



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



OKALOOSA-WALTON COLLEGE

Financial Audit

For the Fiscal Year Ended June 30, 2006

During the audit period, the President of the College was Dr. James R. Richburg. Members of the College's Board of Trustees who served during the audit period are listed below:

<u>Board Member</u>	<u>County</u>
Joseph W. Henderson, Chair	Okaloosa
Esteena K. Wells, Vice Chair	Walton
Elizabeth S. Campbell	Walton
Dr. Connie S. Hall	Okaloosa
Lamar S. Rainer	Okaloosa
J. E. Smith	Okaloosa
Vercell Vance	Okaloosa
Wesley Wilkerson	Walton

OKALOOSA-WALTON COLLEGE

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EXECUTIVE SUMMARY

The audit of the financial statements of Okaloosa-Walton College for the fiscal year ended June 30, 2006, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the College, a component unit of the State of Florida, and a determination as to whether management complied with applicable laws, administrative rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the College is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the financial statements of the College:

- We found that the College's financial statements presented fairly, in all material respects, the financial positions of the College and its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- We noted no matters involving the College's internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted certain matters that we consider to be reportable conditions as discussed in the Findings and Recommendations section of this report.
- The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Kenneth C. Danley, CPA, and supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FINDINGS AND RECOMMENDATIONS

REPORTABLE CONDITIONS

Finding No. 1: Annual Financial Report

State Board of Education Rule 6A-14.072, Florida Administrative Code, and related instructions from the Florida Department of Education prescribe the exhibits and schedules that should be prepared as part of the College's annual financial report. The annual financial report provides information about the College's finances, demonstrates the College's accountability for public resources, and provides users of the annual financial report a basis for evaluating the College's financial condition. To be useful, the annual financial report must be accurate and fairly presented in accordance with generally accepted accounting principles. We noted several errors and deficiencies in the College's annual financial report, including the following:

- The College reported a \$385,921 adjustment to increase beginning net assets to account for prior fiscal year audit adjustments accepted by the College. However, prior fiscal year audit adjustments had the net effect of decreasing net assets by that amount. Therefore, beginning net assets of the College were overstated by \$771,842.
- The College did not properly update cash and cash equivalents for current fiscal year activity. Instead, the College reported prior fiscal year audited amounts for noncurrent cash and cash equivalents. As a result, noncurrent cash and cash equivalents were overstated by \$792,093 and current cash and cash equivalents were understated by \$792,093. Similarly, special termination benefits payable account balances were not updated for current fiscal year activity. Instead, the College reported prior fiscal year audited amounts for these account balances. As a result, special termination benefits payable were overstated by \$70,740.
- Of the \$543,529 that the College reported as deposits held for others, \$410,879 actually represented restricted net assets of a program operated by the College. This error had the effect of overstating liabilities and understating net assets by \$410,879.
- Although requested, College personnel did not provide documentation showing how certain amounts recorded in the College's accounting records were subsequently summarized, adjusted, and reported. For example:
 - College personnel indicated that the revenues received from certain Federal grants had been allocated between operating revenues (\$166,666) and nonoperating revenues (\$463,090). However, College personnel did not provide supporting documentation to demonstrate the basis for these allocations.
 - Revenues from the Critical Jobs Initiative State appropriations totaling \$604,364 were not properly classified as State appropriations. In addition, supporting documentation showing how certain other revenue categories were summarized was not available. As such, we could not determine whether these revenues were properly classified and reported by the College.
 - Contractual services expenses recorded in the College's accounting records (after considering known adjustments) totaled \$2,818,464. College personnel subsequently adjusted (decreased) these expenses by \$610,077 and reported a balance of \$2,208,387. However, College personnel

did not provide supporting documentation for this adjustment. Similar unsupported adjustments were noted in other expense categories including utilities and communications, other services and expenses, and materials and supplies.

- Revenues from student capital improvement fees totaling \$261,157 were incorrectly reported twice, once in student tuition and fee revenues and once in capital gifts, grants, and fees.

We expanded our audit procedures to determine the adjustments to the account balances necessary for fair presentation of the College's financial statements. Adjustments were accepted by the College to correct these account balances in the accompanying financial statements. However, our audit procedures cannot substitute for effective internal controls. When the annual financial report is not accurately prepared, the College's Board of Trustees, management, and other users of the annual financial report are without a proper basis for evaluating College operations and for assessing the College's financial condition.

Recommendation: The College should improve its efforts to ensure that its annual financial report is accurate and fairly presented, and that amounts reported on its annual financial report are supported by adequate documentation demonstrating how each of the amounts reported are determined.

Finding No. 2: Electronic Funds Transfers

During the 2005-06 fiscal year, the balance in the College's State Board of Administration account ranged from approximately \$3.2 million to \$14.5 million, and electronic funds transfers from the account totaled approximately \$20.8 million. Our review of the College's agreement with the State Board of Administration disclosed that, although the agreement indicated transfers could only be made to a specific College bank account, the agreement also authorized the same College employee to transfer funds from the account and to authorize any changes in the account information (e.g., the bank accounts where funds could be transferred). In addition, the same employee had update capabilities to the College's accounting records where such transfers are recorded and accounted for. Under these conditions, there is an increased risk that unauthorized transfers could occur and not be detected by College personnel in a timely manner.

