

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

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**SEPTEMBER 30, 2010**

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**NICHOLSON, REEDER & REYNOLDS, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT**

Fort Walton Beach, Florida  
January 4, 2011

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

We have audited the accompanying financial statements of the 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 September 30, 2010,and the related statements of activities and cash flows for the fiscal year then ended, as listed in the table of contents. These financial statements are the responsibility of Northwest Florida State College Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Florida State College Foundation, Inc., as of September 30, 2010, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2011, on our consideration of the Northwest Florida State College Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2-8 and functional expenses on page 19 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

NICHOLSON, REEDER & REYNOLDS, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**INTRODUCTION**

The following discussion and analysis provides an overview of the financial position and activities of the Northwest Florida State College Foundation for the year ended September 30, 2010. All analysis will be based on the twelve month period from October 1, 2009 to September 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto, which follow this section. Responsibility for the completeness and fairness of this information rests with Foundation management. The discussion and analysis includes information relating to the financial position and activities of the Foundation.

**FINANCIAL HIGHLIGHTS**

The Foundation's financial position remained strong at September 30, 2010, with assets of \$35,532,043 and liabilities of \$50,529. Net assets, which represent the residual interest in the Foundation's assets after liabilities have been deducted, increased \$1,645,774 during the 2009-10 Fiscal Year to \$35,481,514 at September 30, 2010. The increase in net assets was mainly due to the contributions and short-term investments, which had a direct impact on the Foundation's investment portfolio. The Foundation had realized losses of \$184,558 and unrealized gains of \$1,834,389 which are reflected in the total revenue at September 30, 2010. Total revenues at September 30, 2010 were \$3,401,037 and expenditures were \$1,755,263.

**USING THIS ANNUAL REPORT**

This report consists of three basic financial statements: the statement of net assets; the statement of activities; 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 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 ASSETS**

The statement of net assets 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

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

liabilities – net assets – is one indicator of the current financial condition of the Foundation, while the change in net assets 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. A summarized comparison of the Foundation’s assets, liabilities, and net assets at September 30, 2010, and September 30, 2009, is presented in the following table:

	<b>Foundation</b>	
	Sep-10	Sep-09
<b>ASSETS</b>		
Current Assets	\$ 2,064	\$ 2,931
Capital Assets, Net	5,705	5,874
Other Non-current Assets	27,763	25,110
<b>TOTAL ASSETS</b>	<b>\$ 35,532</b>	<b>\$ 33,915</b>
<b>LIABILITIES</b>		
Current Liabilities	\$ 51	\$ 79
<b>TOTAL LIABILITIES</b>	51	79
Net Assets		
Invested in Capital Assets, Net of Related Debt	6,318	6,318
Restricted	28,575	27,101
Unrestricted	588	417
Total Net Assets	35,481	33,836
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 35,532</b>	<b>\$ 33,915</b>

Current assets consist primarily of cash, cash equivalents, and investments. Non-current assets consisted primarily of net capital assets and long-term investments.

A review of the Foundation’s statement of net assets at September 30, 2010, and September 30, 2009, shows that the Foundation’s net assets increased \$1,645 thousand primarily from the investment portfolio. Total assets increased by \$1,617 thousand, while total liabilities decreased \$28 thousand.

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

The Foundation maintains an inventory of all assets with a value of \$1,000 and greater for financial reporting purposes. As of September 30, 2010, there were \$5.705 million invested in capital assets net of accumulated depreciation. Capital assets of the Foundation at September 30, 2010, and September 30, 2009, are presented in the following table:

<b>Capital Assets</b>	<b>CAPITAL ASSETS (In Thousands)</b>	
	<b>Foundation</b>	
	Sep-10	Sep-09
Non-depreciable Capital Assets:		
Land	\$ 451	\$ 451
<b>Total Non-depreciable Capital Assets</b>	451	451
Depreciable Capital Assets:		
Apartment Buildings	4,819	4,975
Tallahassee Office Building	435	448
<b>Total Depreciable Capital Assets, Net of Depreciation</b>	5,254	5,423
Capital Assets, Net of Depreciation	\$ 5,705	\$ 5,874

**DEBT**

At September 30, 2010, the Foundation had only current accounts payable outstanding with external vendors. All capital improvements are through internal financing.

