

**NORTHWEST FLORIDA STATE COLLEGE
FOUNDATION, INC.**

A COMPONENT UNIT OF NORTHWEST FLORIDA STATE COLLEGE

FINANCIAL STATEMENTS

Years Ended June 30, 2018 and 2017

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwest Florida State College Foundation, Inc.
Niceville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Florida State College Foundation, Inc. (the "Foundation"), a direct support organization and component unit of the Northwest Florida State College as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Foundation'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 an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. 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 Foundation's 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 Foundation's internal control over financial reporting and compliance.



Bradenton, Florida
January 16, 2019

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

(Unaudited)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Northwest Florida State College Foundation, Inc. (the "Foundation") for the fiscal year ended June 30, 2018, with comparative information for fiscal years ending 2017 and 2016, and should be read in conjunction with the financial statements and notes thereto. This report includes financial statements presented and prepared with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB) as this is the presentation used in the Northwest Florida State College (the "College") Annual Financial Report. Foundation management has prepared the financial statements and related note disclosures along with the discussion and analysis. The responsibility for the completeness and fairness of this information rests with Foundation management.

The Foundation is a Florida not-for-profit corporation formed in 1988 to encourage, solicit, receive and administer gifts and bequests of property and funds to support the College and advance its mission and objectives. The Foundation is a direct support organization of the College.

FINANCIAL HIGHLIGHTS

The Foundation's financial position remained strong at June 30, 2018, with total assets of \$51,495,519 and liabilities of \$113,139, resulting in a net position of \$51,382,380 at June 30, 2018. Net position increased from July 1, 2017 to June 30, 2018, by 5%.

The Foundation's investments showed a return (net of fees) of approximately 8.25% from July 1, 2017 to June 30, 2018. As of June 30, 2018, the Foundation's cumulative return on investments (net of fees) was 19.49% since July 1, 2015.

USING THIS ANNUAL REPORT

The financial statements consist of three basic financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These financial statements are prepared in accordance with GASB accounting principles and guidelines, which establish standards for external financial reporting for public colleges, universities and other governmental entities. The Foundation is required to prepare its annual report in accordance with GASB due to its formation under Florida Statute 1004.70 and the component unit relationship with the College. These statements present a long-term view of the Foundation's finances.

THE STATEMENT OF NET POSITION

The statement of net position presents the financial position of the Foundation at the end of the fiscal year and includes all assets and liabilities of the Foundation. The difference between total assets and total liabilities – net position – is an indicator of the current financial condition of the Foundation. The change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical costs less an allowance for depreciation.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

A summarized comparison of the Foundation's assets, liabilities and net position at June 30, 2018, 2017, and 2016, is presented in the following table:

NET POSITION
(In Thousands)

	Foundation		
	Jun-18	Jun-17	Jun-16
Assets			
Current Assets	\$14,668	\$12,682	\$ 7,872
Capital Assets, Net	3,907	4,074	4,242
Other Non-current Assets	32,920	32,174	32,991
Total Assets	<u>\$51,495</u>	<u>\$48,930</u>	<u>\$45,105</u>
Liabilities			
Current Liabilities	\$ 113	\$ 62	\$ 63
Total Liabilities	<u>\$ 113</u>	<u>\$ 62</u>	<u>\$ 63</u>
Net Position			
Invested in Capital Assets	\$ 3,907	\$ 4,074	\$ 4,242
Restricted	49,663	47,356	43,745
Unrestricted	(2,188)	(2,561)	(2,945)
Total Net Position	<u>51,382</u>	<u>48,869</u>	<u>45,043</u>
Total Liabilities and Net Position	<u>\$51,495</u>	<u>\$48,930</u>	<u>\$45,106</u>

Current assets primarily consist of cash, cash equivalents, accounts receivables and investments. Non-current assets consist of net capital assets and endowment investments. A review of the Foundation's statement of net position at June 30, 2018 and 2017, shows that the Foundation's net position increased by 5% from 2017 to 2018.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Foundation capitalizes assets with a value of \$5,000 and greater for financial reporting purposes. As of June 30, 2018, there was \$3.9 million invested in capital assets net of accumulated depreciation. Capital assets of the Foundation at June 30, 2018, 2017, and 2016, are presented in the following table:

CAPITAL ASSETS
(In Thousands)

	Foundation		
Capital Assets	Jun-18	Jun-17	Jun-16
Non-depreciable Capital Assets:			
Land	\$ 254	\$ 254	\$ 254
Total Non-depreciable Capital Assets	254	254	254
Depreciable Capital Assets:			
Apartment Buildings	\$ 3,653	\$ 3,820	\$ 3,988
Total Depreciable Capital Assets, Net of Depreciation	3,653	3,820	3,988
Capital Assets, Net of Depreciation	\$ 3,907	\$ 4,074	\$ 4,242