Recommendation: The College should strengthen internal controls over electronic funds transfers from its State Board of Administration account to provide for an adequate separation of duties.

MANAGEMENT RESPONSE

The College's response is included as Appendix A of this report.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Okaloosa-Walton College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2006, as shown on pages 15 through 23. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which comprises 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for this entity, is based solely upon the report of the other auditors.

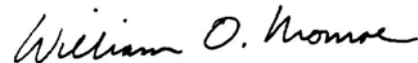
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Okaloosa-Walton College and of its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal 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 on our consideration of Okaloosa-Walton College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 7 through 14 is not a required part of the basic financial statements, but is 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.

Respectfully submitted,



William O. Monroe, CPA
March 16, 2007



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The President of the Senate, the Speaker of the
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Okaloosa-Walton College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2006, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. 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. Our report on the financial statements included disclosures regarding our reference to the report of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the College's financial statements and not to provide an opinion on the College's internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. These matters are discussed in the **FINDINGS AND RECOMMENDATIONS** section of this audit report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.


Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational report No. 2007-058, dated December 2006.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA
March 16, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2006, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$81.4 million at June 30, 2006. This balance reflects a \$4.4 million, or 5.7 percent increase from the 2004-05 fiscal year; the most significant reason for the increase was the increase in capital assets. The increase in capital assets was predominantly related to the continued construction of the new science building. At \$5.9 million, total liabilities remained essentially unchanged, increasing only 0.6 percent from the prior fiscal year. As a result, the College's net assets increased by \$4.4 million, reaching a year-end balance of \$75.5 million.

The College's revenues totaled \$43.8 million for the 2005-06 fiscal year, representing a 5 percent increase over the 2004-05 fiscal year due mainly to increases from student tuition and fees and from State appropriations. Operating expenses totaled \$39.4 million for the 2005-06 fiscal year, representing an increase of 6.1 percent over the 2004-05 fiscal year due mainly to increased noncapitalized expenses for materials and supplies.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the College's financial report consists of three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These financial statements, and notes thereto, provide information on the College as a whole and present a long-term view of the College's finances, and include activities for the following entities:

- Okaloosa-Walton College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Okaloosa-Walton College Foundation, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports their financial activities to the State of Florida.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

One of the most important questions asked about the College's finances is, "Is Okaloosa-Walton College as a whole, better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an

increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Okaloosa-Walton College's operating results.

These two statements report Okaloosa-Walton College's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

A condensed statement of assets, liabilities, and net assets of the College and its component unit for the fiscal years ended June 30, 2006, and June 30, 2005, is shown in the following table:

	College		Component Unit	
	2006	2005	2006	2005
Assets				
Current Assets	\$ 13,847	\$ 12,500	\$ 4,051	\$ 2,124
Capital Assets, Net	63,152	58,728	6,092	5,184
Other Noncurrent Assets	4,361	5,715	11,547	14,943
Total Assets	81,360	76,943	21,690	22,251
Liabilities				
Current Liabilities	2,128	2,174	433	236
Noncurrent Liabilities	3,779	3,697		
Total Liabilities	5,907	5,871	433	236
Net Assets				
Invested in Capital Assets, Net of Related Debt	61,727	57,193	6,092	5,184
Restricted	9,066	7,716	15,068	16,698
Unrestricted	4,660	6,163	97	133
Total Net Assets	\$ 75,453	\$ 71,072	\$ 21,257	\$ 22,015
Increase (Decrease) in Net Assets	\$ 4,381	6.2%	\$ (758)	-3.4%

As can be seen in the table above, the change in capital assets was the most significant change from the prior fiscal year. Within capital assets, construction in progress represented most of this change, increasing \$6.5 million for the construction of the soon to be completed science building.

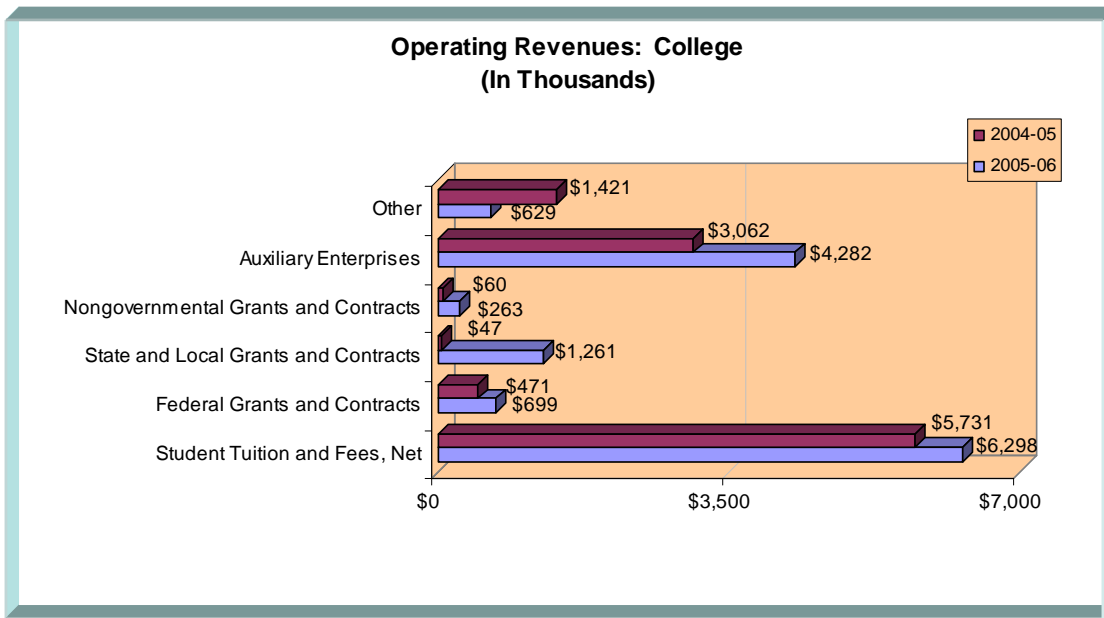
Revenues and expenses of the College and its component unit for the 2005-06 and 2004-05 fiscal years are shown in the following table:

Operating Results for the Fiscal Years				
(In Thousands)				
	<u>College</u>		<u>Component Unit</u>	
	2005-06	2004-05	2005-06	2004-05
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 6,298	\$ 5,731	\$	\$
Federal Grants and Contracts	699	471		
State and Local Grants and Contracts	1,261	47		
Nongovernmental Grants and Contracts	263	60		883
Auxiliary Enterprises	4,282	3,062		
Other Operating Revenues	629	1,421	148	178
Total Operating Revenues	13,432	10,792	148	1,061
Less, Operating Expenses	39,440	37,181	1,271	1,260
Operating Loss	(26,008)	(26,389)	(1,123)	(199)
Nonoperating Revenues (Expenses)				
State Appropriations	19,987	18,150	550	657
Other Nonoperating Revenues	5,411	7,143	2,345	1,029
Nonoperating Expenses	(64)	(48)		
Net Nonoperating Revenues	25,334	25,245	2,895	1,686
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses				
	(674)	(1,144)	1,772	1,487
Capital Appropriations	4,305	4,747		
Capital Grants, Gifts, and Fees	753	952		
Loss on Disposal of Capital Assets	(3)			
Increase in Net Assets	4,381	4,555	1,772	1,487
Net Assets, Beginning of Year	71,072	66,517	22,015	20,528
Adjustment to Beginning Net Assets (1)			(2,530)	
Net Assets, Beginning of Year, as Restated	71,072	66,517	19,485	20,528
Net Assets, End of Year	\$ 75,453	\$ 71,072	\$ 21,257	\$ 22,015
Notes: (1) The adjustment to beginning net assets is to reflect the implementation of the use of GASB financial reporting standards by the component unit effective for the fiscal year ended June 30, 2006. See note 2 to the financial statements.				

Operating Revenues

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

The following chart presents the College's operating revenues for the 2005-06 and 2004-05 fiscal years:



College operating revenue increases resulted primarily from increases in student tuition and fees and grants and contracts.

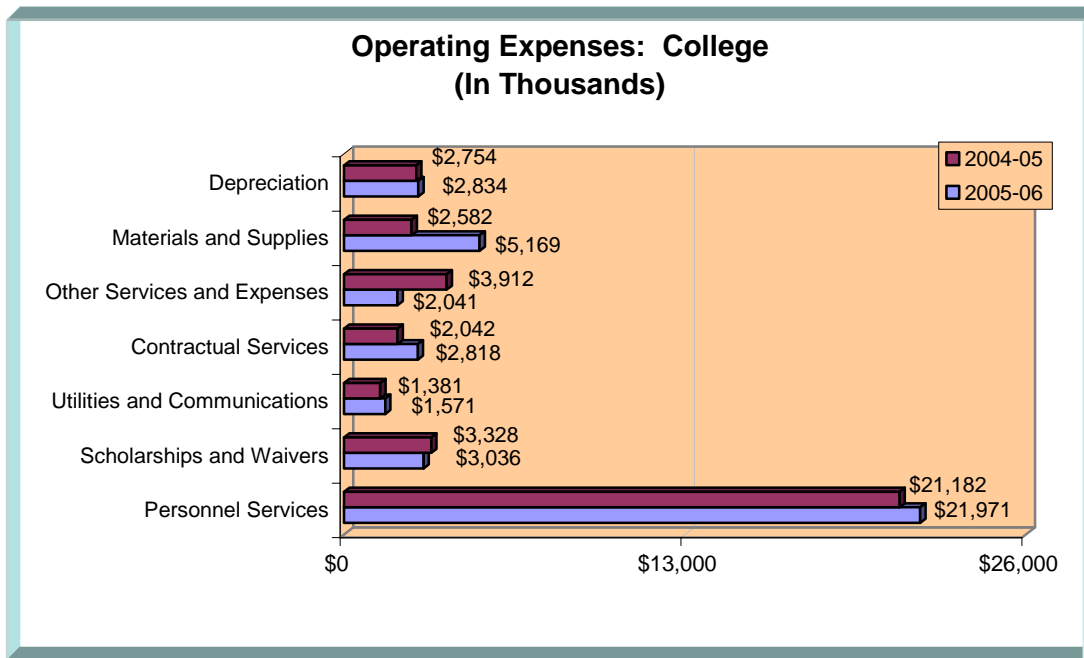
Operating Expenses

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

Operating expenses for the College and its component unit for the 2005-06 and 2004-05 fiscal years are presented in the following table:

	College		Component Unit	
	2005-06	2004-05	2005-06	2004-05
Operating Expenses				
Personnel Services	\$ 21,971	\$ 21,182	\$	\$
Scholarships and Waivers	3,036	3,328	331	230
Utilities and Communications	1,571	1,381	70	64
Contractual Services	2,818	2,042	68	388
Other Services and Expenses	2,041	3,912	123	420
Materials and Supplies	5,169	2,582	618	107
Depreciation	2,834	2,754	61	51
Total Operating Expenses	\$ 39,440	\$ 37,181	\$ 1,271	\$ 1,260

The following chart presents the College’s operating expenses for the 2005-06 and 2004-05 fiscal years:



Operating expenses were relatively unchanged from the 2004-05 fiscal year to the 2005-06 fiscal year with the exception of materials and supplies and, to a lesser degree, personnel services. Personnel services increases were attributed primarily to increases in salaries and required retirement contribution rates. Materials and supplies increases were primarily due to increased noncapitalized expenses for projects such as new carpet, painting, and building repairs.

Nonoperating Revenues and Expenses

Certain revenue sources that the College relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the College’s nonoperating revenues and expenses for the 2005-06 and 2004-05 fiscal years:

	2005-06	2004-05
State Appropriations	\$ 19,987	\$ 18,150
Gifts and Grants	4,569	6,766
Investment Income	543	373
Other Nonoperating Revenues	299	4
Interest on Capital Asset-Related Debt	(64)	(48)
Net Nonoperating Revenues	\$ 25,334	\$ 25,245

Net nonoperating revenues were relatively unchanged from the prior fiscal year. State appropriations increases were in line with increased State funding and these increases were offset by decreases in grants and contracts such as student financial aid.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, gifts, and fees. The following summarizes the College’s other revenues, expenses, gains, or losses for the 2005-06 and 2004-05 fiscal years:

Other Revenues, Expenses, Gains, or Losses: College (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Capital Appropriations	\$ 4,304	\$ 4,747
Capital Grants, Gifts, and Fees	753	952
Loss on Disposal of Capital Assets	<u>(3)</u>	<u> </u>
Total	<u>\$ 5,054</u>	<u>\$ 5,699</u>

The decline in revenues for capital outlay activities is largely attributable to a decrease in Public Education Capital Outlay funding.

THE STATEMENT OF CASH FLOWS

Another way to assess the financial health of an institution is to look at the statement of cash flows. 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 summary of the College’s cash flows for the 2005-06 and 2004-05 fiscal years is presented in the following table:

Condensed Statement of Cash Flows: College (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Cash Provided (Used) by:		
Operating Activities	\$ (22,868)	\$ (24,273)
Noncapital Financing Activities	24,233	24,652
Capital and Related Financing Activities	(1,623)	1,672
Investing Activities	<u>543</u>	<u>364</u>
Net Increase in Cash and Cash Equivalents	285	2,415
Cash and Cash Equivalents, Beginning of Year	<u>12,711</u>	<u>10,296</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,996</u>	<u>\$ 12,711</u>

Major sources of funds came from State appropriations (\$20 million), grants and contracts (\$7.7 million), net student tuition and fees (\$6.6 million), and capital appropriations (\$4.8 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2006, the College had \$91.3 million in capital assets, less accumulated depreciation of \$28.1 million, for net capital assets of \$63.2 million. Depreciation charges for the current fiscal year totaled \$2.8 million. The following table summarizes the College's capital assets for the 2005-06 fiscal year:

Capital Assets: College (In Thousands)				
<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 3,024	\$	\$ 115	\$ 2,909
Buildings	71,264	332		71,596
Other Structures and Improvements	1,848	297		2,145
Furniture, Machinery, and Equipment	3,994	210	298	3,906
Capitalized Collections	717	33	25	725
Construction in Progress	<u>3,462</u>	<u>6,535</u>		<u>9,997</u>
Total	<u>84,309</u>	<u>7,407</u>	<u>438</u>	<u>91,278</u>
Less, Accumulated Depreciation:				
Buildings	21,151	2,153		23,304
Other Structures and Improvements	1,449	92		1,541
Furniture, Machinery, and Equipment	<u>2,981</u>	<u>589</u>	<u>289</u>	<u>3,281</u>
Total Accumulated Depreciation	<u>25,581</u>	<u>2,834</u>	<u>289</u>	<u>28,126</u>
Capital Assets, Net	<u>\$ 58,728</u>	<u>\$ 4,573</u>	<u>\$ 149</u>	<u>\$63,152</u>

During the current fiscal year, the most significant construction project was the new science building which was completed in August 2006. Renovation of the old science building will begin during the 2006-07 fiscal year.

Planning is also underway for the construction of the new community life center. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$1.4 million in debt outstanding versus \$1.5 million at the end of the prior fiscal year, a decrease of 7.2 percent.

The State Board of Education issues capital outlay bonds on behalf of the College. During the 2005-06 fiscal year, there were no bond sales and debt repayments totaled \$.1 million. Additional information about the College's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Okaloosa-Walton College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the coming year. However, the introduction of new health and homeland security degree programs and the completion of the new science building should generate growth in students attending the College which should generate additional student tuition and fee revenues.

FINANCIAL SECTION

**OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2006**

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,824,605.21	\$ 1,179,510.00
Restricted Cash and Cash Equivalents	1,810,704.45	
Restricted Investments		2,297,444.00
Accounts Receivable, Net	858,109.31	
Notes Receivable, Net	9,019.60	
Due from Other Governmental Agencies	3,828,312.47	572,922.00
Inventories	423,552.46	
Prepaid Expenses	84,150.57	
Other Assets	8,387.92	1,190.00
Total Current Assets	13,846,841.99	4,051,066.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,360,639.86	
Restricted Investments		11,546,550.00
Depreciable Capital Assets, Net	49,521,702.81	2,101,406.00
Nondepreciable Capital Assets	13,630,614.37	3,991,038.00
Total Noncurrent Assets	67,512,957.04	17,638,994.00
TOTAL ASSETS	\$ 81,359,799.03	\$ 21,690,060.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 294,772.99	\$ 432,713.00
Salary and Payroll Taxes Payable	916,451.11	
Retainage Payable	575,988.12	
Deposits Held for Others	132,649.99	365.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	110,000.00	
Compensated Absences Payable	49,834.00	
Special Termination Benefits Payable	48,344.04	
Total Current Liabilities	2,128,040.25	433,078.00
Noncurrent Liabilities:		
Bonds Payable	1,315,000.00	
Compensated Absences Payable	2,441,846.36	
Special Termination Benefits Payable	21,986.39	
Total Noncurrent Liabilities	3,778,832.75	
TOTAL LIABILITIES	5,906,873.00	433,078.00

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2006

	College	Component Unit
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 61,727,317.18	\$ 6,092,445.00
Restricted:		
Nonexpendable:		
Endowment		11,901,134.00
Expendable:		
Research	325,621.79	
Grants and Loans	1,116,767.25	3,166,147.00
Scholarships	3,992.64	
Capital Projects	7,579,257.30	
Debt Service	39,528.00	
Unrestricted	4,660,441.87	97,256.00
Total Net Assets	75,452,926.03	21,256,982.00
TOTAL LIABILITIES AND NET ASSETS	\$ 81,359,799.03	\$ 21,690,060.00

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

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2006

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$1,764,571	\$ 6,297,656.12	\$
Federal Grants and Contracts	698,499.75	
State and Local Grants and Contracts	1,261,094.74	
Nongovernmental Grants and Contracts	262,568.00	
Auxiliary Enterprises	4,282,446.37	
Other Operating Revenues	629,341.90	147,562.00
Total Operating Revenues	13,431,606.88	147,562.00
EXPENSES		
Operating Expenses:		
Personnel Services	21,970,636.80	
Scholarships and Waivers	3,036,204.47	331,127.00
Utilities and Communications	1,570,827.30	69,770.00
Contractual Services	2,818,464.15	67,985.00
Other Services and Expenses	2,041,265.74	123,231.00
Materials and Supplies	5,169,038.61	618,117.00
Depreciation	2,833,544.51	60,448.00
Total Operating Expenses	39,439,981.58	1,270,678.00
Operating Loss	(26,008,374.70)	(1,123,116.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	19,987,224.05	549,760.00
Gifts and Grants	4,569,000.37	343,197.00
Investment Income	543,413.40	1,537,131.00
Other Nonoperating Revenues	298,851.00	464,672.00
Interest on Capital Asset-Related Debt	(64,148.00)	
Net Nonoperating Revenues	25,334,340.82	2,894,760.00
Gain (Loss) Before Other Revenues, Expenses, Gains, or Losses	(674,033.88)	1,771,644.00
Capital Appropriations	4,304,726.00	
Capital Grants, Gifts, and Fees	752,802.22	
Loss on Disposal of Capital Assets	(3,067.00)	
Total Other Revenues	5,054,461.22	
Increase in Net Assets	4,380,427.34	1,771,644.00
Net Assets, Beginning of Year	71,072,498.69	22,014,727.00
Adjustment to Beginning Net Assets		(2,529,389.00)
Net Assets, Beginning of Year, as Restated	71,072,498.69	19,485,338.00
Net Assets, End of Year	\$ 75,452,926.03	\$ 21,256,982.00

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

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2006

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 6,587,932.98
Grants and Contracts	2,392,870.31
Payments to Suppliers	(10,060,200.81)
Payments for Utilities and Communications	(1,570,827.30)
Payments to Employees	(17,560,961.93)
Payments for Employee Benefits	(4,068,656.75)
Payments for Scholarships	(3,036,204.47)
Net Loans Issued to Students	(403,812.84)
Collection of Loans to Students	473,354.04
Auxiliary Enterprises	4,282,446.37
Other Receipts	95,390.22
	<u>(22,868,670.18)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	19,707,546.69
Gifts and Grants Received for Other Than Capital or Endowment Purposes	4,525,359.72
	<u>24,232,906.41</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	4,760,194.23
Capital Grants and Gifts	752,802.22
Proceeds from Sale of Capital Assets	6,857.05
Purchases of Capital Assets	(6,968,873.83)
Principal Paid on Capital Debt	(110,000.00)
Interest Paid on Capital Debt	(64,148.00)
	<u>(1,623,168.33)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	543,413.40
	<u>284,481.30</u>
Net Increase in Cash and Cash Equivalents	284,481.30
Cash and Cash Equivalents, Beginning of Year	12,711,468.22
	<u>12,995,949.52</u>
Cash and Cash Equivalents, End of Year	\$ 12,995,949.52

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2006

	College
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (26,008,374.70)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,833,544.51
Changes in Assets and Liabilities:	
Receivables, Net	476,495.30
Inventories	(164,256.79)
Other Assets	(19,781.56)
Payables, Net	348,009.34
Deferred Revenue	(33,610.00)
Deposits Held for Others	(481,254.72)
Special Termination Benefits	(70,739.92)
Compensated Absences Payable	251,298.36
NET CASH USED BY OPERATING ACTIVITIES	\$ (22,868,670.18)

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

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Okaloosa-Walton College Foundation, Inc. (Foundation), is included within the College's reporting entity as a discretely presented component unit.

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2006.

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

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements

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 College'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 College's component unit uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

The College follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the College computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash held with the State Board of Administration (SBA). For the purpose of reporting cash flows, the College considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the College considers amounts invested in the SBA Local Government Surplus Funds Trust Fund investment pool to be cash equivalents. College cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted by grantors to make debt service payments, or to purchase or construct capital or other restricted assets, are classified as restricted.

At June 30, 2006, the College reported as cash equivalents at fair value \$10,770,846.36 of moneys held in the Local Government Surplus Funds Trust Fund administered by the SBA pursuant to Section 218.405, Florida

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Statutes. The College's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign credit risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2006.

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

- Buildings – 40 years
- Other Structures and Improvements – 10 years
- Furniture, Machinery, and Equipment:
 - Computer Equipment – 3 years
 - Vehicles, Athletic and Other Minor Equipment – 5 years
 - Office Furniture and Equipment – 7 years
 - Educational Furniture and Equipment – 10 years

2. PRIOR PERIOD ADJUSTMENT – COMPONENT UNIT

Adjustments to beginning net assets are reported in accordance with Accounting Principles Board Opinion Nos. 9 and 20, and FASB Statement No. 16. The adjustment to beginning net assets of \$2,529,389 reported in the statement of revenues, expenses, and changes in net assets is to reflect the implementation of the use of GASB financial reporting standards by the Okaloosa-Walton College Foundation, Inc., effective for the fiscal year ended June 30, 2006.

3. INVESTMENTS

Section 218.415(16), Florida Statutes, authorizes the College to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, or to purchase or construct capital assets, are classified as restricted.

The College reported no investments at June 30, 2006, as surplus funds were invested in the State Board of Administration Local Government Surplus Funds Trust Fund investment pools, which are reported as cash and cash equivalents.

Component Unit Investments

Investments in mutual funds and government bonds held by the Okaloosa-Walton College Foundation, Inc., at June 30, 2006, are reported at fair value as follows:

<u>Investment Type</u>	<u>Fair Value</u>
Equity Mutual Funds: (1)	
American-Growth Fund of America	\$ 2,666,005
Baron Small Cap Fund	1,343,510
Calamos Growth Fund	1,285,217
Lord Abbett Affiliated Fund	2,621,818
MainStay Small Cap Opportunity Fund	1,306,198
Oakmark International Fund	1,898,381
Third Avenue Value Fund	1,237,052
United States Government and Federally Guaranteed Bonds: (2)	
Federal National Mortgage Association	1,462,655
United States Treasury Bond at 7.25 Percent	23,158
Total	<u>\$ 13,843,994</u>

Notes: (1) Investment risk disclosures are not required for equity mutual funds.

(2) Investment risk disclosures are not required for obligations of, or obligations guaranteed by, the United States government.

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

The Foundation's investment policy is to reduce risk by investing in a diversified portfolio of financial assets, primarily in stock funds, bonds, or bond funds and cash equivalents. Investments are diversified between asset classes to reduce risk and volatility within acceptable limits.

4. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, and grant and other reimbursements due from third parties. These receivables are reported net of a \$61,020.80 allowance for uncollectible accounts.

5. NOTES RECEIVABLE

Notes receivable represent student loans made under the College's short-term loan program. Notes receivable are reported net of a \$610.15 allowance for uncollectible notes.

6. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$3,278,323.49 of Public Education Capital Outlay allocations due from the State to the College for construction of College facilities.

7. INVENTORIES

Inventories consist of graphic service supplies held for use by College departments, food service supplies held for use in production of food items for sale, and items held for resale by the campus bookstore. Inventories are valued using the last invoice cost which approximates the first-in, first-out, method of inventory valuation.

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, is shown below:

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 3,023,907.92	\$	\$ 115,025.42	\$ 2,908,882.50
Capitalized Collections	717,067.11	33,000.00	25,040.30	725,026.81
Construction in Progress	3,461,989.16	6,534,715.90		9,996,705.06
Total Nondepreciable Capital Assets	\$ 7,202,964.19	\$ 6,567,715.90	\$ 140,065.72	\$ 13,630,614.37
Depreciable Capital Assets:				
Buildings	\$ 71,264,137.15	\$ 332,192.98	\$	\$ 71,596,330.13
Other Structures and Improvements	1,848,081.31	297,133.58		2,145,214.89
Furniture, Machinery, and Equipment	3,994,424.58	209,992.46	298,095.37	3,906,321.67
Total Depreciable Capital Assets	77,106,643.04	839,319.02	298,095.37	77,647,866.69
Less, Accumulated Depreciation:				
Buildings	21,150,671.86	2,153,034.42		23,303,706.28
Other Structures and Improvements	1,449,615.38	91,787.87		1,541,403.25
Furniture, Machinery, and Equipment	2,981,259.26	588,722.22	288,927.13	3,281,054.35
Total Accumulated Depreciation	25,581,546.50	2,833,544.51	288,927.13	28,126,163.88
Total Depreciable Capital Assets, Net	\$ 51,525,096.54	\$ (1,994,225.49)	\$ 9,168.24	\$ 49,521,702.81

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2006, include bonds, compensated absences, and special termination benefits. Long-term liabilities activity for the fiscal year ended June 30, 2006, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 1,535,000.00	\$	\$ 110,000.00	\$ 1,425,000.00	\$ 110,000.00
Compensated Absences Payable	2,240,382.00	325,459.25	74,160.89	2,491,680.36	49,834.00
Special Termination Benefits Payable	141,070.35	22,634.94	93,374.86	70,330.43	48,344.04
Total Long-Term Liabilities	\$ 3,916,452.35	\$ 348,094.19	\$ 277,535.75	\$ 3,987,010.79	\$ 208,178.04

Bonds Payable. The State Board of Education issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable outstanding at June 30, 2006:

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
State Board of Education Capital Outlay Bonds:			
Series 2002-B	\$ 890,000.00	3.375 - 5.375	2015
Series 2005-A	<u>535,000.00</u>	4.0 - 5.0	2025
Total	<u>\$ 1,425,000.00</u>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	State Board of Education Capital Outlay Bonds		
	Principal	Interest	Total
2007	\$ 110,000.00	\$ 67,500.00	\$ 177,500.00
2008	120,000.00	62,000.00	182,000.00
2009	125,000.00	57,462.50	182,462.50
2010	130,000.00	52,637.50	182,637.50
2011	135,000.00	45,762.50	180,762.50
2012-2016	605,000.00	123,768.75	728,768.75
2017-2021	110,000.00	32,531.25	142,531.25
2022-2025	<u>90,000.00</u>	<u>8,937.50</u>	<u>98,937.50</u>
Total	<u>\$ 1,425,000.00</u>	<u>\$ 450,600.00</u>	<u>\$ 1,875,600.00</u>

During the 2004-05 fiscal year, a portion of the State Board of Education Capital Outlay Bonds, Series 1996-A, were refunded and considered defeased in-substance by placing a portion of the proceeds of the new bonds in an irrevocable trust to provide for future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the College's statement of net assets. As of June 30, 2006, \$185,000 of State Board of Education Capital Outlay Bonds, Series 1996-A, are considered defeased in-substance.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2006, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA

OKALOOSA-WALTON COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

contributions, totaled \$2,491,680.36. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year.

Special Termination Benefits Payable. The Board has established a retirement incentive program that is available to certain College employees. The College established specific criteria to determine eligibility for the program based on age and years of service. Under the program, eligible employees receive an increasing payment for accumulated sick leave based on years of service as defined in Section 1012.865, Florida Statutes. The program also provides for the payment of a salary bonus equal to no more than 10 percent of the final year's annual contract salary. The retirement pay incentives offered by the program are paid to participating employees over three years. Accrued benefits for six participants at June 30, 2006, totaled \$70,330.43.

10. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the College are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2005-06 fiscal year were as follows:

OKALOOSA-WALTON COLLEGE
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NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.83
Florida Retirement System, Senior Management Services	0.00	10.45
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	9.33
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, totaled \$848,025.81, \$830,470.39, and \$899,336.25, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. College employees already participating in the State Community College System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 34 College participants during the 2005-06 fiscal year. Required contributions made to the PEORP totaled \$81,405.65.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

State Community College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible community college instructors and

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administrators. The Program is designed to aid community colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing community college contributes on behalf of the participant 10.43 percent of the participant's salary. A small amount remains in the Optional Retirement Program Trust Fund for administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the community college to the participant's annuity account.

There were 30 College participants during the 2005-06 fiscal year. Required employer contributions made to the Program totaled \$264,172.61.

11. CONSTRUCTION COMMITMENTS

The College's major construction commitments at June 30, 2006, are as follows:

Project Description	Contract Amount	Completed to Date	Balance Committed
Science Building:			
Architect	\$ 587,860.00	\$ 529,074.00	\$ 58,786.00
Contractor	6,279,648.82	5,759,880.15	519,768.67
Total	\$ 6,867,508.82	\$ 6,288,954.15	\$ 578,554.67

12. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida Community Colleges Risk Management Consortium, which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public community colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide community college risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to

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June 30, 2006

\$115 million after March 1, 2006, compared to \$200 million of excess coverage provided for the contract period ended February 28, 2006. Insurance coverage obtained through the Consortium included fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

13. LITIGATION

The College is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the College's legal counsel and management, should not materially affect the College's financial position.

14. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the Community College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college's apportionment considering the following components: base budget, which includes the State appropriation to the Community College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

The following is a summary of State revenue sources and amounts:

OKALOOSA-WALTON COLLEGE
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NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

<u>Source</u>	<u>Amount</u>
Community College Program Fund	\$ 15,038,033.00
Gross Receipts Tax (Public Education Capital Outlay)	3,189,526.00
Education Enhancement Trust Fund (Lottery)	1,723,291.00
Community College Facilities Matching Program	900,000.00
Bright Futures Scholarship Program	824,102.00
Florida Student Assistance Grants	820,796.00
Critical Jobs Initiative	604,364.00
Performance Based Incentives	355,944.00
Baccalaureate Programs	338,902.00
Hurricane Recovery	274,867.00
Motor Vehicle License Tax (Capital Outlay and Debt Service)	215,200.00
Restricted Contracts and Grants	53,005.00
Other State Sources	10,913.91
	<hr/>
Total	<u><u>\$ 24,348,943.91</u></u>

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 15,576,640.03
Research	202,534.37
Public Services	345,033.80
Academic Support	3,109,217.97
Student Services	2,326,053.32
Institutional Support	3,573,660.86
Physical Plant Operation and Maintenance	3,643,668.98
Student Aid	3,071,037.60
Auxiliary Operations	4,758,589.14
Depreciation	2,833,545.51
	<hr/>
Total Operating Expenses	<u><u>\$ 39,439,981.58</u></u>

Appendix A
Management Response



100 College Boulevard • Niceville, FL 32578-1295
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April 6, 2007

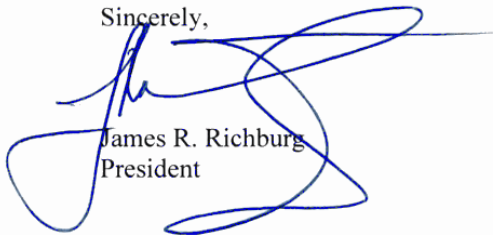
William O. Monroe, CPA
Auditor General
Auditor General's Office
Suite 401 Plantation Road
Pensacola Florida 32514

Dear Mr. Monroe,

Attached please find Okaloosa-Walton College's response to the Preliminary and Tentative audit findings received from your office April 6, 2007.

We appreciate the professionalism of your staff in all matters.

Sincerely,



James R. Richburg
President

PRELIMINARY AND TENTATIVE AUDIT FINDINGS RESPONSE

Okaloosa-Walton College
Financial Audit 2005-2006
Preliminary and Tentative Findings

Finding No. 1: Annual Financial Report

Finding:

We noted several errors and deficiencies in the College's annual financial report.

We expanded our audit procedures to determine the adjustments to the account balances necessary for fair presentation of the College's financial statements. Adjustments were accepted by the College to materially correct these account balances in the accompanying financial statements. However, our audit procedures cannot substitute for effective internal controls. When the annual financial report is not accurately prepared, the College's Board of Trustees, management, and other users of the annual financial report are without a proper basis for evaluating College operations and for assessing the College's financial condition.

Recommendation:

The College should improve its efforts to ensure that its annual financial report is accurate and fairly presented, and that amounts reported on its annual financial report are supported by adequate documentation demonstrating how each of the amounts reported are determined.

Response:

All recommended adjustments have been made. Internal Control Procedures have been reviewed and revised to enhance the review of all information on the Financial Statements. All information will have been reviewed and accuracy verified before Financial Statements are created. A central file has been established to maintain all documentation for all entries and adjustments to the general ledger. Procedures are now in place to aid in maintaining documentation when staff changes occur prior to the audit as they did in 2006.

Finding No. 2: Electronic Funds Transfers

Finding:

During the 2005-06 fiscal year, the balance in the College's State Board of Administration account ranged from approximately \$3.2 million to \$14.5 million, and electronic funds transfers from this account totaled approximately \$20.8 million. Our review of the College's agreement with the State Board of Administration disclosed that, although the agreement indicated transfers could only be made to a specific College bank account, the agreement also authorized the same College employee to transfer funds from the account and to authorize any changes in the account information (e.g., the bank accounts where funds could be transferred). In addition, the same employee had update capabilities to the College's accounting records where such transfers are recorded and accounted for. Under these conditions, there is an increased risk that unauthorized transfers could occur and not be detected by College personnel in a timely manner.

Recommendation:

The College should strengthen internal controls over electronic funds transfers from its State Board of Administration account to provide for an adequate separation of duties.

Response:

This was corrected prior to the end of the audit. Forms have been sent to the State Board of Administration authorizing the College President to make changes to the account and the Vice President and Associate Vice President are authorized to transfer funds.