**THE STATEMENT OF ACTIVITIES**

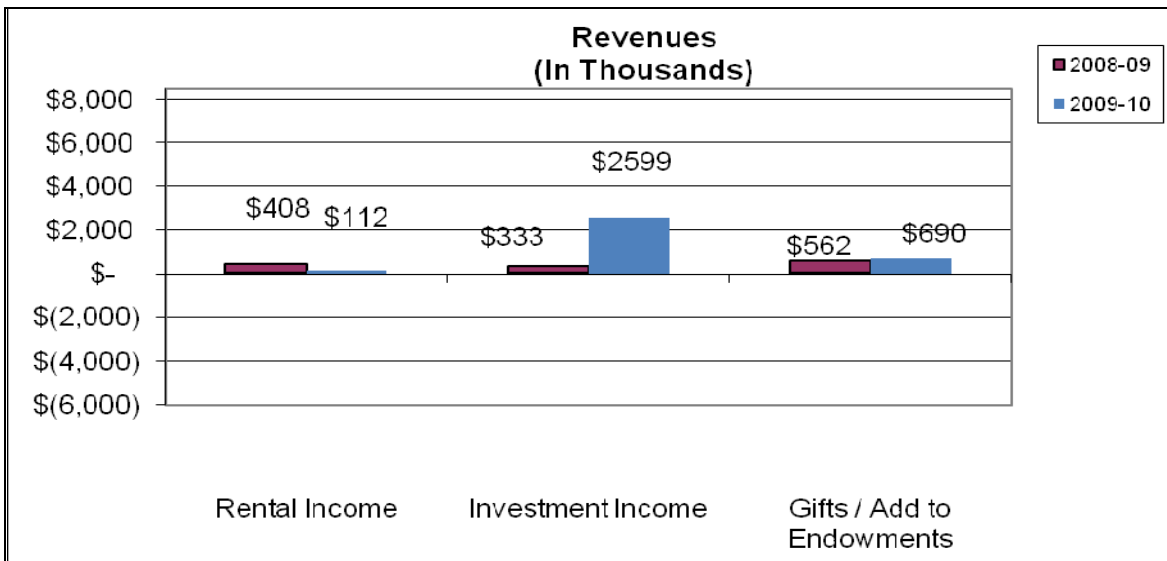
The statement of activities presents the Foundation's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or non-operating. A summary of the Foundation's revenues, expenses, and changes in net assets for the fiscal year ended September 30, 2010 is shown in the following table:

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**OPERATING RESULTS  
(In Thousands)**

	Sep-10
<b>Operating Revenues</b>	
Rental Income	\$ 112
<b>Total Operating Revenues</b>	112
Less Operating Expense	1,755
<b>Net Operating Loss</b>	(1,643)
<b>Non-Operating Revenues</b>	
Gifts and Grants	573
State Appropriations	23
Miscellaneous Revenue	13
Investment Income	949
Realized Loss on Investments	(184)
Net Unrealized Gain on Investments	1,834
<b>Total Non-Operating Revenues</b>	3,208
<b>Income Before Other Revenues, Expenses, Gains or Losses</b>	1,565
<b>Additions to Permanent Endowments</b>	81
<b>Decrease in Net Assets</b>	1,646
Net Assets, Beginning of Period	33,836
<b>Net Assets, End of Period</b>	\$ 35,482