DEBT

All capital improvements are through internal financing and therefore the Foundation does not have any long-term debt.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

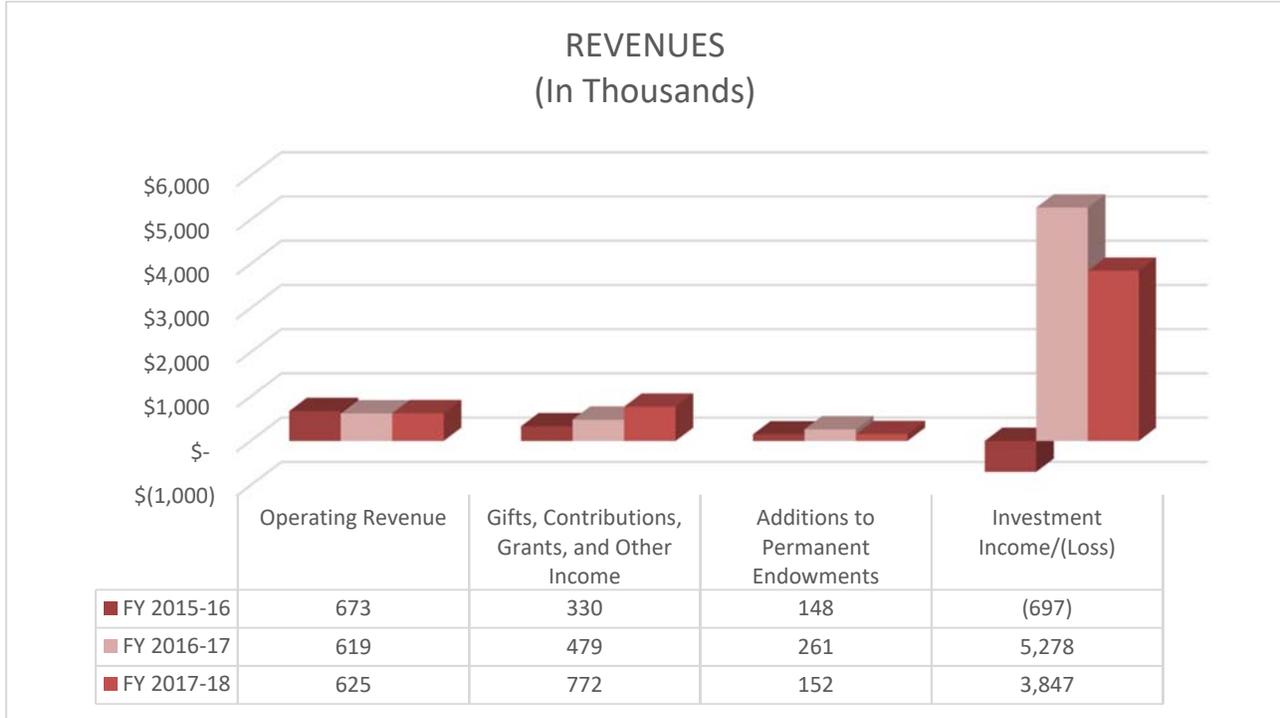
The statement of revenues, expenses and changes in net position presents the Foundation's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating. A summary of the Foundation's revenues, expenses, and changes in net position for the fiscal year ended June 30, 2018, 2017, and 2016, is presented in the following table:

REVENUES, EXPENSES AND CHANGES IN NET POSITION
(In Thousands)

	Foundation		
	Jun-18	Jun-17	Jun-16
Operating Revenues			
Rental Income	\$ 575	\$ 569	\$ 621
Membership Revenue	50	50	52
Total Operating Revenues	625	619	673
Less Operating Expenses	2,883	2,811	3,098
Operating Loss	<u>(2,258)</u>	<u>(2,192)</u>	<u>(2,425)</u>
Nonoperating Revenues			
Gifts and Grants	613	405	424
Investment Income	1,363	1,281	1,421
Realized Gain (Loss) on Investments	2,297	885	251
Unrealized Gain (Loss) on Investments	187	3,112	(2,369)
Miscellaneous Income	159	74	(94)
Nonoperating Revenues	<u>4,619</u>	<u>5,757</u>	<u>(367)</u>
Gain (Loss) Before Additions to Permanent Endowments	2,361	3,565	(2,792)
Additions to Permanent Endowments	<u>152</u>	<u>261</u>	<u>148</u>
Increase (Decrease) in Net Position	2,514	3,826	(2,644)
Net Position, Beginning of Year	<u>48,869</u>	<u>45,043</u>	<u>47,687</u>
Net Position, End of Year	<u>\$51,382</u>	<u>\$48,869</u>	<u>\$45,043</u>
Increase (Decrease) in Net Position	5.1%	8.5%	-5.5%

