

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

FINANCIAL STATEMENTS

JUNE 30, 2016

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
FINANCIAL STATEMENTS
JUNE 30, 2016

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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 year ended June 30, 2016, 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 audit. 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 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, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

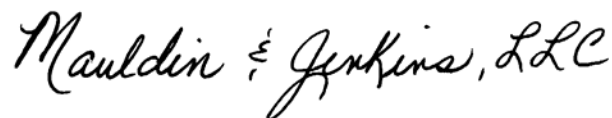
Other Matters

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 11 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 20, 2017, 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 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 20, 2017

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Unaudited)

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the Northwest Florida State College Foundation provides an overview of the financial position and activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the Foundation's performance as a whole for the twelve month period from July 1, 2015 to June 30, 2016. This MD&A has been prepared by management and should be read in conjunction with the audited financial statements that follow this section. Responsibility for the completeness and fairness of this information rests with Foundation management.

FINANCIAL HIGHLIGHTS

The Foundation's financial position remained strong at June 30, 2016, with total assets of \$45,105,483 and liabilities of \$62,911. Net position, which represents the difference between assets and liabilities, decreased 5.5% to \$45,042,572 at June 30, 2016. The decrease was attributed to fewer contributions, increased support to the College in the form of scholarship and program support, and investment losses due to a down market. From July 1, 2015 to June 30, 2016, the Foundation's total investment portfolio was down 2.2%.

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 Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges, universities and other governmental entities. The Foundation is required to prepare its annual report using Governmental Accounting Standards Board (GASB) principles due to its formation under Florida Statute 1004.70 and the component unit relationship with Northwest Florida State 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, 2016
(Unaudited)

A summarized comparison of the Foundation's assets, liabilities and net position at June 30, 2016 and June 30, 2015, is presented in the following table:

	Foundation	
	Jun-16	Jun-15
NET ASSETS		
(In Thousands)		
Assets		
Current Assets	\$ 7,872	\$ 10,204
Capital Assets, Net	4,242	4,928
Other Non-current Assets	32,991	32,712
Total Assets	\$ 45,105	\$ 47,844
Liabilities		
Current Liabilities	\$ 63	\$ 157
Total Liabilities	\$ 63	\$ 157
Net Position		
Invested in Capital Assets	\$ 4,242	\$ 4,928
Restricted	43,745	46,041
Unrestricted	(2,945)	(3,282)
Total Net Position	45,042	47,687
Total Liabilities and Net Position	\$ 45,105	\$ 47,844

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, 2016 and June 30, 2015, shows that the Foundation net position decreased by \$2,644 thousand. Total assets decreased by \$2,739 thousand and total liabilities decreased by \$94 thousand. Net position decreased 5.5% from 2015 to 2016.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(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, 2016, there was \$4.2 million invested in capital assets net of accumulated depreciation. The Foundation sold real property in Tallahassee, Florida for \$375,000 in May 2016. Capital assets of the Foundation at June 30, 2016 and June 30, 2015, are presented in the following table:

CAPITAL ASSETS
(In Thousands)

Capital Assets	<u>Foundation</u>	
	<u>Jun-16</u>	<u>Jun-15</u>
Non-depreciable Capital Assets:		
Land	\$ 254	\$ 401
Total Non-depreciable Capital Assets	<u>254</u>	<u>401</u>
Depreciable Capital Assets:		
Apartment Buildings	3,988	4,156
Tallahassee Office Building	-	371
Total Depreciable Capital Assets, Net of Depreciation	<u>3,988</u>	<u>4,527</u>
Capital Assets, Net of Depreciation	<u>\$ 4,242</u>	<u>\$ 4,928</u>

DEBT

All capital improvements are through internal financing and therefore the Foundation does not have any long-term debt outstanding at June 30, 2016.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Unaudited)

THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

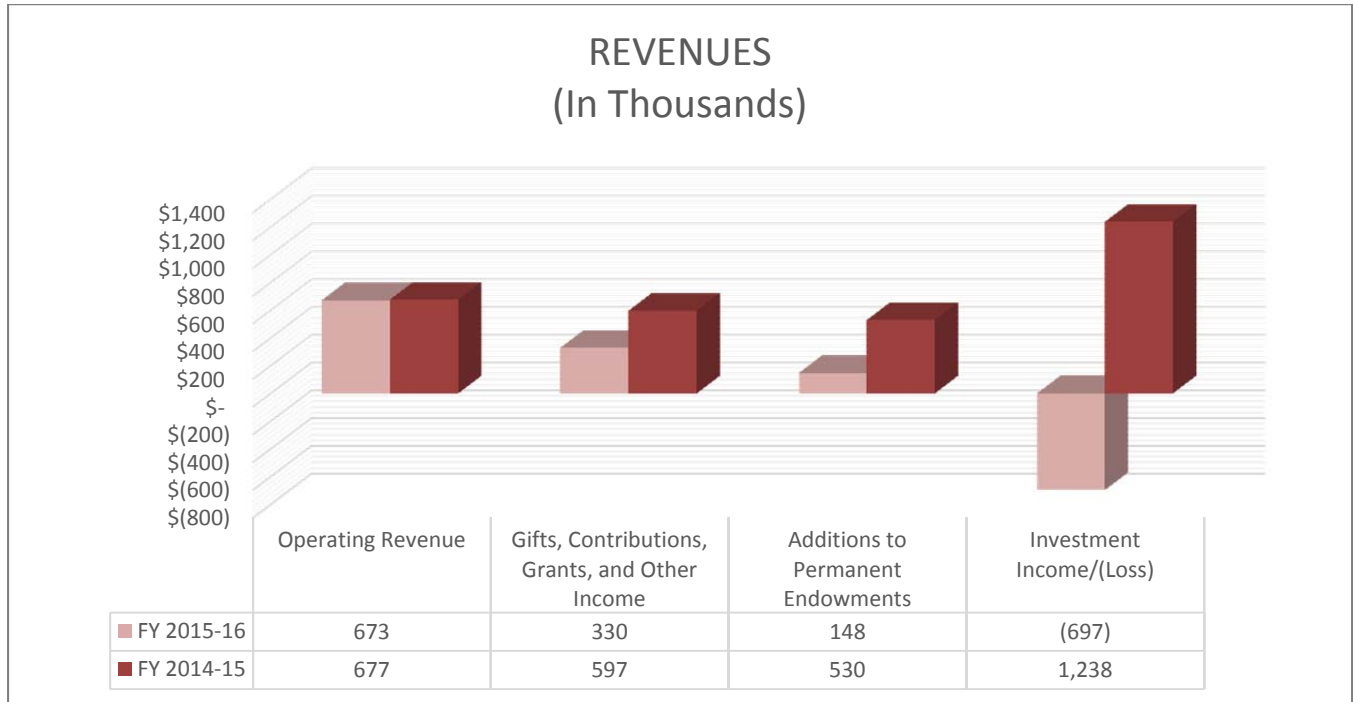
The statement of revenues, expenses and changes in net position presents the Foundation's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating. A summary of the Foundation's revenues, expenses, and changes in net position for the fiscal year ended June 30, 2016 and June 30, 2015, is presented in the following table:

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

	Foundation	
	Jun-16	Jun-15
Operating Revenues		
Rental Income	\$ 621	\$ 621
Membership Revenue	52	56
Total Operating Revenues	673	677
Less Operating Expenses	3,098	2,304
Operating Loss	<u>(2,425)</u>	<u>(1,627)</u>
Nonoperating Revenues		
Gifts and Grants	424	550
Investment Income	1,421	1,632
Realized Gain on Investments	251	933
Unrealized (Loss) on Investments	(2,369)	(1,327)
Miscellaneous Income	(94)	47
Nonoperating Revenues	<u>(367)</u>	<u>1,835</u>
Loss Before Additions to Permanent Endowments	(2,792)	209
Additions to Permanent Endowments	<u>148</u>	<u>530</u>
Increase (Decrease) in Net Assets	(2,644)	739
Net Position, Beginning of Year	<u>47,687</u>	<u>46,948</u>
Net Position, End of Year	<u>\$ 45,043</u>	<u>\$ 47,687</u>
Decrease in Net Assets	-5.5%	

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2016
 (Unaudited)

The following is a graphical presentation of Foundation revenues for fiscal years ended June 30, 2016 and June 30, 2015:



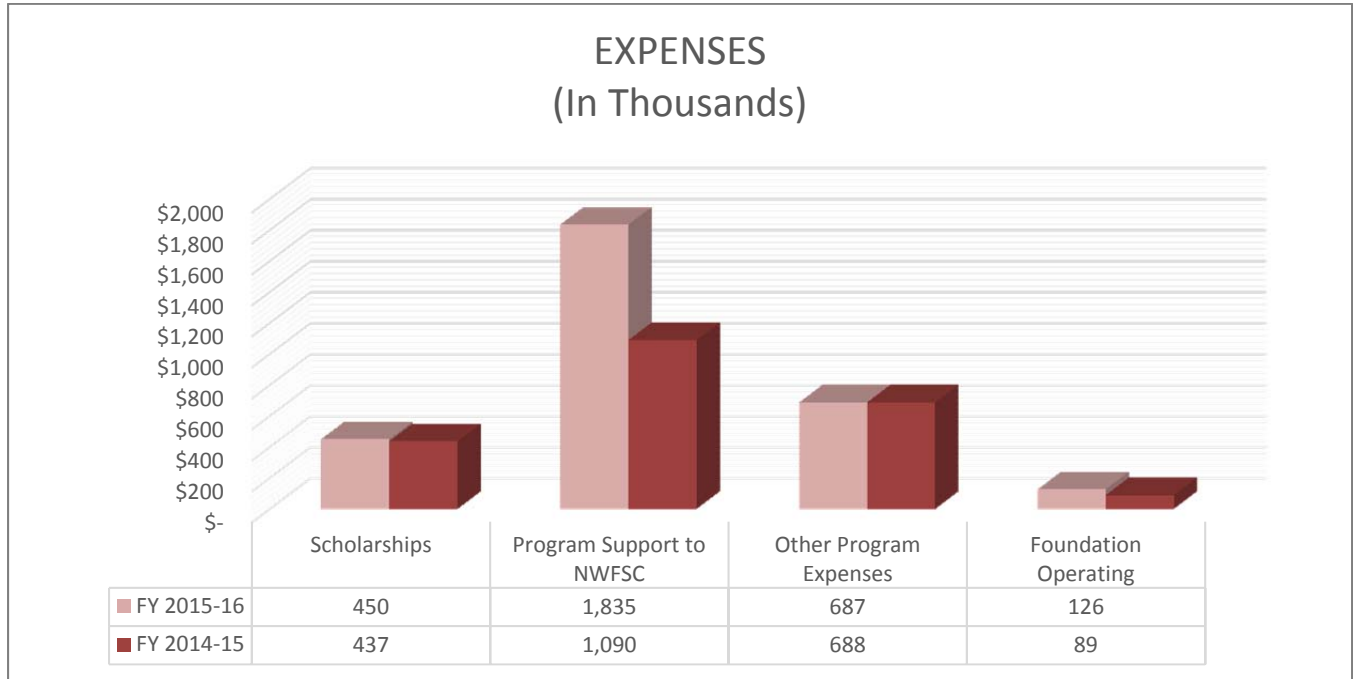
Operating revenue remained fairly consistent from fiscal year 2015 to 2016 decreasing by only four thousand dollars.

Total gifts, contributions, grants and other income, both endowed and non-endowed, decreased \$649 thousand. Non-endowed gifts, contributions, grants and other income decreased \$267 thousand, due in large part to a loss on the sale of rental property in Tallahassee in the amount of \$169 thousand. Additions to permanent endowments decreased \$382 thousand. The decrease in overall gifts and grants can be attributed to the creation of fewer endowments and contributions from donors for specific departmental projects in the prior year.

Investment income for fiscal year 2016 decreased \$1.9 million, due to significant downturns in the market during the fiscal year.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2016
 (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 2016 and 2015 are shown in the following table:



Overall expenses increased \$794 thousand from 2015 to 2016, the majority of which is attributed to a significant increase in program support gifts transferred to the college. In total, program support increased \$745 thousand in fiscal year 2016. Likewise, scholarship expenses paid to the College increased \$13 thousand. Both types of support are funded primarily by endowment earnings in accordance with the Foundation's spending policy – 4% of the total endowment when earnings are available.

Other program expenses, not transferred to the College but expended through the Foundation for program initiatives, remained static from 2015 to 2016 with only a nominal decrease of \$1 thousand.

Foundation operating expenses increased \$37 thousand from 2015 to 2016 due to the addition of a new staff position.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(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, 2016 and June 30, 2015, is shown in the following table:

CASH FLOWS
(In Thousands)

	Foundation	
	Jun-16	Jun-15
Cash Provided (Used) by:		
Operating Activities	\$ (2,230)	\$ (1,314)
Noncapital Financing Activities	478	1,015
Investing Activities	1,534	(252)
Net Decrease in Cash and Cash Equivalents	(218)	(551)
Cash and Cash Equivalents, Beginning of the Year	788	1,339
Cash and Cash Equivalents, End of Year	\$ 570	\$ 788

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, 2016, cash and cash equivalents decreased \$218 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, 2016
(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 Grant 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.

The Foundation owned rental property in Tallahassee that, in fiscal year 2016, produced rental income of \$36 thousand. This property has been managed solely by Foundation staff, unlike the rental apartments which are handled by a property management company. In May of 2016, the Foundation sold the property for a contract price of \$375 thousand, and consequently showed a loss on the sale of \$169 thousand. Prior to the sale, the historical cost of the property and building net of accumulated depreciation was \$505 thousand.

Investment income plays a key role in generating revenues for the Foundation, as the majority of revenues are generally attributed to investment activity. Also tied to investment earnings is the ability to provide scholarships and program support to Northwest Florida State College through various endowments.

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. This deficit can only be overcome through positive investment earnings. Of the 288 endowed funds that have been established for 12 months or more, 5% were in an underwater status as of June 30, 2016. Compared to fiscal year 2015, the number of underwater funds has increased from 8 to 15. Of the 15 underwater funds, six were fully endowed in the prior fiscal year, thus not providing much opportunity for investment growth, and seven are underwater by less than \$1,000.

As previously reported, Northwest Florida State College implemented an institution-wide ERP (Enterprise Resource Planning) software, called Banner, in the Advancement and Finance functional areas in Fiscal Year 2015. Banner Advancement has aided in the streamlining of operational processes and provided greater functionality for donor stewardship activities. Data mining and report generation from the ERP continues to be a primary focus for the Foundation staff.

Northwest Florida State College is in the process of conducting a search for its next president since Dr. Ty Handy left the institution in December 2015. It is expected that the new president will have an impact on future College Advancement activities. Of particular note, the Foundation Board of Directors has identified the need to update its strategic plan. The board has opted to wait until the new president is hired to initiate this process to ensure that the president's vision for the college can be appropriately reflected.

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(Unaudited)

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.

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

Current assets	
Cash and cash equivalents	\$ 570,068
Due from college	14,693
Prepaid expenses and other current assets	21,529
Total current assets	606,290
Restricted current assets	
Investments, nonendowed	7,265,786
Total restricted current assets	7,265,786
Noncurrent assets	
Endowment investments	32,991,569
Nondepreciable capital assets	254,001
Depreciable capital assets, net	3,987,837
Total noncurrent assets	37,233,407
TOTAL ASSETS	\$ 45,105,483

LIABILITIES AND NET POSITION

Current liabilities	
Accounts payable	\$ 11,033
Due to college	51,878
Total current liabilities	62,911
TOTAL LIABILITIES	62,911
NET POSITION	
Investment in capital assets	4,241,838
Restricted, nonexpendable, endowment	36,479,893
Restricted, other	7,265,786
Unrestricted deficit	(2,944,945)
Total net position	45,042,572
TOTAL LIABILITIES AND NET POSITION	\$ 45,105,483

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

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2016

Operating revenues	
Rental income	\$ 621,036
Membership revenue	51,694
Total operating revenues	<u>672,730</u>
Operating expenses	
Scholarships and waivers	448,006
Utilities and communications	109,641
Other services and expenses	513,320
Support to college	1,835,117
Materials and supplies	11,522
Depreciation	180,308
Total operating expenses	<u>3,097,914</u>
Operating loss	<u>(2,425,184)</u>
Nonoperating revenues (expenses)	
Gifts and grants	424,395
Investment income	1,420,609
Loss on sale of property and equipment	(130,330)
Other income	35,457
Realized gain on investments	251,461
Net unrealized loss on investments	(2,369,394)
Nonoperating revenues, net	<u>(367,802)</u>
Loss before additions to permanent endowments	(2,792,986)
Additions to permanent endowments	<u>148,467</u>
Decrease in net position	(2,644,519)
Net position, beginning of the year	<u>47,687,091</u>
Net position, end of the year	<u><u>\$ 45,042,572</u></u>

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

NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

Cash flows from operating activities	
Receipts from other sources	\$ 37,001
Receipts from rental income	734,436
Payments to the College for scholarships	(448,006)
Payments to the College as gifts and contributions	(1,931,218)
Payments to suppliers and others	<u>(622,299)</u>
Net cash used in operating activities	(2,230,086)
Cash flows from noncapital financing activities	
Gifts and grants received for other than capital or endowment purposes	424,395
Private gifts for endowment purposes	148,467
Other	<u>35,457</u>
Net cash provided by noncapital financing activities	608,319
Cash flows from capital and related financing activities	
Proceeds from sale of capital assets	<u>375,600</u>
Net cash provided by capital and related financing activities	<u>375,600</u>
Cash flows from investing activities	
Purchase of investments	(18,515,863)
Proceeds from sales and maturities of investments	18,123,662
Investment income	<u>1,420,609</u>
Net cash provided by investing activities	<u>1,028,408</u>
Net decrease in cash and cash equivalents	(217,759)
Cash at beginning of year	<u>787,827</u>
Cash at end of year	<u><u>\$ 570,068</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (2,425,184)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation expense	180,308
Changes in assets and liabilities	
Prepaid insurance	10,288
Accounts receivable and due from other funds	98,707
Accounts payable and due to college	<u>(94,205)</u>
Net cash used in operating activities	<u><u>\$ (2,230,086)</u></u>
Noncash investing activities	
Net unrealized loss on investments	<u><u>\$ (2,369,394)</u></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 20 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. At June 30, 2016, 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 \$1,000 for capital assets. Depreciation is computed on the straight-line basis over the following estimated useful lives:

Buildings	40 Years
Furniture and equipment	
Furniture	7 Years
Computer equipment	3 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.

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

NOTE B: CASH AND INVESTMENTS

Cash and investments held at June 30, 2016, by the Foundation consist of the following classifications:

Cash and cash equivalents	
Unrestricted	\$ 570,068

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

Investment Type	Fair Value	Investment Maturity in Years			
		Less than 1	1 - 5	6 - 10	More than 10
Cash and cash equivalents	\$ 1,590,288	1,590,288	-	-	-
Life insurance/annuities	844,690	844,690	-	-	-
United States Government securities					
United States Government	1,628,152	28,085	489,700	179,541	930,826
Accrued interest	74,982	74,982	-	-	-
Total United States Government securities	1,703,134	103,067	489,700	179,541	930,826
Corporate bonds	7,670,545	1,011,732	4,960,540	1,698,273	-
Alternative investments	4,498,676	4,498,676	-	-	-
Corporate stocks	20,011,470	N/A	-	-	-
Equities and mutual funds	3,938,552	N/A	-	-	-
Total investments	\$ 40,257,355	8,048,453	5,450,240	1,877,814	930,826

Investments are managed in accordance with an investment policy. The investment policy sets target allocations of investments of 25% to 35% for fixed income, 55% to 65% for equities and 4% to 6% 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% 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 at June 30, 2016, meet the Foundation's investment policy restrictions.

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

NOTE B: CASH AND INVESTMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Common stocks should be held in seasoned, quality, well-managed, and highly marketable companies whose prospects appear good for growth of earnings, dividends and appreciation. Fixed income securities should be of the four highest bond ratings or the two highest commercial paper ratings. Corporate bonds held by the Foundation at June 30, 2016, were rated as follows:

	<u>Fair Value</u>	<u>Rating</u>
Corporate bonds	\$ 5,399,499	AAA to A-
	<u>2,271,046</u>	BBB+ to BBB -
Total corporate bonds	<u>\$ 7,670,545</u>	

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, 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 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.

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.

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, 2016:

Investment Type	Fair Value Hierarchy				
U.S. Gov't & Federally	Fair Value	Level 1	Level 2	Level 3	Total
Guaranteed Bonds:					
U.S. Gov't Obligations	\$ 148,193	-	148,193	-	148,193
Federal National Mortgage Assoc.	755,394	-	755,394	-	755,394
Federal Home Loan Mortgage Corp	624,595	-	624,595	-	624,595
Federal Home Loan Bank	99,970	-	99,970	-	99,970
Federal Farm Credit Bank	-	-	-	-	-
Corporate Bonds	7,670,545	-	7,670,545	-	7,670,545
Total US Government & Bonds	<u>9,298,697</u>	<u>-</u>	<u>9,298,697</u>	<u>-</u>	<u>9,298,697</u>
Equity Mutual Funds:					
Alternative Investments	4,498,676	-	-	4,498,676	4,498,676
Equities	20,011,469	20,011,469	-	-	20,011,469
Vanguard	256,699	256,699	-	-	256,699
Ishares Core S&P MID CAP	2,457,316	2,457,316	-	-	2,457,316
Ishares TR Russell 2000	1,224,537	1,224,537	-	-	1,224,537
Total Equity Mutual Funds	<u>28,448,697</u>	<u>23,950,021</u>	<u>-</u>	<u>4,498,676</u>	<u>28,448,697</u>
Life Insurance/Annuities	844,690	-	-	844,690	844,690
Cash & Equivalents	<u>1,665,271</u>	<u>1,665,271</u>	<u>-</u>	<u>-</u>	<u>1,665,271</u>
Total Investments	<u>\$ 40,257,355</u>	<u>25,615,292</u>	<u>9,298,697</u>	<u>5,343,366</u>	<u>40,257,355</u>

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, is shown as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Capital assets, not being depreciated				
Land	\$ 401,176	-	(147,175)	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
Building (FACC)	505,325	-	(505,325)	-
Total capital assets being depreciated	6,146,063	-	(505,325)	5,640,738
Accumulated depreciation	(1,619,163)	(180,308)	146,570	(1,652,901)
Total capital assets being depreciated, net	<u>4,526,900</u>	<u>(180,308)</u>	<u>(358,755)</u>	<u>3,987,837</u>
Total capital assets, net	<u>\$ 4,928,076</u>	<u>(180,308)</u>	<u>(505,930)</u>	<u>4,241,838</u>

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

NOTE D: RELATIONSHIP WITH THE COLLEGE

The Foundation made contributions and payments to the College for the following purposes as of June 30, 2016:

Scholarships and waivers	\$ 448,006
Gifts and contributions	<u>1,835,117</u>
	<u>\$ 2,283,123</u>

Of the amounts above, the Foundation had an outstanding balance payable to the College of \$51,878 and an outstanding receivable from the College in the amount of \$14,693 at June 30, 2016. 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.

NOTE E: RESTRICTED NET POSITION

Expendable restricted net position is restricted for scholarships or other similar purposes and total \$7,265,786 at June 30, 2016.

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 \$36,479,893 at June 30, 2016.

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 prior year-end endowment fund balance provided net earnings are available.

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

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 \$5,640,737 net of accumulated depreciation of \$1,652,900 has a carrying value of \$3,987,837. Rentals are commonly under agreements for one year or less. Rental income earned by the Foundation for the year ended June 30, 2016, for the apartment rentals totaled \$584,978 of which \$253,800 was paid to the Foundation by the College for units rented by students with athletic scholarships.

The Foundation owns property in Tallahassee in which the building is rented on an annual basis to a local organization. On August 1, 2012, a fourteen month lease agreement was executed that has three annual options to renew. Each renewal period may be subject to a 3% annual increase.

Rental income earned by the Foundation for the year ended June 30, 2016, under this rental agreement totaled \$36,058. In May 2016, the Foundation sold the Tallahassee property for \$375,000.

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 year ended June 30, 2016, under this rental agreement totaled \$30,000. Minimum future rental income is as follows:

2017	\$	36,000
2018		36,000
2019		36,000
2020		36,000
2021		36,000
		<hr/>
	\$	<u>180,000</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, 2016:

Accounting and auditing	\$ 13,500
Bank fees	1,500
Business meeting expense	97
Depreciation	180,308
Food and beverage	19,544
Gifts and contributions to College	1,823,551
Gifts, prizes and awards	2,801
Insurance	42,707
Internal support services	108,820
Investment management fee	200,006
Minor equipment	9,750
Miscellaneous supplies	4,766
Postage and freight	5,986
Printing and distribution	5,691
Professional fees	24,989
Professional development fees	8,298
Rental expenses	100
Repairs and maintenance	71,110
Scholarships	448,006
Taxes and licenses	16,738
Travel	5
Utilities	109,641
	<hr/>
	\$ 3,097,914
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NOTE H: SUBSEQUENT EVENTS

The Foundation did not have any subsequent events through January 20, 2017, 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, 2016.



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, 2016, 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 20, 2017.

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 opinions 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 20, 2017