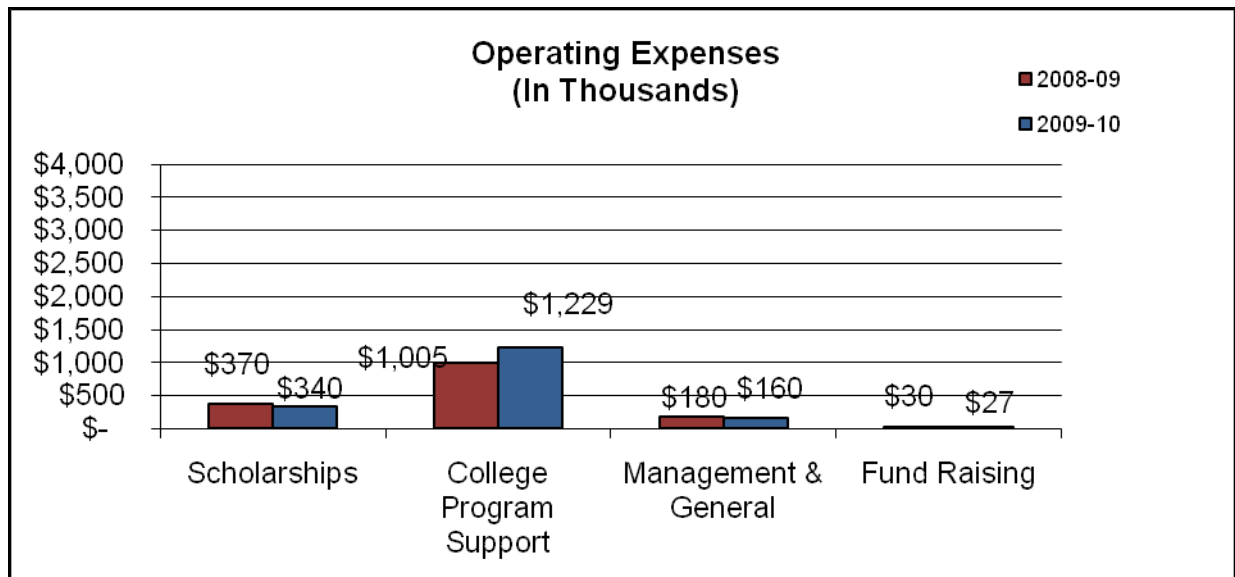
Following is a graphical presentation of the Foundation's operating revenues for the 2009-10 fiscal year:



**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Investment income for the fiscal year was \$2,599 thousand due to loss on investments, dividends and interest income. Interest and dividends accounted for \$590 thousand in revenue while the Foundation incurred a realized loss of \$184 thousand and an unrealized gain of \$1.834 million; contributions were \$654 thousand, while rental income was \$112 thousand. Rental Income was lower for 2009-10 compared to 2008-09 due to the fact some of the rental income has been properly reclassified as investment income.

In addition to presenting expenses by natural classification, as shown on the statement of revenues, expenses and changes in net assets, it is also informative to review operating expenses by functional activity. A summary of Foundation expenses by functional classification for the fiscal year ended September 30, 2010 is shown in the following table:



**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.

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

A comparative summary of the statement of cash flows for the Foundation for the fiscal year ended September 30, 2010, and September 30, 2009 is shown in the following table:

**CASH FLOWS FOR THE FISCAL YEARS**

(In Thousands)

	Sep-10	Sep-09
Cash Provided by (Used in):		
Operating Activities	\$ (1,508)	\$ (1,170)
Noncapital Financing Activities	677	562
Capital and Related Financing Activities	-	(4)
Investing Activities	(41)	(760)
Net Increase in Cash and Cash Equivalents	(872)	(1,372)
Cash and Cash Equivalents, Beginning of the Period	2,888	4,260
Cash and Cash Equivalents, End of Period	\$ 2,016	\$ 2,888

The Foundation's liquidity decreased moderately during the reporting period. For the purpose of cash flows, the Foundation considers cash equivalents to include time deposits, certificate of deposits 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 September 30, 2010, cash and cash equivalents decreased \$872 thousand. The decrease in cash and cash equivalents is due to the realignment of monies in the investment account and a decrease in the total contributions. The Foundation has adequate funds on hand to pay invoices upon demand and approval.
- The net cash used for operating activities was \$1.508 million. Included in this calculation are payments of scholarships of \$340 thousand and \$1.178 million in payments for support of College programs. These are the major outflows of operating activities.