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

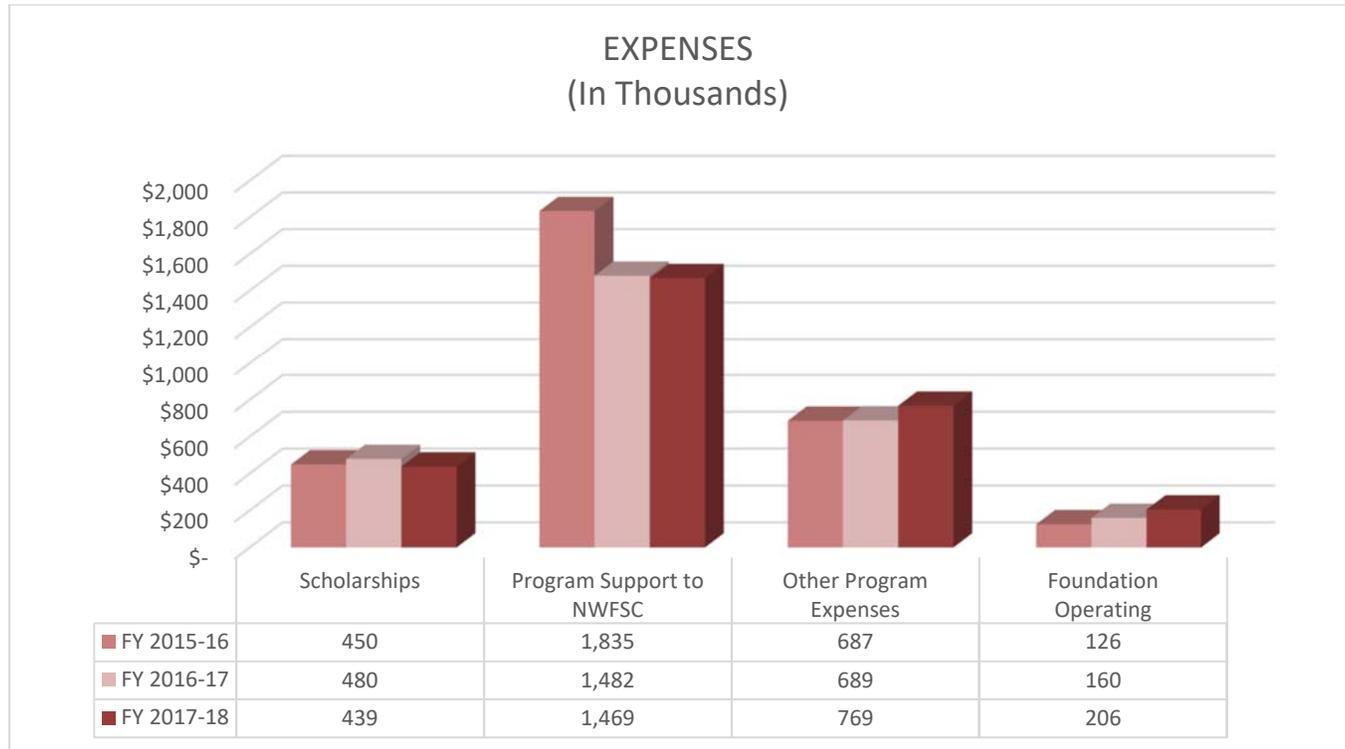
The following is a graphical presentation of Foundation revenues for fiscal year ended June 30, 2018, as compared to fiscal years ended June 30, 2017, and June 30, 2016:



Operating revenue remained fairly consistent from fiscal year 2017 to 2018 increasing by a minimal \$6 thousand dollars. Total gifts, contributions, grants and other income increased \$293 thousand. Additions to permanent endowments decreased \$109 thousand from the prior year. The most significant difference is shown in investment income with a decrease of \$1.4 million from 2017 to 2018, which is attributed to a leveling off of market returns during the year.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

In addition to presenting expenses by natural classification, as shown on the statement of revenues, expenses and changes in net position, it is also informative to review operating expenses by functional activity. A comparative summary of Foundation expenses by functional classification for fiscal years 2018, 2017, and 2016, are shown in the following table:



Overall expenses increased \$72 thousand from 2017 to 2018. In total, program support decreased \$13 thousand and scholarship expenses paid to the College decreased \$41 thousand in fiscal year 2018. Both types of expense allocations, program support and scholarships, are funded primarily by endowment earnings in accordance with the Foundation’s spending policy – awards of up to 4%, calculated by using the average of the prior three year-end balances for each endowment when earnings are available.

