit if expects to expend $750,000 or more in federal awards during its fiscal year; or if state financial assistance in accordance with Florida Single Audit Act if expects to expend $500,000 or more (iii) follow up to ensure that the subrecipient takes appropriate action on any audit findings and deficiencies; and (iv) issue a management decision on audit findings relating to the federal or state funds awarded to the subrecipient.[9] Depending on the results of the initial risk assessment, Program Managers may also need to provide subrecipients with on-site training and technical assistance on program-related matters, perform on-site reviews of the subrecipient's program operations or arrange for agreed-upon procedures to monitor the subrecipient.[10]

Terms and Conditions of the Subaward Agreement

As the recipient of the federal or state award, the County is solely responsible to the federal or state awarding agency for the execution of the award. The recipient is also required in accordance with 2 CFR §200.331 to include certain data elements as part of all subaward agreements.

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[6] 2 C.F.R. §200.207(b).
[7] 2 C.F.R. §200.207(c).
[8] 2 C.F.R. §200.207(d).
[9] 2 C.F.R. §200.331; 31 U.S.C. §7501 et seq., F.S. 215.97
[10] 2 C.F.R. §200.331(e)., F.S. 215.97

Under the Uniform Guidance or F.S. 215.97, the County is required to monitor the activities of their subrecipients to ensure that subawards are used for authorized purposes and in compliance with applicable federal or state law and the terms and conditions of the subawards.[11]

[11] 2 C.F.R. §200.331(d)., F.S. 215.97

Exhibit A
Internal Controls Questionnaire

How to Use: *This questionnaire is used to help determine a potential subrecipient's or entity's financial and management strength, which helps assess risk and dictates the monitoring plan for subrecipients.* ***This questionnaire must be completed prior to entering into a subaward agreement.*** *The County may follow up with the potential subrecipient/entity regarding the responses to this questionnaire.*

Entity Contact Information
Full Legal Organization/Business Name: Choctawhatchee Basin Alliance of NW Florida State College
Address: 100 College Boulevard, Niceville, FL 32548
Telephone number: (850) 200-4173
Name of person completing this form: Alison McDowell
E-mail address: mcdowel2@nwfsc.edu
Website: www.basinalliance.org
Incorporated in: Florida   Incorporation Date: 1964
Number of employees: ~700
DUNS number: 0101407930
EIN (Employer Federal ID Number): 59-1214054
Fiscal Year End (Month/Year): 6/2018

Entity Type of Organization (select one):			
☐ Government	☐ Nonprofit	Corporation	**x** Other

Entity Personnel Contact Information	
	Program Manager/Director for Subaward
Name:	Alison McDowell
Title:	Director, Choctawhatchee Basin Alliance
Telephone Number:	(850) 200-4173
E-mail Address:	Mcdowel2@nwfsc.edu
	Additional Contact for Subaward
Name:	Brittany Tate
Title:	Coordinator, Choctawhatchee Basin Alliance
Telephone Number:	(850) 200-4174
E-mail Address:	tateb@nwfsc.edu

GENERAL ASSESSMENT

1. Is this grant large in terms of percentage of overall funds for the entity?

☐ Yes X No

2. Is the entity new to operating or managing state and/or federal funds (has not done so within the past five years)?

☐ Yes X No

3. Is this program new for the entity (managed for less than three years)?

Yes X No

4. In the last 12 months, has the entity hired new senior management personnel (e.g., Executive Director/CEO, Finance Director/CFO) and/or program personnel who would be working on this proposed subaward? If yes, please explain.

☐ Yes X No If yes, explain

5. Are the staff assigned to the program inexperienced with the program (worked with the program for less than two funding cycles)?

☐ Yes X No

6. Is the program unusually complex (e.g. programmatic, funding, matching requirements)?

☐ Yes X No

7. Does the entity have effective procedures and controls?

X Yes ☐ No

8. Has the entity received a subaward from the County in the past two years?

☐ Yes X No

LEGAL ASSESSMENT

1. Is the entity currently or previously been debarred or suspended?

☐ Yes X No If yes, explain

2. Have any organization staff been jailed, convicted of a felony or are currently under criminal investigation?

☐ Yes X No If yes, explain

All employees must pass a Level Two background check before being hired.

3. If you anticipate using a subrecipient or contractor, have you determined if they are debarred or suspended?

X Yes ☐ No Subcontractors will be required, and vendors with debarments or suspensions will be ineligible to enter the competitive bidding process.

FINANCIAL & INFORMATION SYSTEM ASSESSMENT

1. Does the entity have a financial management system in place to track and record the program expenditures? (Example, Quickbooks, Peachtree or Custom Proprietary System)

X Yes ☐ No If yes, System name Banner by Elucian

2. In the last 12 months, has the entity implemented new or substantially changed systems related to its federal grant management? If yes, explain.

No.

3. Does the accounting system identify the receipts and expenditures of the program funds separately for each grant award?

X Yes ☐ No

4. Will the accounting system provide for the recording of expenditures for each grant award by the budget cost categories shown in the approved budget?

X Yes ☐ No

5. Does the time and accounting system track effort by cost objective? (i.e. time spent on each grant award vs time spent on non-grant activities when combined total 100% of the employees hours worked or effort)

X Yes ☐ No

6. If charging indirect cost to grant awards does the accounting system track direct costs and indirect costs separately?

X Yes ☐ No

7. Information systems and accounting systems are in place and designed to meet all federal program requirements, including reporting and record retention requirements?

X Yes ☐ No

8. Access to data, including Personal Identification Information, is protected against unauthorized access and is limited to appropriate individuals based on job functions.

X Yes ☐ No

OPERATIONS ASSESSMENT

1. Do policies, procedures and processes for managing federal grant funds meet the requirements of OMB 2 CFR Chapter I and Chapter II, Uniform Administrative Requirements Cost Principles and Audit Requirements for Federal Awards?

X Yes ☐ No

2. Are the entity's internal controls in compliance with guidance in "Standards for Internal Controls in the Federal Government" (GAO-14-704G) issued by the U.S. Government Accountability Office (Green Book) and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSCO)?

X Yes ☐ No

3. Does the entity have a formalized risk assessment process in place specifically for federal grant programs, including standard forms and checklists for program regulatory compliance and monitoring contractor's or subrecipient's performance?

Yes X No

4. Is anti-fraud awareness training conducted at least annually that is evidenced by attendance sheets or other mechanisms?

X Yes ☐ No

5. Are there formal policies and procedures in place for employees to confidentially report suspected violations of policies and or suspected instances of fraud or other criminal activity, including specifically those related to federal grant programs?

X Yes ☐ No

6. Are breaches of policy and/or instances of fraud or other criminal activity addressed by management including taking steps to prevent future violations? Does the policy include notification to the appropriate federal agency in cases of confirmed fraud related to federal funds?

X Yes ☐ No

7. Does the entity have a system in place to provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of 2 CFR 200 and with parties that are not debarred or suspended?

X Yes ☐ No

8. Does the entity have a system in place to provide reasonable assurance that contractors and subcontractors subject to the Davis-Bacon Act requirements are properly notified of the requirement and that the required certified payrolls are submitted to the entity?

X Yes ☐ No

9. Does the entity have a system in place to provide reasonable assurance that federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audits are completed when required, any audit findings are resolved, and the impact of any subrecipient noncompliance on the entity is evaluated?

X Yes ☐ No

10. Does the entity complete criminal and financial background checks on employees?

X Yes ☐ No

11. Are all bank accounts reconciled monthly?

X Yes ☐ No

12. Does the entity have a financial management system that provides detail records that can identify the source and application of funds for award-supported activities?

X Yes ☐ No

13. Are all disbursements properly documented with evidence of receipt of goods or performance of services?

X Yes ☐ No

14. Does the entity have a process in place to provide reasonable assurance that the (1) drawdown of federal cash is only for immediate need, (2) reimbursement is requested only after costs have been incurred, (3) comply with applicable subaward agreements, and (4) limit payments to subrecipients to immediate cash need?

X Yes ☐ No

15. Does the entity have an effective system in place to provide reasonable assurance that costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles?

X Yes ☐ No

16. Does the entity have a system in place to provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements?

X Yes ☐ No

17. Does the entity have a system in place to determine that it has met its cost sharing, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued?

X Yes ☐ No

18. Does the entity have a system in place to provide reasonable assurance that federal funds are used only during the authorized period of performance?

X Yes ☐ No

19. Describe the method used to support labor and benefit charges.

Banner (ERP) has a separate index for each fund and an account code for each salary and benefit. Salary and benefit costs are reclassed from the general operating fund to separate grant/contract funds based on time and effort sheets completed by staff. These sheets track time staff spends on each grant.

20. Does the entity have a system in place to provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements in 42 USC Ch. 61?

X Yes ☐ No

21. Explain the system that is in place to authorize and approve expenditures and maintain records of capital equipment and real property?

Banner (ERP) has specific account codes for capital/real property. All transactions are recorded in Banner. When items are received by the College, they are assigned to the “7” (Capital) account code and entered into AssetTracker (DHS) software.

22. Does the entity maintain detailed records of individual capital assets and periodically reconcile such records with the general ledger accounts?

X Yes ☐ No

23. Does the entity have effective procedures for authorizing and accounting for the disposal of property and equipment?

X Yes ☐ No

24. Does the entity periodically check its detailed property records against physical inventory?

X Yes ☐ No

25. Does the entity have an indirect cost rate that is approved and current?

X Yes ☐ No If yes, who approved the rate? $46.00 on campus, $20.00 off campus. Federal.