**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 Foundation requests and receives matching money from the State for contributions received from donors. With State economy in decline, funding for the matching program may be reduced thus decreasing the revenue in the Foundation. This economic downturn may also affect the ability of donors to continue to contribute at the same level. Investment income will play a key role in generating revenues for the Foundation as 30-50% of our revenues are generally attributed to investment activity. In June 21, 2010, Dr. Ty J. Handy became the third President of Northwest Florida State College. The College President will work with the Foundation Board of Directors and the community to establish a vision and plan for the future. To achieve that goal, the

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

College hired a new Foundation Executive Director, Cristie Kedroski, who began her career in October 2010. This is the start of new beginning and plans for the future.

## **FINANCIAL STATEMENTS**

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2010**

**ASSETS**

Current Assets

Cash and Cash Equivalents	\$ 473,871
Restricted Cash and Cash Equivalents	1,542,072
Accounts Receivable	26,825
Prepaid Insurance	20,112
Paintings, Holzhaur	1,190
	2,064,070
Total Current Assets	2,064,070

Noncurrent Assets

Endowment Investments	27,763,368
Depreciable Capital Assets, Net	5,253,404
Nondepreciable Capital Assets	451,201
	33,467,973
Total Noncurrent Assets	33,467,973

**TOTAL ASSETS**

**\$ 35,532,043**

**LIABILITIES**

Current Liabilities

Accounts Payable	\$ 50,529
	50,529
Total Current Liabilities	50,529

**TOTAL LIABILITIES**

**50,529**

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	6,318,195
Restricted: Other	419,900
Restricted, Nonexpendable: Endowment	28,155,023
Unrestricted	588,396
	35,481,514
Total Net Assets	35,481,514

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 35,532,043**

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

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

<b>OPERATING REVENUES</b>	
Rental Income	<u>\$ 111,900</u>
Total Operating Revenues	<u>111,900</u>
<b>OPERATING EXPENSES</b>	
Scholarships and Waivers	340,041
Utilities and Communications	101,227
Other Services and Expenses	1,120,328
Materials and Supplies	24,337
Depreciation	<u>169,330</u>
Total Operating Expenses	<u>1,755,263</u>
Net Operating Loss	<u>(1,643,363)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
State Appropriations	22,571
Miscellaneous Revenue	13,075
Gifts and Grants	573,274
Investment Income	590,484
Investment Income-Property	359,021
Realized Loss on Investments	(184,558)
Net Unrealized Gain on Investments	<u>1,834,389</u>
Net Nonoperating Revenues (Expenses)	<u>3,208,256</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	<u>1,564,893</u>
Additions to Permanent Endowments	<u>80,881</u>
Total Other Revenues	<u>80,881</u>
<b>INCREASE IN NET ASSETS</b>	1,645,774
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<u>33,835,740</u>
<b>NET ASSETS, END OF PERIOD</b>	<u><u>\$ 35,481,514</u></u>

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

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments to Utilities	\$ (101,226)
Payments for Scholarships	(340,041)
Rental Income	111,900
Other Receipts (Payments)	<u>(1,178,404)</u>
Net Cash Used in Operating Activities	<u>(1,507,771)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	22,571
Gifts and Grants Received for other Than Capital or Endowment Purposes	573,274
Private Gifts for Endowment Purposes	<u>80,881</u>
Net Cash Provided by Noncapital Financing Activities	<u>676,726</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	5,158,133
Investment Income	949,605
Purchase of Investments	<u>(6,149,062)</u>
Net Cash Used in Investing Activities	<u>(41,324)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(872,369)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>2,888,312</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 2,015,943</u></b>

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

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS (Continued)**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)	
TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	\$ (1,643,363)
Adjustments to Reconcile Net Operating Loss	
to Net Cash Used in Operating Activities:	
Depreciation Expense	169,330
Changes in Assets and Liabilities:	
Receivables, Net	(5,522)
Prepaid Insurance	345
Accounts Payable	(28,561)
	(28,561)
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,507,771)

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

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity:** The governing body of the Northwest Florida State College Foundation is a 23 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, as defined in Section 1004.70 Florida Statutes; 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. 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:** Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The 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 non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

Inter-fund transactions have been accounted for as reductions of expenses and not revenues of those funds.