Other program expenses, not transferred to the College but expended through the Foundation for program initiatives, including those associated with managing the College Courtyard apartment complex, increased \$80 thousand.

Foundation operating expenses increased \$46 thousand from 2017 to 2018. Legislative initiatives remain a focus of the College, and consequently the Foundation saw an increase in consulting expenses with the renewal of contracted lobbying services for the fiscal year.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the Foundation's financial results by reporting the major sources and uses of cash. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its need for external financing.

A comparative summary of the statement of cash flows for the Foundation for the fiscal years ended June 30, 2018, 2017, and 2016, is shown in the following table:

CASH FLOWS
(In Thousands)

	Foundation		
	Jun-18	Jun-17	Jun-16
Cash Used by:			
Operating Activities	\$(2,053)	\$(2,011)	\$(2,230)
Noncapital Financing Activities	924	739	478
Investing Activities	946	1,223	1,534
 Net Decrease in Cash and Cash Equivalents	 (183)	 (49)	 (218)
 Cash and Cash Equivalents, Beginning of the Year	 521	 570	 788
 Cash and Cash Equivalents, End of Year	 \$ 338	 \$ 521	 \$ 570

The Foundation's liquidity remained stable during the reporting year. For the purpose of cash flows, the Foundation considers cash equivalents to include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. The following discussion presents an overview of cash flows:

During the fiscal year ended June 30, 2018, cash and cash equivalents decreased \$183 thousand. The Foundation has adequate funds on hand to pay invoices upon demand and approval.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(Unaudited)

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of the Northwest Florida State College Foundation is closely tied to Okaloosa and Walton Counties, and the State of Florida.

The Dr. Philip Benjamin Matching Program for Community Colleges was implemented to leverage private donations to community colleges by providing state matching funds. As of June 29, 2011, the Philip Benjamin Matching program has been suspended per Florida Statute 1011.85.

Investment income plays a key role in generating revenues for the Foundation. Also tied to investment earnings is the ability to provide scholarships and program support to Northwest Florida State College through various endowments. Foundation investment accounts remain well-diversified and moderately invested targeting 55% equity and 30% fixed income, with the remainder in alternative investments and cash.

The Foundation Board of Directors and management continue to carefully monitor the status of underwater funds. An underwater status is defined as a fund in which the total fund balance is less than the corpus, or donor principal. Foundation policy states that endowments with a fair market value below corpus will receive no spending allocation. This deficit can only be overcome through positive investment earnings. Of the 291 endowed funds, 2 were in an underwater status as of June 30, 2018. This is a decrease from 6 and 15 underwater funds in fiscal years 2017 and 2016, respectively. This continued decrease is directly attributed to a strong investment market over the past three fiscal years.

In fiscal year 2017, Northwest Florida State College implemented Blackboard Analytics, an additional report writing software in the Advancement and Finance functional areas. Blackboard Analytics will provide access to data and improve donor stewardship activities and strategic planning. Data analysis continues to be a primary focus for Foundation staff.

Under the leadership of President Dr. Devin Stephenson, a strategic plan was adopted by the Board of Trustees in fiscal year 2018. In keeping with the vision and priorities of the College, the Foundation has contracted with a fundraising consultant to assist in a feasibility study in fiscal year 2019 for a possible major gifts campaign to follow.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Foundation's finances for all those with an interest in the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Foundation.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF NET POSITION

	June 30,	
	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 338,552	521,105
Due from college	16,152	3,887
Prepaid expenses and other current assets	20,467	19,101
Total current assets	375,171	544,093
Restricted current assets		
Investments, nonendowed	14,293,879	12,138,573
Total restricted current assets	14,293,879	12,138,573
Noncurrent assets		
Endowment investments	32,919,620	32,174,232
Nondepreciable capital assets	254,001	254,001
Depreciable capital assets, net	3,652,848	3,819,581
Total noncurrent assets	36,826,469	36,247,814
TOTAL ASSETS	\$ 51,495,519	48,930,480
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 59,982	8,650
Due to college	53,157	53,239
Total current liabilities	113,139	61,889
TOTAL LIABILITIES	113,139	61,889
NET POSITION		
Investment in capital assets	3,906,849	4,073,582
Restricted, nonexpendable, endowment	35,369,318	35,217,256
Restricted, other	14,293,879	12,138,573
Unrestricted	(2,187,666)	(2,560,820)
Total net position	51,382,380	48,868,591
TOTAL LIABILITIES AND NET POSITION	\$ 51,495,519	48,930,480