26. Does the entity have written policies that address the following?

Pay Rates and Benefits	X Yes	☐ No
Time and Attendance	X Yes	☐ No
Leave	X Yes	☐ No
Discrimination	X Yes	☐ No
Conflicts of Interest	X Yes	☐ No
Travel	X Yes	☐ No
Purchasing/Procurement	X Yes	☐ No
Capitalization/Depreciation	X Yes	☐ No

27. Is the entity required to comply with the Single Audit requirements of the Uniform Guidance (2 C.F.R. Part 200, Subpart F; required if Subrecipient expends $750,000 or more in federal awards in a fiscal year) or if (State $500,000 F.S. 215.97)?

X Yes ☐ No

Audit Contact Name and Title:

State Auditor General https://flauditor.gov Sherrill F. Norman

28. Has the entity's annual financial statements been audited by an independent audit firm? If yes, provide a copy of the statements for the last two (2) fiscal years.
X Yes — Independently audited financial statements attached for years 2016 and 2017.
29. If the answers to Questions 27 or 28 is yes, were there any findings or questioned costs in the last two (2) fiscal years? If yes, please explain any findings or questioned costs with respect to an award or subaward to conduct programs similar to those covered by this proposed subaward agreement.
☐ Yes X No If yes, Explain below:
30. Other than financial statements, has any aspect of the entity's activities been subject to an audit, examination, or monitoring within the last two (2) years by a governmental agency (e.g., Inspector General, state or local government auditors, etc.)? If yes, please explain any audit or monitoring findings or deficiencies with respect to an award or subaward to conduct programs similar to those covered by the proposed subaward agreement.
X Yes ☐ No If yes, Explain below: The findings of these audits (Operations, Financial Aid) were not relevant to the proposed program.
31. Attachments: Please attach the following or check N/A if not applicable.

	Document	Attached	N/A
a.	Articles of Incorporation		X
b.	Bylaws		X
c.	IRS Determination Letter (recognizing the entity as exempt from income taxes under IRC Section 501(c)(3))	X	
d.	Form 990 or 990-EZ from the last two (2) years, including Form 990-T (if applicable) and all supporting schedules and attachments	☐	X
e.	Copies of audit reports and management letters received during the last two (2) fiscal years from the entity's independent auditors (including all reports associated with a Single Audit pursuant to 2 C.F.R. Part 200, Subpart F)	X	☐

f.	Copies of results from audits, examinations, or monitoring procedures performed during the last two (2) years on any direct federal award received by the entity	X	☐
g.	Indirect cost rate agreement	X	☐
h.	List of all subawards to the entity from the County during the past two (2) years	☐	X
i.	List of all subawards to conduct programs similar to those covered under this proposed subaward agreement to the entity from any funder during the past two (2) years		X

By its authorized signatory below, I hereby certify and attest to the accuracy of the above responses and all corresponding information attached.

Signature: Alison McDowell

Printed Name: Alison McDowell

Title: Director, Choctawhatchee Basin Alliance of Northwest Florida State College

Date: 3/27/2018

FLORIDA

Consumer's Certificate of Exemption

DR-14
R. 10/15

Issued Pursuant to Chapter 212, Florida Statutes

Certificate Number	Effective Date	Expiration Date	Exemption Category
85-8012557357C-0	12/31/2017	12/31/2022	SCHOOL-COLLEGE-UNIV

This certifies that

NORTHWEST FLORIDA STATE COLLEGE
100 COLLEGE BLVD E
NICEVILLE FL 32578-1347

is exempt from the payment of Florida sales and use tax on real property rented, transient rental property rented, tangible personal property purchased or rented, or services purchased.

FLORIDA

Important Information for Exempt Organizations

DR-14
R. 10/15

1. You must provide all vendors and suppliers with an exemption certificate before making tax-exempt purchases. See Rule 12A-1.038, Florida Administrative Code (F.A.C.).

2. Your *Consumer's Certificate of Exemption* is to be used solely by your organization for your organization's customary nonprofit activities.

3. Purchases made by an individual on behalf of the organization are taxable, even if the individual will be reimbursed by the organization.

4. This exemption applies only to purchases your organization makes. The sale or lease to others of tangible personal property, sleeping accommodations, or other real property is taxable. Your organization must register, and collect and remit sales and use tax on such taxable transactions. Note: Churches are exempt from this requirement except when they are the lessor of real property (Rule 12A-1.070, F.A.C.).

5. It is a criminal offense to fraudulently present this certificate to evade the payment of sales tax. Under no circumstances should this certificate be used for the personal benefit of any individual. Violators will be liable for payment of the sales tax plus a penalty of 200% of the tax, and may be subject to conviction of a third-degree felony. Any violation will require the revocation of this certificate.

6. If you have questions regarding your exemption certificate, please contact the Exemption Unit of Account Management at 800-352-3671. From the available options, select "Registration of Taxes," then "Registration Information," and finally "Exemption Certificates and Nonprofit Entities." The mailing address is PO Box 6480, Tallahassee, FL 32314-6480.

Report No. 2017-111
February 2017

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

NORTHWEST FLORIDA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2016

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2015-16 fiscal year, Dr. Ty Handy served as President of Northwest Florida State College from 7-1-15, through 12-31-15, and Dr. Sasha Jarrell served as Interim President from 1-1-16, through 6-30-16. The following individuals served as Members of the Board of Trustees:

	County
Brian S. Pennington, Chair	Okaloosa
Rachel R. Gillis to 4-19-16, Vice Chair [a]	Walton
Shane Abbott from 4-20-16	Walton
C. Wayne Ansley to 4-14-16	Okaloosa
Craig Barker from 4-15-16 [b]	Okaloosa
Major General (Ret.) Robert Chedister from 4-15-16	Okaloosa
William "Jeff" Floyd from 4-15-16 [b]	Okaloosa
Michael M. Flynt, Sr.	Walton
Marijo Strauss	Okaloosa
Vacant [c]	Walton

[a] Vice Chair position vacant through 6-30-16.
[b] Positions vacant through 4-14-16.
[c] Position vacant from 7-1-15, through 6-30-16.

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 Supervisor, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

This report and other reports prepared by the Auditor General are available at:

www.myflorida.com/audgen

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

NORTHWEST FORIDA STATE COLLEGE

TABLE OF CONTENTS

SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Northwest Florida State College (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether Northwest Florida State College and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2016. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDITOR GENERAL
STATE OF FLORIDA

Sherrill F. Norman, CPA
Auditor General

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northwest Florida State College and of its discretely presented component unit as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 2, 2017, on our consideration of the Northwest Florida State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.** The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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
February 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

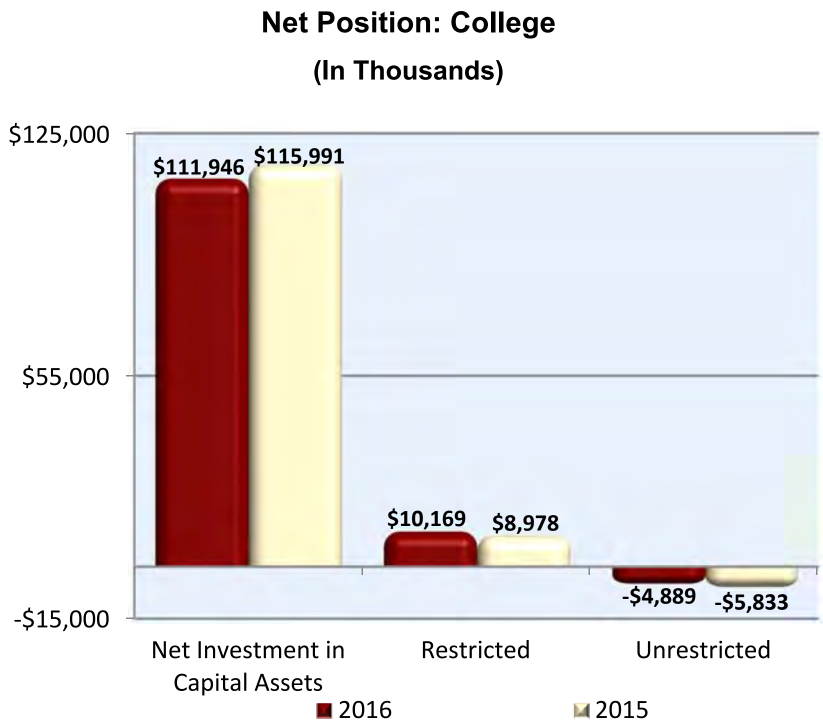
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2016, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are 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, 2016, and June 30, 2015.

FINANCIAL HIGHLIGHTS

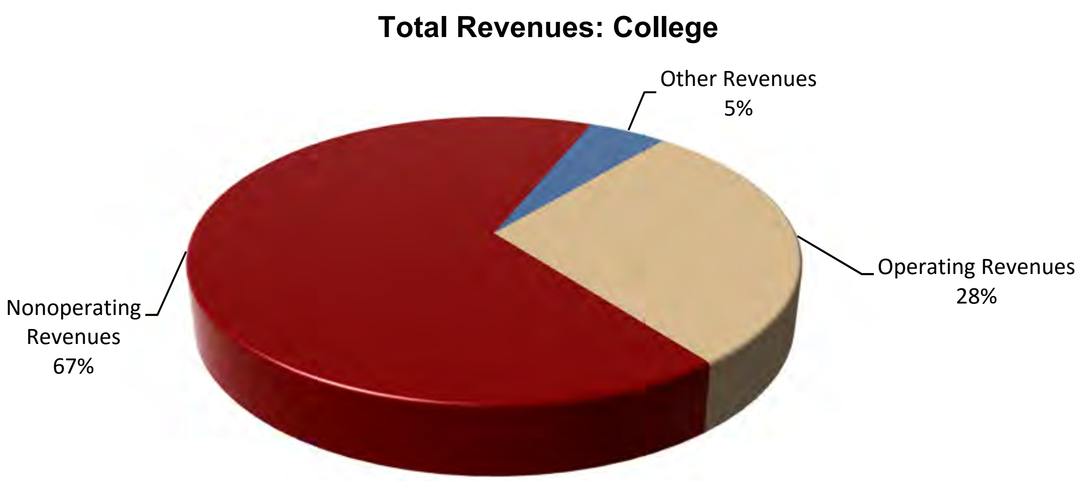
The College's assets totaled $134.7 million at June 30, 2016. This balance reflects a $3.5 million, or 2.5 percent, decrease as compared to the 2014-15 fiscal year, resulting mainly from depreciation of capital assets. Liabilities increased by $1.9 million, or 11.7 percent, totaling $18.1 million at June 30, 2016, compared to $16.2 million at June 30, 2015. While deferred outflows of resources increased by $0.7 million, deferred inflows of resources decreased by $2.8 million, or 62.2 percent, from the prior fiscal year. The changes in deferred outflows of resources, liabilities, and deferred inflows of resources were due mainly to pension activity during the 2015-16 fiscal year. As a result, the College's net position decreased by $1.9 million, resulting in a fiscal year-end balance of $117.2 million.