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

The Foundation follows Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

When both restricted and unrestricted resources are available to fund specific programs, it is the Foundations policy to first apply the unrestricted resources to such programs followed by the use of the restricted resources.

**Cash and Cash Equivalents:** The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash placed in a money market account with Merrill Lynch EMA. Banks qualified as public depositories under Florida law hold cash deposits of the Foundation. All such deposits are insured by Federal depository insurance or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes.

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets.** The Foundation's capital assets consist of land; buildings; furniture and equipment; and construction in progress, and are stated at historical cost or estimated fair value at date of acquisition in the case of gifts and surplus property acquired at nominal cost. The Foundation has a capitalization threshold of \$1,000 for tangible personal property. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 40 Years
- Furniture and Equipment:
  - Computer Equipment – 3 Years
  - Furniture – 7 Years

Land, buildings, and equipment are stated at cost, except for donated property which is stated at fair market value at the date of the donation, and are net of accumulated depreciation of \$5,704,605. The Foundation depreciates buildings and equipment using the straight-line method over the estimated useful lives of the assets.

**NOTE 2- CASH AND INVESTMENTS**

The cash deposits held at financial institutions can be categorized according to three levels of risk:

Category 1 Deposits which are insured or collateralized with securities held by the Foundation or by its agent in the Foundation's name.

Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all the Foundation's cash deposits are classified as Category 1.

Cash on Hand	\$	100
Cash in Bank - Checking		473,771
Investments		1,542,072
 Total Cash and Cash Equivalents	 \$	 2,015,943

Similar to cash deposits, investments held at a financial institution can be categorized according to the following three levels of risk:

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 2- CASH AND INVESTMENTS (Continued)**

Category 1 Investments that are insured, registered or held by the entity or by its agent in the Foundation's name.

Category 2 Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the Foundation's name.

Category 3 Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the Foundation's name.

Investment pools managed by other governments or entities and mutual funds cannot be categorized because the investments are not evidenced by specific, identifiable investment securities. Investments in mutual funds and government bonds held by the Foundation at September 30, 2010, are reported at fair value as follows:

Investment Type	Investment Maturity in Years				
	Fair Value	Less Than 1	1 - 5	6-10	More Than 10
United States Government and Federally Guaranteed Bonds:					
Federal Home Loan Mortgage Corp	\$ 415,172	\$ -	\$ 415,172	\$ -	\$ -
United States Government Obligations	5,997,537	2,427,453	2,354,218	1,215,866	-
Corporate Bonds	4,347,623	-	2,254,892	2,092,731	-
<b>Total US Government and Bonds</b>	<b>10,760,332</b>	<b>2,427,453</b>	<b>5,024,282</b>	<b>3,308,597</b>	<b>-</b>
Equity Mutual Funds					
Alternative Investments	2,631,818				
Blackrock US Opportunities Port Inst	1,801,525				
Davis New York Venture	318,688				
Dreyfus Emerging Markets	239,409				
DWS Dreaman SM Cap	401,510				
Eaton Vance Spcl Equities Fund	2,558,243				
Fairholme Fund	201,228				
Harbor International Fund Investor	1,491,192				
Ishares Russell Growth	2,591,911				
Mainstay Large Cap Growth	2,792,835				
Openheimer Developing Markets	406,733				
Perkins Mid Cap Value	1,094,796				
Yacktman Fund	473,148				
<b>Total Equity Mutual Funds</b>	<b>17,003,036</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Investments</b>	<b>\$ 27,763,368</b>	<b>\$ 2,427,453</b>	<b>\$ 5,024,282</b>	<b>\$ 3,308,597</b>	<b>\$ -</b>

Investments are managed in accordance with the Statement of Investment Policy. This Statement sets target allocations of investments of 25%-35% for fixed income, 55%-65% for equities, and 4%-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.