The accompanying notes are an integral part of these financial statements.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30,	
	2018	2017
Operating revenues		
Rental income	\$ 575,105	569,107
Membership revenue	50,256	49,945
Total operating revenues	<u>625,361</u>	<u>619,052</u>
Operating expenses		
Scholarships and waivers	439,000	478,062
Utilities and communications	117,958	117,105
Other services and expenses	644,914	530,881
Support to college	1,468,795	1,481,591
Materials and supplies	45,761	34,778
Depreciation	166,733	168,256
Total operating expenses	<u>2,883,161</u>	<u>2,810,673</u>
Operating loss	<u>(2,257,800)</u>	<u>(2,191,621)</u>
Nonoperating revenues		
Gifts and grants	613,293	404,603
Investment income	1,363,129	1,281,323
Other income	159,101	73,776
Realized gain on investments	2,296,905	885,239
Net unrealized gain on investments	187,099	3,111,582
Total nonoperating revenues	<u>4,619,527</u>	<u>5,756,523</u>
Gain before additions to permanent endowments	2,361,727	3,564,902
Additions to permanent endowments	<u>152,062</u>	<u>261,117</u>
Increase in net position	2,513,789	3,826,019
Net position, beginning of the year	<u>48,868,591</u>	<u>45,042,572</u>
Net position, end of the year	<u>\$ 51,382,380</u>	<u>48,868,591</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities		
Receipts from other sources	\$ 37,991	60,469
Receipts from rental income	575,105	569,107
Payments to the College for scholarships	(439,000)	(478,062)
Payments to the College as gifts and contributions	(1,468,877)	(1,479,948)
Payments to suppliers and others	(758,667)	(682,719)
Net cash used in operating activities	<u>(2,053,448)</u>	<u>(2,011,153)</u>
Cash flows from noncapital financing activities		
Gifts and grants received for other than capital or endowment purposes	613,293	404,603
Private gifts for endowment purposes	152,062	261,117
Other	159,101	73,776
Net cash provided by noncapital financing activities	<u>924,456</u>	<u>739,496</u>
Cash flows from investing activities		
Purchase of investments	(13,675,296)	(7,901,437)
Proceeds from sales and maturities of investments	13,258,606	7,842,808
Investment income	1,363,129	1,281,323
Net cash provided by investing activities	<u>946,439</u>	<u>1,222,694</u>
Net decrease in cash and cash equivalents	(182,553)	(48,963)
Cash at beginning of year	<u>521,105</u>	<u>570,068</u>
Cash at end of year	<u>\$ 338,552</u>	<u>521,105</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (2,257,800)	(2,191,621)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	166,733	168,256
Changes in assets and liabilities		
Prepaid insurance	(1,366)	2,428
Accounts receivable and due from other funds	(12,265)	10,806
Accounts payable and due to college	51,250	(1,022)
Net cash used in operating activities	<u>\$ (2,053,448)</u>	<u>(2,011,153)</u>
Noncash investing activities		
Net unrealized gain on investments	<u>\$ 187,099</u>	<u>3,111,582</u>

The accompanying notes are an integral part of these financial statements.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The governing body of the Northwest Florida State College Foundation, Inc. (the “Foundation”) is a 27 member Board of Directors that constitutes a corporation. The Board of Directors is directly responsible for the day-to-day operations and control of the Foundation within the framework of applicable State law and State Board of Education rules. The Foundation is a component unit and direct support organization of Northwest Florida State College (the “College”) as defined in Section 1004.70 Florida Statutes. The Foundation is legally separate from the College, but is financially accountable to the College. The Foundation receives, holds, invests, and administers property and makes expenditures to or for the benefit of the College.

Basis of Presentation: The Foundation’s accounting policies conform to accounting principles generally accepted in the United States of America applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Accounting: The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Foundation’s financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The 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 Foundation’s policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

The Foundation’s principal operating activity is College program support and student scholarships. Operating revenues include rental income and expenses and all fiscal transactions related to College support, Foundation management, fund raising, and depreciation of capital assets. Nonoperating revenues include state appropriations, grants, individual gifts, investment income, and capital funding.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents: The amount reported as cash and cash equivalents consists of cash on hand and cash in demand accounts. Cash placed in money market accounts with Merrill Lynch are reported as investments. Cash deposits of the Foundation are held by banks qualified as public depositories under Florida Statute Chapter 280. Therefore all such deposits are covered by the FDIC limit of \$250,000 or were fully collateralized with securities held by the Foundation's financial institution.