The College's operating revenues totaled $13.1 million for the 2015-16 fiscal year, representing a 7.3 percent decrease compared to the 2014-15 fiscal year due mainly to a decrease in nongovernmental grants and contracts and a trending enrollment decline. Operating expenses totaled $47.9 million for the 2015-16 fiscal year, representing a decrease of 5.7 percent as compared to the 2014-15 fiscal year due mainly to a decrease in scholarships and waivers, Collegewide efforts to carefully consider all expenses in light of the enrollment decline, and Collegewide energy conservation measures.

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, 2016, and June 30, 2015, is shown in the following graph:



The following chart provides a graphical presentation of College revenues by category for the 2015-16 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 Northwest Florida State College Foundation, Inc. (Foundation). Based on the application of the criteria for determining component units, the Foundation is included within the College reporting entity as a discretely presented component unit.

The Statement of Net Position

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

The following summarizes the 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	
	2016	**2015**	**2016**	**2015**
Assets				
Current Assets	$ 14,848	$ 13,887	$ 7,857	$ 10,204
Capital Assets, Net	114,816	119,437	4,242	4,928
Other Noncurrent Assets	5,028	4,867	32,992	32,712
Total Assets	134,692	138,191	45,091	47,844
Deferred Outflows of Resources	2,362	1,704	-	-
Liabilities				
Current Liabilities	1,608	2,683	48	157
Noncurrent Liabilities	16,503	13,530	-	-
Total Liabilities	18,111	16,213	48	157
Deferred Inflows of Resources	1,717	4,546	-	-
Net Position				
Net Investment in Capital Assets	111,946	115,991	4,242	4,928
Restricted	10,169	8,978	43,746	46,041
Unrestricted	(4,889)	(5,833)	(2,945)	(3,282)
Total Net Position	$ 117,226	$ 119,136	$ 45,043	$ 47,687

The decrease of $3.5 million in the College's total assets is primarily due to the depreciation of capital assets. The increase of $1.9 million in the College's total liabilities and the decrease of $2.8 million in the College's deferred inflows of resources are primarily due to pension activity during the 2015-16 fiscal year. As a result, the College's net position decreased by $1.9 million.

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

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

The following summarizes the activities of the College and its component unit for the 2015-16 and 2014-15 fiscal years:

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

(In Thousands)

	College		Component Unit	
	2015-16	**2014-15**	**2015-16**	**2014-15**
Operating Revenues	$ 13,102	$ 14,138	$ 673	$ 678
Less, Operating Expenses	47,890	50,766	3,098	2,304
Operating Loss	(34,788)	(36,628)	(2,425)	(1,626)
Net Nonoperating Revenues (Expenses)	30,623	31,290	(368)	1,835
Income (Loss) Before Other Revenues	(4,165)	(5,338)	(2,793)	209
Other Revenues	2,255	2,509	149	530
Net Increase (Decrease) In Net Position	(1,910)	(2,829)	(2,644)	739
Net Position, Beginning of Year	119,136	132,559	47,687	46,948
Adjustment to Beginning Net Position (1)		(10,594)	-	-
Net Position, Beginning of Year, as Restated	119,136	121,965	47,687	46,948
Net Position, End of Year	$ 117,226	$ 119,136	$ 45,043	$ 47,687

Note: (1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employer's proportionate share of the net pension liability of the defined benefit pension plans.

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 2015-16 and 2014-15 fiscal years:

Operating Revenues
For the Fiscal Years

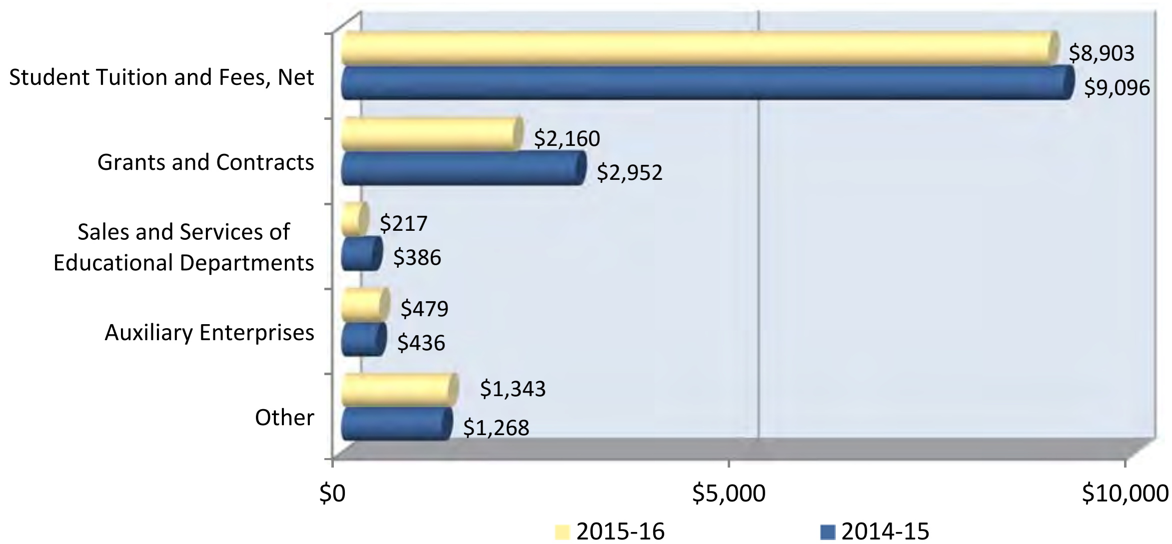
(In Thousands)

	College		Component Unit	
	2015-16	**2014-15**	**2015-16**	**2014-15**
Student Tuition and Fees, Net	$ 8,903	$ 9,096	$ -	$ -
Grants and Contracts	2,160	2,952	-	-
Sales and Services of Educational Departments	217	386	-	-
Auxiliary Enterprises	479	436	-	-
Other	1,343	1,268	673	678
Total Operating Revenues	$ 13,102	$ 14,138	$ 673	$ 678

The following chart presents the College's operating revenues for the 2015-16 and 2014-15 fiscal years:

Operating Revenues

(In Thousands)



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

Operating Expenses

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

The following summarizes operating expenses by natural classification for the College and its component unit for the 2015-16 and 2014-15 fiscal years:

Operating Expenses
For the Fiscal Years

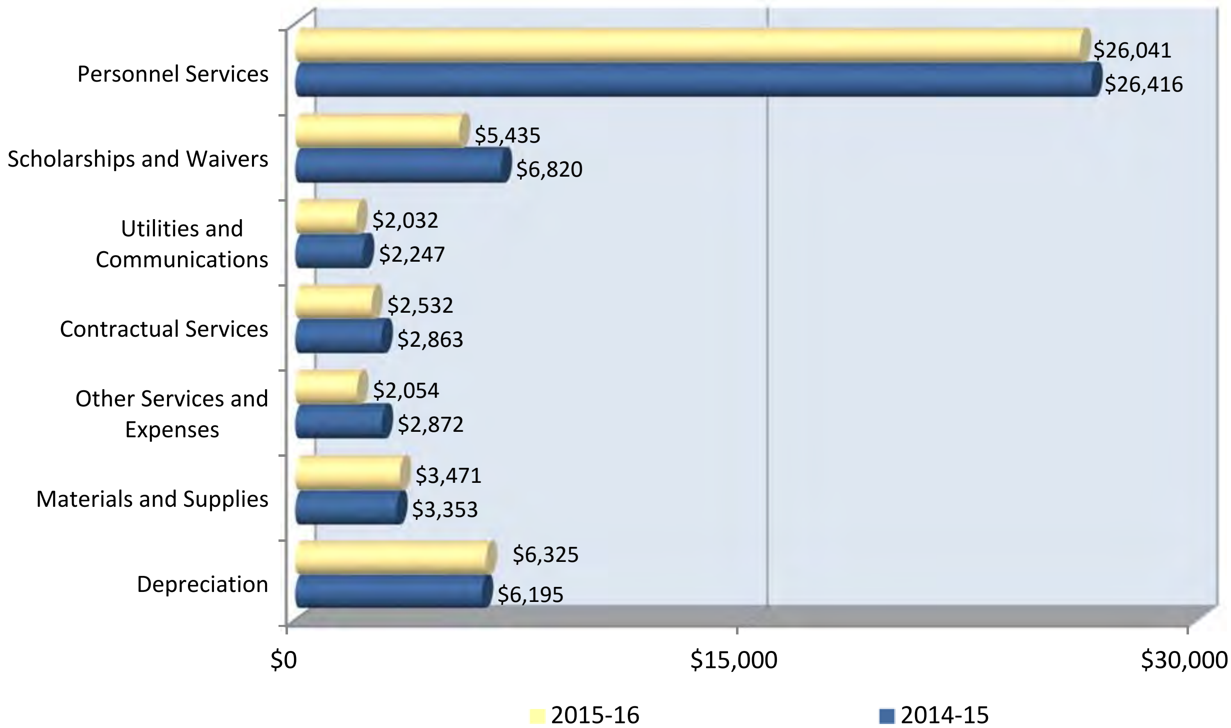
(In Thousands)

	College		Component Unit	
	2015-16	**2014-15**	**2015-16**	**2014-15**
Personnel Services	$ 26,041	$ 26,416	$ -	$ -
Scholarships and Waivers	5,435	6,820	448	437
Utilities and Communications	2,032	2,247	110	107
Contractual Services	2,532	2,863	-	-
Other Services and Expenses	2,054	2,872	2,348	1,565
Materials and Supplies	3,471	3,353	12	14
Depreciation	6,325	6,195	180	181
Total Operating Expenses	$ 47,890	$ 50,766	$ 3,098	$ 2,304

The following chart presents the College's operating expenses for the 2015-16 and 2014-15 fiscal years:

Operating Expenses

(In Thousands)



The decrease of $1.4 million in College scholarships and waivers is attributed to the enrollment decline experienced by the College.

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 2015-16 and 2014-15 fiscal years:

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

	2015-16	2014-15
State Noncapital Appropriations	$ 19,140	$ 19,289
Federal and State Student Financial Aid	7,542	9,764
Gifts and Grants	3,931	2,313
Investment Income	64	24
Other Nonoperating Revenues	14	6
Interest on Capital Asset-Related Debt	(68)	(106)
Net Nonoperating Revenues	$ 30,623	$ 31,290

The decrease of $2.2 million in Federal and State student financial aid is attributed to the enrollment decline experienced by the College. That decrease is partially offset by $1.6 million in additional nonoperating gifts and grants received by the College, resulting in an overall decline in nonoperating revenues.

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 2015-16 and 2014-15 fiscal years:

Other Revenues
For the Fiscal Years

(In Thousands)

	2015-16	2014-15
State Capital Appropriations	$ 624	$ 537
Capital Grants, Contracts, Gifts, and Fees	1,631	1,972
Total	$ 2,255	$ 2,509

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

The Statement of Cash Flows

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. 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 2015-16 and 2014-15 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

	2015-16	2014-15
Cash Provided (Used) by:		
Operating Activities	$ (30,726)	$ (29,439)
Noncapital Financing Activities	32,126	29,971
Capital and Related Financing Activities	300	(1,706)
Investing Activities	64	24
Net Increase (Decrease) in Cash and Cash Equivalents	1,764	(1,150)
Cash and Cash Equivalents, Beginning of Year	15,730	16,880
Cash and Cash Equivalents, End of Year	$ 17,494	$ 15,730

Major sources of funds came from State noncapital appropriations ($19.1 million), net student tuition and fees ($8.4 million), and Federal and State student financial aid ($8.4 million). Major uses of funds were for payments to employees and for employee benefits ($26.7 million), payments to suppliers ($9 million), and payments for scholarships ($5.4 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENT, AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the College had $182.5 million in capital assets, less accumulated depreciation of $67.7 million, for net capital assets of $114.8 million. Depreciation charges for the current fiscal year totaled $6.3 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)

	2016	2015
Land	$ 2,909	$ 2,909
Capitalized Collections	755	755
Software License	232	-
Construction in Progress	851	475
Buildings	104,642	108,174
Other Structures and Improvements	2,394	2,140
Furniture, Machinery, and Equipment	1,070	1,180
Assets Under Capital Lease	185	247
Computer Software	1,778	3,557
Capital Assets, Net	$ 114,816	$ 119,437

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

Capital Expenses and Commitment

The College has completed many of its projects that were in construction in progress at the beginning of the fiscal year and completed new projects, resulting in a $0.7 million increase in other structures and improvements. The College's major construction commitment at June 30, 2016, is as follows:

	Amount (In Thousands)
Total Committed	$ 2,041
Completed to Date	(695)
Balance Committed	$ 1,346

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

Debt Administration

As of June 30, 2016, the College had $3.3 million in outstanding bonds payable, notes payable, and capital lease payable, representing a decrease of $0.2 million, or 5.7 percent, from the prior fiscal year. The following table summarizes the College's outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30

(In Thousands)

	2016	2015
Bonds Payable	$ 187	$ 221
Notes Payable	2,829	2,931
Capital Lease Payable	235	294
Total	$ 3,251	$ 3,446

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2015-16 fiscal year, there were no bond sales. During the 2015-16 fiscal year, the College entered into a note payable of $0.7 million for the purchase of a software license and related support services. Debt repayments during the 2015-16 fiscal year totaled $0.9 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2016-17 fiscal year. The Board of Trustees elected to maintain the same tuition rates for students for the 2016-17 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from the State and students may be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

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

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Northwest Florida State College
A Component Unit of the State of Florida
Statement of Net Position

June 30, 2016

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 7,622,656	$ 570,068
Restricted Cash and Cash Equivalents	4,848,854	-
Restricted Investments	-	7,265,786
Accounts Receivable, Net	1,535,300	-
Notes Receivable, Net	1,369	-
Due from Other Governmental Agencies	381,689	-
Due from Component Unit	37,185	-
Inventories	29,752	-
Prepaid Expenses	391,241	21,529
Total Current Assets	14,848,046	7,857,383
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	5,022,375	-
Restricted Investments	5,260	32,991,569
Depreciable Capital Assets, Net	110,068,816	3,987,837
Nondepreciable Capital Assets	4,747,968	254,001
Total Noncurrent Assets	119,844,419	37,233,407
TOTAL ASSETS	134,692,465	45,090,790
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	2,361,754	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	51,417	11,033
Salary and Payroll Taxes Payable	99,463	-
Due to College	-	37,185
Unearned Revenue	1,431	-
Deposits Held for Others	361,815	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	23,000	-
Notes Payable	579,932	-
Capital Lease Payable	61,262	-
Special Termination Benefits Payable	169,720	-
Compensated Absences Payable	76,555	-
Net Pension Liability	183,023	-
Total Current Liabilities	1,607,618	48,218

Northwest Florida State College
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2016

	College	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	164,000	-
Notes Payable	2,249,338	-
Capital Lease Payable	173,897	-
Special Termination Benefits Payable	59,155	-
Compensated Absences Payable	3,751,201	-
Other Postemployment Benefits Payable	315,585	-
Net Pension Liability	9,790,202	-
Total Noncurrent Liabilities	16,503,378	-
TOTAL LIABILITIES	18,110,996	48,218
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	1,717,308	-
NET POSITION		
Net Investment in Capital Assets	111,945,908	4,241,838
Restricted:		
Nonexpendable:		
Endowment	-	36,479,893
Expendable:		
Grants and Loans	4,869,842	-
Scholarships	41,590	-
Capital Projects	5,253,338	-
Debt Service	4,368	-
Other	-	7,265,786
Unrestricted	(4,889,131)	(2,944,945)
TOTAL NET POSITION	$ 117,225,915	45,042,572

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

Northwest Florida State College
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2016

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $3,266,696	$ 8,902,967	$ -
Federal Grants and Contracts	11,403	-
State and Local Grants and Contracts	2,107,039	-
Nongovernmental Grants and Contracts	42,999	-
Sales and Services of Educational Departments	216,643	-
Auxiliary Enterprises	478,664	-
Other Operating Revenues	1,342,699	672,730
Total Operating Revenues	13,102,414	672,730
EXPENSES		
Operating Expenses:		
Personnel Services	26,041,118	-
Scholarships and Waivers	5,434,862	448,006
Utilities and Communications	2,032,361	109,641
Contractual Services	2,532,302	-
Other Services and Expenses	2,053,487	2,348,437
Materials and Supplies	3,471,044	11,522
Depreciation	6,324,963	180,308
Total Operating Expenses	47,890,137	3,097,914
Operating Loss	(34,787,723)	(2,425,184)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	19,139,554	-
Federal and State Student Financial Aid	7,542,376	-
Gifts and Grants	3,931,335	424,395
Investment Income	64,476	1,420,609
Net Loss on Investments	-	(2,117,933)
Other Nonoperating Revenues	13,927	35,457
Loss on Disposal of Capital Assets	-	(130,330)
Interest on Capital Asset-Related Debt	(68,524)	-
Net Nonoperating Revenues (Expenses)	30,623,144	(367,802)
Loss Before Other Revenues	(4,164,579)	(2,792,986)
State Capital Appropriations	623,579	-
Capital Grants, Contracts, Gifts, and Fees	1,630,642	-
Additions to Permanent Endowments	-	148,467
Total Other Revenues	2,254,221	148,467
Decrease in Net Position	(1,910,358)	(2,644,519)
Net Position, Beginning of Year	119,136,273	47,687,091
Net Position, End of Year	$ 117,225,915	$ 45,042,572

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

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Northwest Florida State College
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2016

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	$ 8,384,508
Grants and Contracts	2,161,441
Payments to Suppliers	(9,017,180)
Payments for Utilities and Communications	(2,032,361)
Payments to Employees	(21,072,000)
Payments for Employee Benefits	(5,585,281)
Payments for Scholarships	(5,434,862)
Auxiliary Enterprises	478,664
Sales and Services of Educational Departments	216,643
Other Receipts	1,173,788
Net Cash Used by Operating Activities	(30,726,640)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	19,139,554
Federal and State Student Financial Aid	8,409,722
Federal Direct Loan Program Receipts	1,080,347
Federal Direct Loan Program Disbursements	(1,080,347)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	4,576,985
Net Cash Provided by Noncapital Financing Activities	32,126,261
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	662,703
State Capital Appropriations	623,579
Capital Grants and Gifts	1,630,642
Proceeds from Sale of Capital Assets	13,927
Purchases of Capital Assets	(1,705,179)
Principal Paid on Capital Debt and Leases	(857,190)
Interest Paid on Capital Debt and Leases	(68,524)
Net Cash Provided by Capital and Related Financing Activities	299,958
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	64,476
Net Increase in Cash and Cash Equivalents	1,764,055
Cash and Cash Equivalents, Beginning of Year	15,729,830
Cash and Cash Equivalents, End of Year	$ 17,493,885

Northwest Florida State College
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)

For the Fiscal Year Ended June 30, 2016

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (34,787,723)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	6,324,963
Changes in Assets, Liabilities, Deferred Outflows of Resources, and Deferred Inflows of Resources:	
Receivables, Net	(518,459)
Inventories	(4,166)
Prepaid Expenses	(347,104)
Accounts Payable	(609,077)
Salary and Payroll Taxes Payable	(379,820)
Unearned Revenue	(65,266)
Deposits Held for Others	(103,645)
Special Termination Benefits Payable	(46,993)
Compensated Absences Payable	242,777
Other Postemployment Benefits Payable	33,745
Net Pension Liability	3,020,423
Deferred Outflows of Resources Related to Pensions	(657,831)
Deferred Inflows of Resources Related to Pensions	(2,828,464)
NET CASH USED BY OPERATING ACTIVITIES	$ (30,726,640)

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. Geographic boundaries of the College correspond with those of Okaloosa and Walton Counties.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the 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 32378. 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, 2016.

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

Measurement Focus and Basis of Accounting. Basis of accounting refers to when revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The College's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The College follows GASB standards of accounting and financial reporting.

The College's component unit uses the economic resources measurement focus and 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, investment income, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. To the extent these resources are used to pay student charges, the College records a scholarship allowance against student tuition and fees.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash with the State Board of Administration (SBA) Florida Prime investment pool. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SBA Florida PRIME investment pool to be cash equivalents.

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

At June 30, 2016, the College reported as cash equivalents $11,051,128 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2016. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those 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, 2016, 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.

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

Component Unit Capital Assets. The Foundation's capital assets consist of land and buildings and are stated at historical cost or estimated fair value at date of acquisition in the case of gifts and surplus property acquired at nominal cost. The Foundation has a capitalization threshold of $1,000 for capital assets. Depreciation for buildings is computed on the straight-line basis over a 40-year estimated useful life.

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 position 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's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

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

Fund	**Net Position**
Current Funds – Unrestricted	$ (6,582,765)
Auxiliary Funds	1,693,634
Total	$ (4,889,131)

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

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 $5,260 at June 30, 2016, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value (Level 1 inputs). The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments.

The investments held by the Foundation at June 30, 2016, are reported at fair value as follows:

Investments by Fair Value Level	Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	$ 1,665,270	$ 1,665,270	$ -	$ -
United States Government and Federally Guaranteed Bonds	9,298,697	-	9,298,697	-
Equity Mutual Funds	28,448,697	23,950,021	-	4,498,676
Life Insurance/Annuities	844,690	-	-	844,690
Total Investments	$ 40,257,354	$ 25,615,291	$ 9,298,697	$ 5,343,366

The Foundation's investments are managed in accordance with an investment policy. The investment policy sets target allocations of investments of 25 percent to 35 percent for fixed income, 55 percent to 65 percent for equities, and 4 to 6 percent for cash and cash equivalents, in order to reduce risk by investing in a diversified portfolio of financial assets, primarily stock funds, bonds or bond funds, and cash equivalents.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy for the Foundation states at least 50 percent of the short-term funds shall be invested in instruments having maturities no greater than 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, 2016, 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, 2016, were rated as follows: $5,399,499 AAA to A- and $2,271,046 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, 2016, 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 not have a policy on custodial credit risk.

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

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a $218,452 allowance for doubtful accounts.

5. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016, is shown in the following table:

Description	Beginning Balance	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	475,214	750,936	374,668	851,482
Total Nondepreciable Capital Assets	$ 4,139,550	$ 983,086	$ 374,668	$ 4,747,968
Depreciable Capital Assets:				
Buildings	$ 156,941,419	$ -	$ -	$ 156,941,419
Other Structures and Improvements	6,269,861	725,380	-	6,995,241
Furniture, Machinery, and Equipment	6,293,395	371,341	378,756	6,285,980
Assets Under Capital Lease	308,303	-	-	308,303
Computer Software	7,226,006	-	-	7,226,006
Total Depreciable Capital Assets	177,038,984	1,096,721	378,756	177,756,949
Less, Accumulated Depreciation:				
Buildings	48,767,659	3,531,459	-	52,299,118
Other Structures and Improvements	4,130,020	471,864	-	4,601,884
Furniture, Machinery, and Equipment	5,113,452	481,543	378,756	5,216,239
Assets Under Capital Lease	61,661	61,661	-	123,322
Computer Software	3,669,134	1,778,436	-	5,447,570
Total Accumulated Depreciation	61,741,926	6,324,963	378,756	67,688,133
Total Depreciable Capital Assets, Net	$ 115,297,058	$ (5,228,242)	$ -	$ 110,068,816

6. Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2016, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 221,000	$ -	$ 34,000	$ 187,000	$ 23,000
Notes Payable	2,930,538	662,703	763,971	2,829,270	579,932
Capital Lease Payable	294,378	-	59,219	235,159	61,262
Special Termination Benefits Payable	275,868	110,962	157,955	228,875	169,720
Compensated Absences Payable	3,584,979	314,477	71,700	3,827,756	76,555
Other Postemployment Benefits Payable	281,840	44,759	11,014	315,585	-
Net Pension Liability	6,952,802	5,996,348	2,975,925	9,973,225	183,023
Total Long-Term Liabilities	$ 14,541,405	$ 7,129,249	$ 4,073,784	$ 17,596,870	$ 1,093,492

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, 2016:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds:			
Series 2014A	$ 181,000	3 - 5	2025
Series 2014B	6,000	5	2017
Total	$ 187,000		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2016, are as follows:

Fiscal Year Ending June 30	SBE Capital Outlay Bonds Principal	Interest	Total
2017	$ 23,000	$ 8,700	$ 31,700
2018	17,000	7,720	24,720
2019	18,000	6,870	24,870
2020	19,000	5,970	24,970
2021	20,000	5,020	25,020
2022-2025	90,000	9,580	99,580
Total	$ 187,000	$ 43,860	$ 230,860

Notes Payable. On July 10, 2012, the College borrowed $5 million, at a stated interest rate of 1.711 percent, to finance the cost of a portion of the College's new enterprise resource planning system. The note matures on July 1, 2019, and principal and interest payments are made quarterly. On September 23, 2015, the College borrowed $662,703, at an imputed interest rate of 2.22 percent, to finance the cost of a portion of a software license and related support services. The note matures on

November 24, 2019, and principal and interest payments are made annually. Annual requirements to amortize the outstanding notes as of June 30, 2016, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2017	$ 579,932	$ 39,745	$ 619,677
2018	923,535	36,732	960,267
2019	940,382	19,885	960,267
2020	385,421	5,169	390,590
Total	$ 2,829,270	$ 101,531	$ 2,930,801

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, 2016, are as follows:

Fiscal Year Ending June 30	Amount
2017	$ 68,301
2018	68,302
2019	68,302
2020	45,534
Total Minimum Payments	250,439
Less, Amount Representing Interest	15,280
Present Value of Minimum Payments	$ 235,159

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 special termination benefits payable of $228,875 as of June 30, 2016, for 13 employees who gave notice to retire under the Program, of which $169,720 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, 2016, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $3,827,756. The current portion of the compensated absences liability, $76,555, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent multiple-employer defined benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB Plan) at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2015-16 fiscal year, 10 retirees received postemployment healthcare benefits. The College provided required contributions of $11,014 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled $75,148, which represents 0.5 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the College's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the College's net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	$ 29,502
Amortization of Unfunded Actuarial Accrued Liability	14,397
Annual Required Contribution	43,899
Interest on Net OPEB Obligation	11,274
Adjustment to Annual Required Contribution	(10,414)
Annual OPEB Cost (Expense)	44,759
Contribution Toward the OPEB Cost	(11,014)
Increase in Net OPEB Obligation	33,745
Net OPEB Obligation, Beginning of Year	281,840
Net OPEB Obligation, End of Year	$ 315,585

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2016, and for the 2 preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013-14	$ 44,180	43.0%	$ 254,482
2014-15	46,419	41.1%	281,840
2015-16	44,759	24.6%	315,585

Funded Status and Funding Progress. As of July 1, 2015, the most recent valuation date, the actuarial accrued liability for benefits was $389,633 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $389,633 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $15,210,998 for the 2015-16 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 2.6 percent.

Actuarial valuations for an OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Actuarially determined amounts regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal cost actuarial method to estimate the actuarial accrued liability as of June 30, 2016, and the College's 2015-16 fiscal year ARC. This method was selected in anticipation of the change outlined in GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 75, *accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 7.5 percent pre-Medicare and 5.5 percent Medicare for the 2015-16 fiscal year, reduced by decrements to an ultimate rate of 5 percent beginning with the 2020-21 fiscal year for pre-Medicare and the 2017-18 fiscal year for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2016, was 21 years.

7. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS).

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

Essentially all regular employees of the College are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site (www.dms.myflorida.com).

The College's FRS and HIS pension expense totaled $643,448 for the fiscal year ended June 30, 2016.

FRS Pension Plan.

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart 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
Special Risk Regular	
Service on and after October 1, 1974	3.00
Senior Management Service Class	2.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is 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 2015-16 fiscal year were:

	Percent of Gross Salary	
Class	**Employee**	**Employer** (1)
FRS, Regular	3.00	7.26
FRS, Senior Management Service	3.00	21.43
FRS, Special Risk	3.00	22.04
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.88
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 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 $867,848 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the College reported a liability of $4,986,624 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.038607095 percent, which was a decrease of 0.000238362 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of $313,423. 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	$ 526,440	$ 118,268
Change of assumptions	330,979	-
Net difference between projected and actual earnings on FRS Plan investments	-	1,190,722
Changes in proportion and differences between College FRS contributions and proportionate share of contributions	-	191,199
College FRS contributions subsequent to the measurement date	867,848	-
Total	$ 1,725,267	$ 1,500,189

The deferred outflows of resources related to pensions totaling $867,848, 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, 2017. 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
2017	$ (542,383)
2018	(542,383)
2019	(542,383)
2020	440,000
2021	534,453
Thereafter	9,926
Total	$ (642,770)

Actuarial Assumptions. The total pension liability in the July 1, 2015, 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	7.65 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, 2015, 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%	3.2%	3.1%	1.7%
Fixed Income	18%	4.8%	4.7%	4.7%
Global Equity	53%	8.5%	7.2%	17.7%
Real Estate (Property)	10%	6.8%	6.2%	12.0%
Private Equity	6%	11.9%	8.2%	30.0%
Strategic Investments	12%	6.7%	6.1%	11.4%
Total	100%			
Assumed inflation - Mean		2.6%		1.9%

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

Discount Rate. The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.65 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 (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	**Current Discount Rate (7.65%)**	**1% Increase (8.65%)**
College's proportionate share of the net pension liability	$ 12,921,471	$ 4,986,624	$ (1,616,472)

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.

<u>HIS Pension Plan</u>.

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, 2016, 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, 2016, the contribution rate was 1.66 percent of payroll pursuant to Section 112.363, Florida Statutes. The College contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The College's contributions to the HIS Plan totaled $241,473 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the College reported a net pension liability of $4,986,601 for its proportionate share of the net pension liability. The current portion of the net pension liability is the College's proportionate share of benefit payments expected to be paid within one year, net of the College's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2014. The College's proportionate share of the net pension liability was based on the College's 2014-15 fiscal year contributions relative to the total 2014-15 fiscal year contributions of all participating members. At June 30, 2015, the College's proportionate share was 0.048895787 percent, which was a decrease of 0.000115320 from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the College recognized pension expense of $330,025. 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
Change of assumptions	$ 392,315	$ -
Net difference between projected and actual earnings on HIS Plan investments	2,699	-
Changes in proportion and differences between College HIS contributions and proportionate share of HIS contributions	-	217,119
College contributions subsequent to the measurement date	241,473	-
Total	$ 636,487	$ 217,119

The deferred outflows of resources totaling $241,473, 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, 2017. 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
2017	$ (110,370)
2018	(110,370)
2019	(110,372)
2020	(110,918)
2021	(111,183)
Thereafter	731,108
Total	$ 177,895

Actuarial Assumptions. The total pension liability at July 1, 2015, determined by applying update procedures to the actuarial valuation at July 1, 2014, used 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	3.80 percent

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

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

Discount Rate. The discount rate used to measure the total pension liability was 3.8 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 4.29 percent from the prior measurement date

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the College's proportionate share of the net pension liability calculated using the discount rate of 3.8 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 (2.8 percent) or 1 percentage point higher (4.8 percent) than the current rate:

	1% Decrease (2.8%)	Current Discount Rate (3.8%)	1% Increase (4.8%)
College's proportionate share of the net pension liability	$ 5,682,000	$ 4,986,601	$ 4,406,743

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.

8. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2015-16 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, 2016, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

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

The College's Investment Plan pension expense totaled $194,598 for the fiscal year ended June 30, 2016.

State College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 2.65 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.8 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 $133,562, and employee contributions totaled $77,856 for the 2015-16 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 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 of the employee's salary to the Local Annuity Program. The participants may make contributions toward the Local Annuity Program by way of salary reduction or by deduction of a percentage of the employee's gross compensation not to exceed the percentage contributed by the employer.

The College's contributions to the Local Annuity Program totaled $49,247, and employee contributions totaled $12,739 for the 2015-16 fiscal year.

9. Construction Commitment

The College's major construction commitment at June 30, 2016, is as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Fort Walton Beach Underground Water Lines	$ 2,041,050	$ 695,132	$ 1,345,918

10. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to $200 million for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

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

11. Functional Distribution of Operating Expenses

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

Functional Classification	Amount
Instruction	$ 17,265,271
Public Services	760,444
Academic Support	4,145,298
Student Services	3,610,045
Institutional Support	5,641,186
Operation and Maintenance of Plant	3,979,777
Scholarships and Waivers	5,434,862
Depreciation	6,324,963
Auxiliary Enterprises	728,291
Total Operating Expenses	$ 47,890,137

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	$ -	$ 366,500	$ 366,500	0%	$ 15,489,857	2.4%
7/1/2013	-	404,125	404,125	0%	14,787,636	2.7%
7/1/2015	-	389,633	389,633	0%	15,210,998	2.6%

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

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

	2015 (1)	**2014** (1)	**2013** (1)
College's proportion of the FRS net pension liability	0.038607095%	0.038845457%	0.040206490%
College's proportionate share of the FRS net pension liability	$ 4,986,624	$ 2,370,144	$ 6,921,326
College's covered-employee payroll (2)	$ 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-employee payroll	27.70%	13.45%	38.17%
FRS Plan fiduciary net position as a percentage of the total pension liability	92.00%	96.09%	88.54%

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

(2) Covered-employee payroll includes defined benefit plan actives, investment 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

	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	$ 867,848	$ 941,274	$ 850,880
FRS contributions in relation to the contractually required contribution	(867,848)	(971,274)	(850,880)
FRS contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll (2)	$ 17,138,610	$ 18,000,576	$ 17,622,678
FRS contributions as a percentage of covered-employee payroll	5.06%	5.23%	4.83%

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

(2) Covered-employee payroll includes defined benefit plan actives, investment 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

	2015 (1)	2014 (1)	2013 (1)
College's proportion of the HIS net pension liability	0.048895787%	0.049011107%	0.052321728%
College's proportionate share of the HIS net pension liability	$ 4,986,601	$ 4,582,658	$ 4,555,294
College's covered-employee payroll (2)	$ 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-employee payroll	27.70%	26.00%	25.12%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.50%	0.99%	1.78%

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

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

Schedule of College Contributions –
Health Insurance Subsidy Pension Plan

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

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

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

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 4.29 percent to 3.8 percent.

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON 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, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 2, 2017, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Sherrill F. Norman

Sherrill F. Norman, CPA
Tallahassee, Florida
February 2, 2017

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-137
March 2018

NORTHWEST FLORIDA STATE COLLEGE

For the Fiscal Year Ended
June 30, 2017

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

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

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

[a] Member resigned 10-15-16, position remained vacant at fiscal year end.
Note: One member position was vacant during the period.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

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

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

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State of Florida Auditor General

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NORTHWEST FLORIDA STATE COLLEGE

TABLE OF CONTENTS

SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements of Northwest Florida State College (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether Northwest Florida State College and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, which represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northwest Florida State College and of its discretely presented component unit as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of College Contributions – Florida Retirement System Pension Plan**, **Schedule of the College's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of College Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2018, on our consideration of the Northwest Florida State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Northwest Florida State College's internal control over financial reporting and compliance.

Respectfully submitted,

Sherrill F. Norman

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

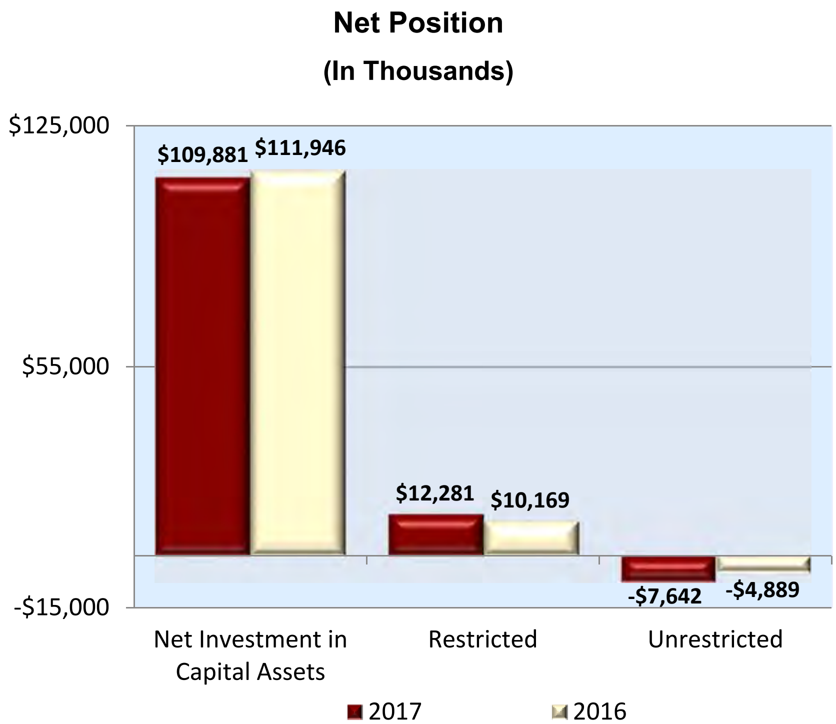
Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are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

FINANCIAL HIGHLIGHTS

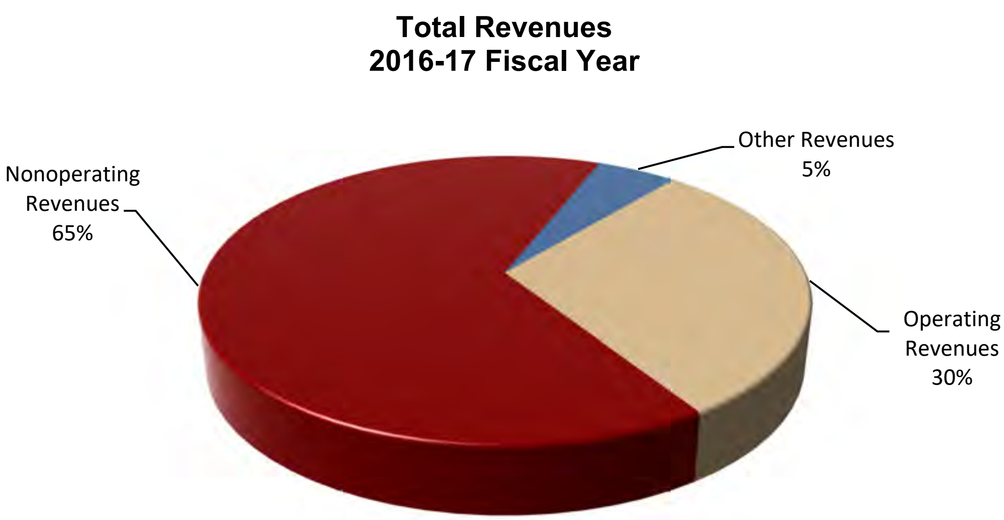
The College's assets and deferred outflows of resources totaled $135.5 million at June 30, 2017. This balance reflects a $1.6 million, or 1.2 percent, decrease as compared to the 2015-16 fiscal year, resulting mainly from the net of depreciation of capital assets and an increase in deferred outflows.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

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

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



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



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the College and its component unit, Northwest Florida State College Foundation, Inc. (Foundation). Based on the application of the criteria for determining component units, the Foundation is included within the College reporting entity as a discretely presented component unit.

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

The Statement of Net Position

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

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

Condensed Statement of Net Position at June 30

(In Thousands)

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

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

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

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

The following summarizes the activities of the College and its component unit for the 2016-17 and 2015-16 fiscal years:

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

(In Thousands)

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

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value.

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

Operating Revenues
For the Fiscal Years

(In Thousands)

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

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

Operating Revenues

(In Thousands)

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

Operating Expenses

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

The following summarizes operating expenses by natural classification for the College and its component unit for the 2016-17 and 2015-16 fiscal years:

Operating Expenses
For the Fiscal Years

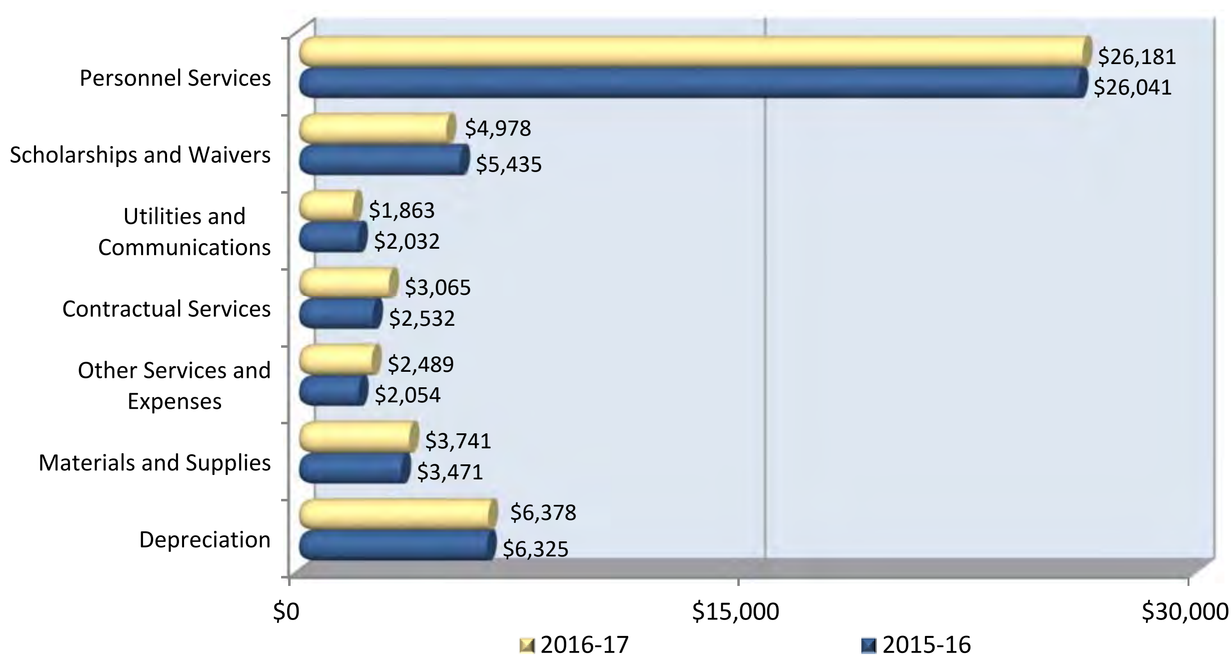
(In Thousands)

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

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

Operating Expenses

(In Thousands)



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

Nonoperating Revenues and Expenses

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

Nonoperating Revenues (Expenses)
For the Fiscal Years

(In Thousands)

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

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

Other Revenues

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

Other Revenues
For the Fiscal Years

(In Thousands)

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

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

The Statement of Cash Flows

The statement of cash flows provides information about the College's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the College. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes the College's cash flows for the 2016-17 and 2015-16 fiscal years:

Condensed Statement of Cash Flows
For the Fiscal Years

(In Thousands)

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

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

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

Capital Assets

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

Capital Assets, Net at June 30

(In Thousands)

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

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

Capital Expenses and Commitments

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

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

Debt Administration

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

Long-Term Debt at June 30

(In Thousands)

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

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2016-17 fiscal year, there were no bond sales and debt repayments totaled $23,000. Additional information about the College's long-term debt is presented in the notes to financial statements.

Economic Factors That Will Affect the Future

The College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the 2017-18 fiscal year. The Board of Trustees voted to maintain the same tuition rates for the 2017-18 fiscal year. The College's current financial and capital plans indicate that the infusion of additional financial resources from the State and students may be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

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

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

June 30, 2017

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

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

June 30, 2017

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

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

NORTHWEST FLORIDA STATE COLLEGE
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Year Ended June 30, 2017

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

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

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

For the Fiscal Year Ended June 30, 2017

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

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

For the Fiscal Year Ended June 30, 2017

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

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The governing body of Northwest Florida State College, a component unit of the State of Florida, is the College Board of Trustees. The Board of Trustees constitutes a corporation and is composed of eight members appointed by the Governor and confirmed by the Senate. The Board of Trustees is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education (SBE) rules. However, the Board of Trustees is directly responsible for the day-to-day operations and control of the College within the framework of applicable State laws and SBE rules. The College serves Okaloosa and Walton Counties.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the Board of Trustees are such that exclusion would cause the College's financial statements to be misleading. Based on the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, Northwest Florida State College Foundation, Inc. (Foundation), a legally separate entity, is included within the College's reporting entity as a discretely presented component unit and is governed by a separate board.

The Foundation is also a direct-support organization, as defined in Section 1004.70, Florida Statutes, and although legally separate from the College, is financially accountable to the College. The Foundation is managed independently, outside the College's budgeting process, and its powers generally are vested in a governing board pursuant to various State statutes. The Foundation receives, holds, invests, and administers property, and makes expenditures to or for the benefit of the College.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public and can be obtained from the Vice President of College Advancement, Northwest Florida State College, 100 College Boulevard, Niceville, Florida 32578. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2017.

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options. The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
  - 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 the accrual basis of accounting, and follows GASB standards of accounting and financial reporting.

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income. Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the College's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. To the extent these resources are used to pay student charges, the College records a scholarship allowance against student tuition and fees.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash with State Board of Administration (SBA) Florida PRIME investments. For reporting cash flows, the College considers all highly liquid investments with original maturities of 3 months or less, that are not held solely for income or profit to be cash equivalents. Under this definition, the College considers amounts invested in the Florida PRIME investment pools to be cash equivalents.

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

At June 30, 2017, the College reported as cash equivalents $12,839,277 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 39 days as of June 30, 2017. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at amortized cost. Section 218.409(8)(a), Florida Statutes, states that "the principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the executive director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board [State Board of Administration] can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The trustees shall convene an emergency meeting as soon as practicable from the time the executive director has instituted such measures and review the necessity of those measures. If the trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the executive director until the trustees are able to meet to review the necessity for the moratorium. If the trustees agree with such measures, the trustees shall vote to continue the measures for up to an additional 15 days. The trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the trustees exceed 15 days." As of June 30, 2017, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100 percent of their account value.

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

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
  - 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, note payable, capital lease payable, special termination benefits payable, compensated absences payable, other postemployment benefits payable, and net pension liability that are not scheduled to be paid within the next fiscal year.

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

2. Deficit Net Position in Individual Funds

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

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

3. Investments

The Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and other investments approved by the Board of Trustees as authorized by law.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

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

State Board of Administration Debt Service Accounts

The College reported investments totaling $3,873 at June 30, 2017, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of 6 months or less, and are reported at fair value (Level 1 inputs). The College relies on policies developed by the SBA for managing interest rate risk and credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

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

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

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

		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)**
Money Market Funds	$ 1,272,721	$ 1,272,721	$ -	$ -
United States Government and Federally Guaranteed Bonds	7,983,977	-	7,983,977	-
Equity Mutual Funds	32,680,867	27,880,672	-	4,800,195
Life Insurance/Annuities	2,375,240	-	-	2,375,240
Total investments by fair value level	$ 44,312,805	$ 29,153,393	$ 7,983,977	$ 7,175,435

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy for the Foundation states at least 50 percent of the short-term funds shall be invested in instruments having maturities no greater than 2 years. No more than 25 percent may be invested in instruments that have maturities greater than 2 years and less than 5 years, and no more than 25 percent may be invested in instruments that have maturities greater than 5 years. The short-term funds are required to be invested in any of the following: obligations of the United States (U.S.) government or agencies, obligations of agencies with implied Federal sponsorship and guarantees, certificates of deposit, deposits that are insured by the Federal Deposit Insurance Corporation, repurchase agreements, money market accounts, or government security mutual funds. The investments at June 30, 2017, meet the Foundation's investment policy restrictions.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Common stocks should be held in seasoned, quality, well-managed and highly marketable companies whose prospects appear good for growth of earnings, dividends, and appreciation. Fixed income securities should be of the four highest bond ratings or the two highest commercial paper ratings. Corporate bonds (included in equity mutual funds above) held by the Foundation at June 30, 2017, were rated as follows: $3,732,970 AAA to A- and $2,348,640 BBB+ to BBB-.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy requires that investments are to be diversified to the extent that no more than 4 percent of the funds may be invested in any one security, no more than 30 percent in any one industry, and the Foundation should not control more than 10 percent of the debt or stock in any one company. These restrictions do not apply to obligations of the Federal government. As of June 30, 2017, the Foundation does not have a concentration of credit risk.

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

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

4. Accounts Receivable

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, uncollected commissions for food service and vending machine sales, unused credit memos, and contract and grant reimbursements due from third parties. The accounts receivable are reported net of a $144,217 allowance for doubtful accounts.

5. Notes Receivable

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

6. Capital Assets

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

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

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

7. Long-Term Liabilities

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

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

Bonds Payable. The SBE issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the SBA administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2017:

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

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

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

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

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

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

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

Special Termination Benefits Payable. The Board has established a retirement incentive program (Program) that is available to certain College employees based on age and years of service. Under the Program, eligible employees receive payment for accumulated sick leave based on years of service as defined in Section 1012.865, Florida Statutes, and a salary bonus equal to no more than 10 percent of the final year's annual contract salary. The College reported a special termination benefits payable of $150,515 as of June 30, 2017, for seven employees who gave notice to retire under the Program, of which $97,588 represents the current portion.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled $3,389,474. The current portion of the compensated absences liability, $67,789, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for other postemployment benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent multiple-employer defined benefit plan administered by the Consortium for postemployment benefits. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's health, dental, vision, and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Other Postemployment Benefits Plan (OPEB Plan) at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the OPEB Plan and the OPEB Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and the Board of Trustees can amend OPEB Plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2016-17 fiscal year, 78 retirees received postemployment healthcare benefits. The College provided required contributions of $17,596 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled $84,792, which represents 0.5 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The College's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the College's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the College's net OPEB obligation:

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

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014-15	$ 46,419	41.1%	$ 281,840
2015-16	44,759	24.6%	315,585
2016-17	47,335	37.2%	345,324

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

Actuarial valuations for an OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Actuarially determined amounts regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's OPEB actuarial valuation as of July 1, 2015, used the entry age normal actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the College's 2016-17 fiscal year ARC. This method was selected in anticipation of the change outlined in GASB Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year, an inflation rate of 2.6 percent per year, and an annual healthcare cost trend rate of 6.75 percent pre-Medicare and 5.25 percent Medicare for the 2016-17 fiscal year, reduced by decrements to an ultimate rate of 5 percent beginning with the 2020-21 fiscal year for pre-Medicare and the 2017-18 fiscal year for Medicare. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll amortized over 30 years on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

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

8. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

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

Essentially all regular employees of the College are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

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

FRS Pension Plan

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

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

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service, and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

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

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	
Service on and after October 1, 1974	3.00

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

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

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

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

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the College reported a liability of $8,985,773 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The College's proportionate share of the net pension liability was based on the College's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the College's proportionate share was 0.035587109 percent, which was a decrease of 0.003019986 from its proportionate share measured as of June 30, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HIS Pension Plan

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

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of $5 for each year of creditable service completed at the time of retirement with a minimum HIS payment of $30 and a maximum HIS payment of $150 per month, pursuant to Section112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

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

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

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

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

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

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

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

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

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

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

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

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

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

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

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

9. Retirement Plans – Defined Contribution Pension Plans

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

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, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the College.

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

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

State College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes 5.15 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS pension plan, and 0.01 percent to cover the administrative costs, for a total of 7.99 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the college to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The College's contributions to the Program totaled $121,792 and employee contributions totaled $70,947 for the 2016-17 fiscal year.

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

The Local Annuity Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the employee. The College contributes 10 percent or 13.5 percent, dependent on position, of the employee’s salary to the Local Annuity Program. The participants may make contributions toward the Local Annuity Program by way of salary reduction or by deduction of a percentage of the employee’s gross compensation not to exceed the percentage contributed by the employer.

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

10. Risk Management Programs

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide college risk management program. The Consortium is self-sustaining through member assessments (premiums) and purchases excess insurance through commercial companies for claims in excess of specified amounts. Excess insurance from commercial companies provided coverage of up to $200 million for property insurance. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers’ compensation, health, life, and other liability coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past 3 fiscal years.

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

11. Functional Distribution of Operating Expenses

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

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

12. Subsequent Event

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

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	$ -	$ 366,500	$ 366,500	0%	$ 15,489,857	2.4%
7/1/2013	-	404,125	404,125	0%	14,787,636	2.7%
7/1/2015	-	389,633	389,633	0%	15,210,998	2.6%

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

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

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

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

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

Schedule of College Contributions – Florida Retirement System Pension Plan

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

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

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

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

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

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

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

Schedule of College Contributions – Health Insurance Subsidy Pension Plan

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

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

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

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

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

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

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.

Sherrill F. Norman, CPA
Auditor General

AUDITOR GENERAL
STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Phone: (850) 412-2722
Fax: (850) 488-6975

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northwest Florida State College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 8, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Sherrill F. Norman

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

COLLEGES AND UNIVERSITIES RATE AGREEMENT

EIN: 59-1214054

ORGANIZATION:
Northwest Florida State College
100 College Boulevard
Niceville, FL 32578

DATE:02/28/2017

FILING REF.: The preceding agreement was dated 08/19/2013

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: Facilities And Administrative Cost Rates

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

TYPE	FROM	TO	RATE(%)	LOCATION	APPLICABLE TO
PRED.	07/01/2016	06/30/2020	46.00	On-Campus	All Programs
PRED.	07/01/2016	06/30/2020	20.00	Off-Campus	All Programs
PROV.	07/01/2020	Until Amended			Use same rates and conditions as those cited for fiscal year ending June 30, 2020.

*BASE

Total direct costs excluding capital expenditures (buildings, individual items of equipment; alterations and renovations) and subawards.

SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

OFF-SITE DEFINITION: For all activities performed in facilities not owned by the organization and to which rent is directly allocated to the project(s), the off-site rate will apply. Grants or contracts will not be subject to more than one indirect cost rate. If more than 50% of a project is performed off-site, the off-site rate will apply to the entire project.

Fringe Benefits include: FICA, Workers' Compensation, Unemployment Insurance, Retirement, Health, Dental Insurance (for President only), and Life Insurance.

Equipment means an article of nonexpendable tangible personal property having a useful life of more than one year, and an acquisition cost of $5,000 or more per unit.

A proposal for fiscal year ending 06/30/2019 is due in our office by 12/31/2019.

ORGANIZATION: Northwest Florida State College

AGREEMENT DATE: 2/28/2017

SECTION III: GENERAL

A. LIMITATIONS:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its facilities and administrative cost pools as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as facilities and administrative costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government.

B. ACCOUNTING CHANGES:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from facilities and administrative to direct. Failure to obtain approval may result in cost disallowances.

C. FIXED RATES:

If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs.

D. USE BY OTHER FEDERAL AGENCIES:

The rates in this Agreement were approved in accordance with the authority in Title 2 of the Code of Federal Regulations, Part 200 (2 CFR 200), and should be applied to grants, contracts and other agreements covered by 2 CFR 200, subject to any limitations in A above. The organization may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.

E. OTHER:

If any Federal contract, grant or other agreement is reimbursing facilities and administrative costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of facilities and administrative costs allocable to these programs.

BY THE INSTITUTION:	ON BEHALF OF THE FEDERAL GOVERNMENT:
Northwest Florida State College	DEPARTMENT OF HEALTH AND HUMAN SERVICES
(INSTITUTION)	(AGENCY)
Randall L White	Darryl W. Mayes -A Digitally signed by Darryl W. Mayes -A DN: c=US, o=U.S. Government, ou=HHS, ou=PSC, ou=People, 0.9.2342.19200300.100.1.1=2000117669, cn=Darryl W. Mayes -A Date: 2017.03.08 09:51:17 -05'00'
(SIGNATURE)	(SIGNATURE)
Randall White	Darryl W. Mayes
(NAME)	(NAME)
VP Administrative Services/CFO	Deputy Director, Cost Allocation Services
(TITLE)	(TITLE)
3/9/2017	2/28/2017
(DATE)	(DATE) 7231
	HHS REPRESENTATIVE: Lucy Siow
	Telephone: (301) 492-4855