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 2 – 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 percent of these short-term funds shall be invested in instruments having maturities no greater than two years. No more than 25 percent may be invested in instruments that have maturities no greater than five years, and no more than 25 percent may be invested in instruments that have maturities greater than five years. The investments at September 30, 2010 meet the Foundation's investment policy restrictions.

Credit Risk: Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The Foundation is required to disclose risk only on corporate bonds. The bonds should primarily be of the four highest bond ratings. Corporate bonds held by the Foundation at September 30, 2010, were rated as follows:

	Fair Value	Rating
Corporate Bonds	3,662,473	AA to A
	685,150	BBB
<b>Total Corporate Bonds</b>	<b>\$ 4,347,623</b>	

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy requires that investments are to be diversified to the extent that no more than 4 percent of the funds may be invested in any one security, no more than 30 percent in any one industry, and the Foundation should not control more than 10 percent of the debt in any company. These restrictions do not apply to obligations of the Federal government. As of September 30, 2010, the Foundation does not have a concentration of credit risk.

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

Fair Values and unrealized gains as of September 30, 2010, are summarized as follows:

	Cost	Fair Value	Unrealized Gain(Loss)
Merrill Lynch EMA	\$ 14,766,520	\$ 17,003,036	\$ 2,236,516
Merrill Lynch Investment	10,035,650	10,760,332	\$ 724,682
<b>Total</b>	<b>\$ 24,802,170</b>	<b>\$ 27,763,368</b>	<b>\$ 2,961,198</b>

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

The following schedule summarizes the investment return and its classification in the statement of revenues, expenses and changes in net assets for the year ended September 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and Dividend Income	\$ 4,697	\$ 22,685	\$ 563,102	\$ 590,484
Net Realized & Unrealized Gains (Losses)	<u>12,180</u>	<u>62,749</u>	<u>1,574,903</u>	<u>1,649,832</u>
Total Investment Return	<u>\$ 16,877</u>	<u>\$ 85,434</u>	<u>\$ 2,138,005</u>	<u>\$ 2,240,316</u>

(1) 50% of earnings accrued to the education challenge grants are restricted for a 20 year period.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable represents amounts due from the Campbell Fund Employee Computer Purchase Program. This program allows current full-time employees to purchase a computer from the college bookstore using funds from the Campbell Endowment. The employee pays a finance fee and reimburses the Campbell Endowment in installments through a monthly payroll deduction.

**NOTE 4 - INVENTORIES**

Inventories consist of prints of arts sold by the Foundation office.

**NOTE 5 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended September 30, 2010 is shown in the following table:

	<u>Balance 9/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2010</u>
Apartment Buildings & Improvements	\$ 800,124	\$ -	\$ -	\$ 800,124
Apartment Building - New	4,074,381	-	-	4,074,381
Apartment Building - Remodel	837,749	-	-	837,749
Building (FACC)	505,325	-	-	505,325
Land	451,200	-	-	451,200
Furniture & Equipment	100,617	-	-	100,617
Total Capital Assets	<u>6,769,396</u>	<u>-</u>	<u>-</u>	<u>6,769,396</u>
Depreciation	(895,463)	(169,330)	-	(1,064,793)
Net Capital Assets	<u>\$ 5,873,933</u>	<u>\$ (169,330)</u>	<u>\$ -</u>	<u>\$ 5,704,603</u>

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purpose or periods:

Specific grant or scholarship purposes	\$ 419,900
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**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Net Assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by the donors as follows:

Purpose restriction accomplished:	
Instructional Programs	\$ 531,280
Raider Athletics	108,640
Student Housing	342,490
Mattie Kelly Arts Center	161,583
Scholarships	340,041
NSFO	<u>84,591</u>
Total restrictions released	<u><u>\$ 1,568,625</u></u>

**NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes at September 30, 2010:

Instruction	\$ 1,848,456
Arts Center	16,882,213
Scholarships	9,424,336
Capital Assets	<u>6,318,195</u>
Total Permanently Restricted Assets	<u><u>\$ 34,473,200</u></u>

**NOTE 8 – SUBSEQUENT EVENT**

The NWFS College Foundation did not have any subsequent events through January 4, 2011, (the date the financial statements were available to be issued) required to be recorded or disclosed in the financial statements for the year ended September 30, 2010.