Accounts Receivable: The Foundation records accounts receivable at their net realizable value. An allowance for doubtful accounts is established based on specific assessment of all amounts that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period the determination is made. For the years ended June 30, 2018 and 2017, all accounts receivable are considered fully collectible.

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net position. Realized and unrealized gains and losses are included in the statement of revenues, expenses and changes in net position. Investment income includes interest and dividend income and is included in the statement of revenues, expenses and changes in net position separate from gains and losses.

Capital Assets: The Foundation's capital assets consist of land, buildings, furniture, and equipment and are stated at historical cost or estimated fair value if donated or acquired at nominal cost. The Foundation has a capitalization threshold of \$5,000 for capital assets. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings	38 Years
Building improvements and equipment	7 Years

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from the estimates.

NOTE B: CASH AND INVESTMENTS

Cash and investments held by the Foundation consisted of the following classifications at June 30:

Cash and cash equivalents	2018	2017
Unrestricted	<u>\$ 338,552</u>	<u>521,105</u>

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: CASH AND INVESTMENTS (CONTINUED)

Investments held by the Foundation are reported at fair value and were as follows at June 30 2018:

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Cash and cash equivalents	\$ 1,360,114	1,360,114	-	-	-
Life insurance/annuities	2,350,385	2,350,385	-	-	-
United States Government securities					
United States Government	2,112,611	-	1,342,246	671,407	98,958
Accrued interest	72,678	-	72,678	-	-
Total United States Government securities	2,185,289	-	1,414,924	671,407	98,958
Corporate bonds	6,357,783	149,556	4,566,449	1,641,778	-
Alternative investments	5,207,760	5,207,760	-	-	-
Corporate stocks	24,504,690	N/A	-	-	-
Equities and mutual funds	5,247,478	N/A	-	-	-
Total investments	\$ 47,213,499	9,067,815	5,981,373	2,313,185	98,958

Investments held by the Foundation are reported at fair value and were as follows at June 30 2017:

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Cash and cash equivalents	\$ 1,272,721	1,272,721	-	-	-
Life insurance/annuities	2,375,240	2,375,240	-	-	-
United States Government securities					
United States Government	1,837,789	308,449	567,578	961,762	-
Accrued interest	64,578	64,578	-	-	-
Total United States Government securities	1,902,367	373,027	567,578	961,762	-
Corporate bonds	6,081,610	1,244,264	2,976,438	1,860,908	-
Alternative investments	4,800,195	4,800,195	-	-	-
Corporate stocks	23,761,943	N/A	-	-	-
Equities and mutual funds	4,118,729	N/A	-	-	-
Total investments	\$ 44,312,805	10,065,447	3,544,016	2,822,670	-

Investments are managed in accordance with an investment policy. The investment policy sets target allocations of investments of 25% to 45% for fixed income, 45% to 65% for equities, 5% to 15% for alternative investments and 2% to 8% of financial assets, primarily stock funds, bonds or bond funds, and cash equivalents.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: CASH AND INVESTMENTS (CONTINUED)

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% of the short-term funds shall be invested in instruments having maturities no greater than two years. No more than 25% may be invested in instruments that have maturities greater than two years and less than five years and no more than 25% may be invested in instruments that have maturities greater than five years. The short-term funds are required to be invested in any of the following: obligations of the U.S. Government or agencies, obligations of agencies with implied federal sponsorship and guarantees, certificates of deposit, deposits that are insured by the FDIC, repurchase agreements, money market accounts, or government security mutual funds. The investments meet the Foundation's investment policy restrictions.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Common stocks should be held in seasoned, quality, well-managed, and highly marketable companies whose prospects appear good for growth of earnings, dividends and appreciation. Fixed income securities should be of the four highest bond ratings or the two highest commercial paper ratings. Corporate bonds held by the Foundation were rated as follows at June 30:

	2018	2017	Rating
Corporate bonds	\$ 3,812,404	3,732,970	AAA to A-
	2,545,379	2,348,640	BBB+ to BBB -
Total corporate bonds	\$ 6,357,783	6,081,610	

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% of the funds may be invested in any one security, no more than 30% in any one industry and the Foundation should not control more than 10% of the debt or stock in any one company. These restrictions do not apply to obligations of the federal government. As of June 30, 2018, the Foundation does not have a concentration of credit risk.

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

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

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements: The Foundation categorizes its 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.

The Foundation has the following recurring fair value measurements as of June 30, 2018:

Investment Type	Fair Value Hierarchy				
U.S. Gov't and Federally	Fair Value	Level 1	Level 2	Level 3	Total
Guaranteed Bonds:					
U.S. Gov't Obligations	\$ 602,736	-	602,736	-	602,736
Federal National Mortgage Assoc.	613,238	-	613,238	-	613,238
Federal Home Loan Mortgage Corp	262,496	-	262,496	-	262,496
Federal Home Loan Bank	634,141	-	634,141	-	634,141
Corporate Bonds	6,430,461	-	6,430,461	-	6,430,461
Total US Government and Bonds	8,543,072	-	8,543,072	-	8,543,072
Equity Mutual Funds:					
Alternative Investments	5,207,760	-	-	5,207,760	5,207,760
Equities	24,242,417	24,242,417	-	-	24,242,417
Vanguard	262,273	262,273	-	-	262,273
Ishares Core S&P MID CAP	3,710,169	3,710,169	-	-	3,710,169
Ishares TR Russell 2000	1,537,309	1,537,309	-	-	1,537,309
Total Equity Mutual Funds	34,959,928	29,752,168	-	5,207,760	34,959,928
Life Insurance/Annuities	2,350,385	-	-	2,350,385	2,350,385
Cash and Equivalents	1,360,114	1,360,114	-	-	1,360,114
Total Investments	\$ 47,213,499	31,112,282	8,543,072	7,558,145	47,213,499

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: CASH AND INVESTMENTS (CONTINUED)

The Foundation has the following recurring fair value measurements as of June 30, 2017:

Investment Type	Fair Value Hierarchy				
U.S. Gov't and Federally	Fair Value	Level 1	Level 2	Level 3	Total
Guaranteed Bonds:					
U.S. Gov't Obligations	\$ 264,732	-	264,732	-	264,732
Federal National Mortgage Assoc.	780,972	-	780,972	-	780,972
Federal Home Loan Mortgage Corp	497,437	-	497,437	-	497,437
Federal Home Loan Bank	294,648	-	294,648	-	294,648
Corporate Bonds	6,146,188	-	6,146,188	-	6,146,188
Total US Government and Bonds	<u>7,983,977</u>	<u>-</u>	<u>7,983,977</u>	<u>-</u>	<u>7,983,977</u>
Equity Mutual Funds:					
Alternative Investments	4,800,195	-	-	4,800,195	4,800,195
Equities	23,480,767	23,480,767	-	-	23,480,767
Vanguard	281,176	281,176	-	-	281,176
Ishares Core S&P MID CAP	2,719,534	2,719,534	-	-	2,719,534
Ishares TR Russell 2000	1,399,195	1,399,195	-	-	1,399,195
Total Equity Mutual Funds	<u>32,680,867</u>	<u>27,880,672</u>	<u>-</u>	<u>4,800,195</u>	<u>32,680,867</u>
Life Insurance/Annuities	2,375,240	-	-	2,375,240	2,375,240
Cash and Equivalents	<u>1,272,721</u>	<u>1,272,721</u>	<u>-</u>	<u>-</u>	<u>1,272,721</u>
Total Investments	<u>\$ 44,312,805</u>	<u>29,153,393</u>	<u>7,983,977</u>	<u>7,175,435</u>	<u>44,312,805</u>

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, is shown as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated				
Land	\$ 254,001	-	-	254,001
Capital assets, being depreciated				
Apartment buildings and improvements	921,562	-	-	921,562
Apartment building, new	4,074,381	-	-	4,074,381
Apartment building, remodeled	644,795	-	-	644,795
Total capital assets being depreciated	<u>5,640,738</u>	<u>-</u>	<u>-</u>	<u>5,640,738</u>
Accumulated depreciation	(1,821,157)	(166,733)	-	(1,987,890)
Total capital assets being depreciated, net	<u>3,819,581</u>	<u>(166,733)</u>	<u>-</u>	<u>3,652,848</u>
Total capital assets, net	<u>\$ 4,073,582</u>	<u>(166,733)</u>	<u>-</u>	<u>3,906,849</u>

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C: CAPITAL ASSETS (CONTINUED)

Capital assets activity for the year ended June 30, 2017, is shown as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated				
Land	\$ 254,001	-		254,001
Capital assets, being depreciated				
Apartment buildings and improvements	921,562	-	-	921,562
Apartment building, new	4,074,381	-	-	4,074,381
Apartment building, remodeled	644,795	-	-	644,795
Total capital assets being depreciated	5,640,738	-	-	5,640,738
Accumulated depreciation	(1,652,901)	(168,256)		(1,821,157)
Total capital assets being depreciated, net	3,987,837	(168,256)	-	3,819,581
 Total capital assets, net	 \$ 4,241,838	 (168,256)	 -	 4,073,582

NOTE D: RELATIONSHIP WITH THE COLLEGE

The Foundation made contributions and payments to the College for the following purposes as of June 30:

	2018	2017
Scholarships and waivers	\$ 439,000	478,062
Gifts and contributions	1,468,795	1,481,591
	<u>\$ 1,907,795</u>	<u>1,959,653</u>

Of the amounts above, the Foundation had an outstanding balance payable to the College of \$53,157 and \$53,239 for the years ended June 30, 2018 and 2017, respectively. The Foundation had an outstanding receivable from the College in the amount of \$16,152 and \$3,887 for the years ended June 30, 2018 and 2017, respectively. The above related-party transactions are not necessarily indicative of the terms and amounts that would have been incurred had a comparable transaction been entered into with independent parties.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE E: RESTRICTED NET POSITION

Expendable restricted net position is restricted for scholarships or other similar purposes and totaled \$14,293,879 and \$12,138,573 for the years ended June 30, 2018 and 2017, respectively.

Nonexpendable restricted net position (endowments) is donor-directed contributions restricted in perpetuity for scholarships, program instruction, the Arts Center, and other similar purposes. Nonexpendable restricted net position totaled \$35,369,318 and \$35,217,256 for the years ended June 30, 2018 and 2017, respectively.

The Board of Trustees of the Foundation has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as nonexpendable restricted net position: (a) the original value of the gift donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Foundation has adopted investment and spending policies for endowment assets that attempt to protect the principal of the fund, provide consistent long-term income returns and protect the Foundation against long-term inflation trends. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation limits spending on endowments to a maximum of 4% of the average of the three most recent prior year-end endowment fund balances provided net earnings are available.

NOTE F: RENTAL INCOME

The Foundation rents apartments in a 60 apartment unit complex which is owned by the Foundation. The apartments are rented to either students with athletic scholarships, which are financed by the College, or members of the local community. The historical cost of the apartments of \$5,640,738 net of accumulated depreciation of \$1,987,890 has a carrying value of \$3,652,848. Rentals are commonly under agreements for one year or less. Rental income earned by the Foundation for the year ended June 30, 2018, for the apartment rentals totaled \$575,105 of which \$261,900 was paid to the Foundation by the College for units rented by students with athletic scholarships. For the year ended June 30, 2017, rental income for the apartments totaled \$569,107 of which \$261,900 was paid by the College for units rented by students with athletic scholarships.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE F: RENTAL INCOME (CONTINUED)

The Foundation owns rights to broadband waves which are leased to a telecommunication entity. The initial five year lease agreement became effective October 2, 2006, and has five automatic additional five year renewals, for a maximum of thirty years, unless the telecommunication entity notifies the Foundation in writing at least six months prior to the end of any renewal term that it declines to renew the agreement. The Foundation has not recognized the broadband waves as an asset since there was no cost incurred by the Foundation for its rights. Rental income earned by the Foundation for the years ended June 30, 2018 and 2017, under this rental agreement totaled \$36,000. Minimum future rental income is as follows:

2019	\$	36,000
2020		36,000
2021		36,000
2022		42,000
2023		<u>42,000</u>
	<u>\$</u>	<u>192,000</u>

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE G: NATURAL CLASSIFICATION OF EXPENSES

The expenses recognized by the Foundation in the statement of revenues, expenses and changes in net assets are classified based on function, that is, the purpose for which they are incurred. The Foundation's expenses on a natural classification basis are as follows as of June 30:

	2018	2017
Accounting and auditing	\$ 15,000	14,500
Bank fees	2,023	2,115
Business meeting expense	207	198
Depreciation	166,733	168,256
Food and beverage	34,196	26,148
Gifts and contributions to College	1,468,795	1,481,591
Gifts, prizes and awards	2,675	3,400
Insurance	29,335	31,079
Internal support services	106,352	114,331
Investment management fee	234,538	215,290
Minor equipment	5,470	8,116
Miscellaneous supplies	11,565	8,638
Postage and freight	8,981	6,059
Printing and distribution	6,413	6,169
Professional fees	21,734	20,922
Professional development fees	68,252	29,735
Rental expenses	-	50
Repairs and maintenance	126,770	61,894
Scholarships	439,000	478,062
Taxes and licenses	17,164	17,015
Utilities	117,958	117,105
	<u>\$ 2,883,161</u>	<u>2,810,673</u>

NOTE H: SUBSEQUENT EVENTS

The Foundation did not have any subsequent events through January 16, 2019, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2018.



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

Board of Directors
Northwest Florida State College Foundation, Inc.
Niceville, Florida

We have audited 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, the financial statements of Northwest Florida State College Foundation, Inc. (the "Foundation"), a direct support organization and component unit of the Northwest Florida State College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated January 16, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation'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 Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Bradenton, Florida
January 16, 2019