## **SUPPLEMENTARY INFORMATION**

**NORTHWEST FLORIDA STATE COLLEGE FOUNDATION, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

ITEM OF EXPENSE	Program Services			Support Services		
	Operating	Temporarily Restricted	Total Program Services	Management and General	Fund Raising	Total Support Services
Business Meeting Expense	\$ -	\$ -	\$ -	\$ 169	\$ -	\$ 169
Professional Development Fees	-	3,200	3,200	-	-	-
Internal Support Services	-	18,332	18,332	20,204	-	20,204
Food & Beverage	-	37,460	37,460	10,185	1,242	11,427
Travel	-	4,585	4,585	255	775	1,030
NFSO Performance Support	-	84,532	84,532	-	-	-
Postage/Freight	-	97	97	2,087	352	2,439
Printing/Duplication	-	1,798	1,798	5,865	160	6,025
Repairs & Maintenance	-	45,261	45,261	29,088	-	29,088
Utilities	-	100,387	100,387	841	-	841
Insurance	-	22,431	22,431	31,372	-	31,372
Rentals	-	1,238	1,238	-	8,241	8,241
Dues, Publications, and Subscriptions	-	-	-	8,321	-	8,321
Other Services	-	20,548	20,548	5,969	1,438	7,407
Professional Fees	-	3,634	3,634	18,634	-	18,634
Accounting & Auditing	-	-	-	11,500	-	11,500
Investment Management Fee	-	90,450	90,450	579	73	652
Bank Fees	-	-	-	635	-	635
Miscellaneous Supplies	-	8,191	8,191	3,175	11,442	14,617
Sports Equipment	-	31	31	-	-	-
Gifts, Prizes, and Awards	-	19,284	19,284	7,388	110	7,498
Advertising	-	1,226	1,226	-	2,641	2,641
Taxes and License	-	3,155	3,155	2,302	3	2,305
Scholarships	11,228	328,814	340,042	-	-	-
Gifts/Contributions to NWFSC	2,468	589,382	591,850	-	-	-
Depreciation	-	169,330	169,330	-	-	-
Donor Development	-	-	-	1,563	-	1,563
Fundraising Expense	-	-	-	-	28	28
Book Purchase	-	1,497	1,497	-	-	-
Returned to Donors	-	67	67	-	-	-
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 13,696</b>	<b>\$ 1,554,930</b>	<b>\$ 1,568,626</b>	<b>\$ 160,132</b>	<b>\$ 26,505</b>	<b>\$ 186,637</b>

## **COMPLIANCE SECTION**

**NICHOLSON, REEDER & REYNOLDS, P.A.**  
*Certified Public Accountants*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Fort Walton Beach, Florida  
January 4, 2011

To the Board of Trustees of  
Northwest Florida State College  
Foundation  
Niceville, Florida

We have audited the financial statements of the Northwest Florida State College Foundation, Inc. ( a nonprofit organization), Niceville, Florida, as of and for the year ended September 30, 2010, and have issued our report thereon dated January 4, 2011. 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.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered Northwest Florida State College Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwest Florida State College Foundation's internal control over financial reporting.

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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance*

As part of obtaining reasonable assurance about whether Northwest Florida State College Foundation's financial statements are free of 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 result of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Northwest Florida State College Foundation, Inc.  
January 4, 2011  
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This report is intended solely for the information and use of the audit committee, management, others within the Foundation, the Auditor General of the State of Florida, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

NICHOLSON, REEDER & REYNOLDS, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS