



CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEARS ENDED JUNE 30, 2010 AND 2009
INDEPENDENT AUDITORS' REPORTS
ADDITIONAL REPORTS AND
SUPPLEMENTARY INFORMATION

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TAYLOR,
WAINIO
& NEVILLE, P.A.

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Trustees
Flagler College, Inc.
St. Augustine, Florida

We have audited the accompanying consolidated statements of financial position of Flagler College, Inc. (the "College" a nonprofit organization) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years 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 October 21, 2010 on our consideration of the College's internal control over financial reporting and on 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 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.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the College taken as a whole. The accompanying schedule of expenditures of federal awards and state projects is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, Rules of the Auditor General, and is not a required part of the basic financial statements. This schedule is the responsibility of the College's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Taylor, Wainio & Neville, P.A.

St. Augustine, Florida
October 21, 2010

FLAGLER COLLEGE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash and cash equivalents (Notes 3 and 12)	\$ 18,138,657	\$ 15,895,317
Investments (Notes 3 and 5)	45,301,186	38,418,598
Accounts receivable (net of allowance of \$393,300 and \$286,100)	154,002	116,045
Unconditional promises to give (Note 6)	1,223,858	1,181,938
Inventories	159,812	148,886
Prepaid expenses and other assets	449,746	493,308
Loans to students (net of allowance of \$79,800 and \$79,800)	346,059	362,366
Other loans and advances	526,996	542,843
Non-marketable securities (Notes 5 and 7)	8,006,922	8,006,922
Beneficial interest in perpetual trust (Note 8)	4,880,124	4,625,311
Bond issuance costs (net of amortization of \$113,991 and \$81,334) (Note 12)	810,389	777,510
Land, buildings and equipment - net (Notes 9, 10 and 11)	<u>97,621,724</u>	<u>99,598,397</u>
 Total Assets	 <u>\$ 177,619,475</u>	 <u>\$ 170,167,441</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 3,352,259	\$ 3,210,599
Student deposits and prepayments	887,472	1,037,612
Deferred revenue	177,046	153,965
Amounts held on behalf of others	107,095	73,834
U.S. government loan funds refundable	348,765	349,740
Premium on bonds payable (Note 12)	1,130,347	1,149,668
Bonds payable (Note 12)	<u>32,256,816</u>	<u>33,390,000</u>
 Total Liabilities	 <u>38,259,800</u>	 <u>39,365,418</u>
 Net Assets:		
Unrestricted (Note 14)	122,205,325	115,710,180
Temporarily restricted (Notes 14 and 15)	3,194,380	2,033,590
Permanently restricted (Note 14)	<u>13,959,970</u>	<u>13,058,253</u>
 Total Net Assets	 <u>139,359,675</u>	 <u>130,802,023</u>
 Total Liabilities and Net Assets	 <u>\$ 177,619,475</u>	 <u>\$ 170,167,441</u>

See notes to the financial statements.

FLAGLER COLLEGE, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	UN- RESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2010
REVENUES, GAINS, LOSSES AND RECLASSIFICATIONS				
Gross tuition and fees	\$ 37,567,422	\$ -	\$ -	\$ 37,567,422
Less: Institutional aid	(3,226,293)	-	-	(3,226,293)
Net tuition and fees	34,341,129	-	-	34,341,129
Government grants and contracts:				
Federal student financial assistance (Note 13)	-	3,827,926	-	3,827,926
State student financial assistance (Note 13)	-	8,562,922	-	8,562,922
Other governmental grants and contracts	-	413,346	-	413,346
Private gifts and grants	675,979	1,008,374	784,871	2,469,224
Investment income on endowments	409,547	315,317	24,736	749,600
Other investment income	585,739	-	(10,704)	575,035
Net realized gains (losses) on endowments	858,559	1,041,595	76,510	1,976,664
Net unrealized gains (losses) on endowments	1,896,051	(116,623)	(6,639)	1,772,789
Sales and services of auxiliary enterprises	6,938,610	-	-	6,938,610
Other sources	373,551	-	-	373,551
Total Revenues, Gains and (Losses)	46,079,165	15,052,857	868,774	62,000,796
Net assets released from restrictions (Note 15)	13,859,124	(13,859,124)	-	-
Net assets with changed restrictions	-	(32,943)	32,943	-
Total Revenues, Gains, (Losses) and Reclassifications	59,938,289	1,160,790	901,717	62,000,796
EXPENSES				
Educational program services:				
Instruction expense	13,836,281	-	-	13,836,281
Student services	6,185,251	-	-	6,185,251
Auxiliary enterprises	7,676,434	-	-	7,676,434
Scholarships and fellowships	12,580,988	-	-	12,580,988
Supporting services:				
Academic support	2,030,494	-	-	2,030,494
Institutional support	11,133,696	-	-	11,133,696
Total Expenses	53,443,144	-	-	53,443,144
INCREASE IN NET ASSETS	6,495,145	1,160,790	901,717	8,557,652
NET ASSETS - BEGINNING OF YEAR	115,710,180	2,033,590	13,058,253	130,802,023
NET ASSETS - END OF YEAR	\$ 122,205,325	\$ 3,194,380	\$ 13,959,970	\$ 139,359,675

See notes to the financial statements.

FLAGLER COLLEGE, INC.

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>UN- RESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL 2009</u>
REVENUES, GAINS, LOSSES AND RECLASSIFICATIONS				
Gross tuition and fees	\$ 34,562,720	\$ -	\$ -	\$ 34,562,720
Less: institutional aid	<u>(2,844,263)</u>	<u>-</u>	<u>-</u>	<u>(2,844,263)</u>
Net tuition and fees	31,718,457	-	-	31,718,457
Government grants and contracts:				
Federal student financial assistance (Note 13)	-	2,440,213	-	2,440,213
State student financial assistance (Note 13)	-	9,165,523	-	9,165,523
Other governmental grants and contracts	-	268,414	-	268,414
Private gifts and grants	696,329	1,411,428	246,482	2,354,239
Investment income on endowments	575,156	413,608	23,874	1,012,638
Other investment income	845,673	-	(7,460)	838,213
Net realized gains (losses) on endowments	(4,063,893)	(1,503,886)	(800,671)	(6,368,450)
Net unrealized gains (losses) on endowments	(3,469,637)	473,215	(873,188)	(3,869,610)
Sales and services of auxiliary enterprises	6,881,686	-	-	6,881,686
Other sources	<u>364,594</u>	<u>6,576</u>	<u>67,059</u>	<u>438,229</u>
 Total Revenues, Gains and (Losses)	 33,548,365	 12,675,091	 (1,343,904)	 44,879,552
 Net assets released from restrictions (Note 15)	 <u>14,911,052</u>	 <u>(14,911,052)</u>	 <u>-</u>	 <u>-</u>
 Total Revenues, Gains, (Losses) and Reclassifications	 <u>48,459,417</u>	 <u>(2,235,961)</u>	 <u>(1,343,904)</u>	 <u>44,879,552</u>
EXPENSES				
Educational program services:				
Instruction expense	12,852,060	-	-	12,852,060
Student services	5,481,530	-	-	5,481,530
Auxiliary enterprises	7,541,890	-	-	7,541,890
Scholarships and fellowships	11,881,502	-	-	11,881,502
Supporting services:				
Academic support	2,000,369	-	-	2,000,369
Institutional support	<u>10,793,018</u>	<u>-</u>	<u>-</u>	<u>10,793,018</u>
 Total Expenses	 <u>50,550,369</u>	 <u>-</u>	 <u>-</u>	 <u>50,550,369</u>
 (DECREASE) IN NET ASSETS	 (2,090,952)	 (2,235,961)	 (1,343,904)	 (5,670,817)
 NET ASSETS - BEGINNING OF YEAR	 <u>117,801,132</u>	 <u>4,269,551</u>	 <u>14,402,157</u>	 <u>136,472,840</u>
 NET ASSETS - END OF YEAR	 <u>\$ 115,710,180</u>	 <u>\$ 2,033,590</u>	 <u>\$ 13,058,253</u>	 <u>\$ 130,802,023</u>

See notes to the financial statements.

FLAGLER COLLEGE, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and auxiliary fees	\$ 40,843,780	\$ 38,147,800
Government appropriations	12,389,261	11,649,987
Interest and dividends received	31,494	129,670
Contributions received	2,030,401	4,169,206
Other receipts	378,963	424,229
Salaries and wages paid to faculty and staff	(20,516,904)	(19,377,900)
Payments to vendors for goods and services	(13,471,539)	(12,713,919)
Disbursements to students for financial aid	<u>(12,239,276)</u>	<u>(11,447,126)</u>
 Net Cash Provided by Operating Activities	 <u>9,446,180</u>	 <u>10,981,947</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	128,505,226	52,758,904
Purchase of investments	(130,747,833)	(53,378,199)
Purchases of land, buildings and equipment	(3,127,583)	(6,808,680)
Loan advances to students and others	(3,381)	(110,000)
Repayments of loans from students and faculty	975	38,519
Repayments of other loans	<u>30,011</u>	<u>102,791</u>
 Net Cash (Used) by Investing Activities	 <u>(5,342,585)</u>	 <u>(7,396,665)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Funds paid on long-term debt and related expenses	(2,610,638)	(4,500,159)
Contributions received designated for long-term investments	717,987	339,775
Receipt from (advances) to related organization	<u>32,396</u>	<u>112,814</u>
 Net Cash (Used) by Financing Activities	 <u>(1,860,255)</u>	 <u>(4,047,570)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 2,243,340	 (462,288)
Cash and Cash Equivalents at Beginning of Year	<u>15,895,317</u>	<u>16,357,605</u>
Cash and Cash Equivalents at End of Year	<u>\$ 18,138,657</u>	<u>\$ 15,895,317</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 8,557,652	\$ (5,670,817)
Depreciation	5,474,540	5,145,344
Amortization	14,061	14,320
Net realized and unrealized losses (gains) on endowments	(3,749,453)	10,238,060
(Increase) decrease in accounts receivable	(37,957)	46,071
Decrease in accrued interest	54,168	8,772
Decrease in unconditional promises to give	24,964	1,755,246
(Increase) decrease in inventories	(10,926)	4,062
(Increase) in prepaid expenses	(10,606)	(13,560)
Increase (decrease) in accounts payable and accrued liabilities	41,667	(205,085)
(Decrease) in student deposits and prepayments	(150,140)	(5,991)
Increase in deferred revenue	23,081	5,300
Contributions restricted for long-term investment	<u>(784,871)</u>	<u>(339,775)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 9,446,180</u>	 <u>\$ 10,981,947</u>

See notes to the financial statements.

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Flagler College, Inc. (the "College") is a not-for-profit co-educational college located in St. Augustine, Florida with a branch campus in Tallahassee, Florida. The College has an enrollment of approximately 2,900 students, primarily from throughout the state. The College is supported largely by tuition and fees, contributions from alumni and benefactors, and earnings on investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on the accrual basis of accounting and focus on the College's resources and activities as a whole. Net assets, revenues, expenses, distributions, gains, and losses are classified based on the existence or absence of donor-imposed or other external restrictions. Accordingly, net assets of the College and changes therein are classified and reported as follows:

- Unrestricted net assets -- Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets -- Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.
- Permanently restricted net assets -- Net assets subject to donor-imposed stipulations that require the funds be maintained permanently by the College. Generally, the donors of such assets permit the College to use all or part of the income earned on the assets.

Cash and Cash Equivalents

For purposes of the consolidated statements of financial position and the consolidated statements of cash flows, cash equivalents include certificates of deposit, money market accounts, temporary cash investments and funds identified by the investment managers as cash equivalents with maturities of three months or less excluding cash and cash equivalents that are a part of the beneficial interest in perpetual trust.

The College maintains cash in various financial institutions, which periodically exceeds federally insured limits.

Investments

The College carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Realized and unrealized gains and losses on investments are shown as net realized and unrealized gains in the fair market value of investments in the statement of activities. Investment return includes interest, dividends and both realized and unrealized gains and losses.

The College carries equity securities without readily determinable fair values at the fair market value as of the date the investments were donated to the College. The College obtains appraisals for purposes of determining updated fair market values which the underlying assets of the equity are real estate investments in instances where there is an indication of a significant change in fair market value.

Accounts Receivable

Accounts receivable includes receivables due for tuition, fees, and room and board from currently enrolled and former students. Prior to year-end, the College writes off all student accounts receivable balances deemed to be uncollectible. If a portion of the remaining student accounts receivable balances are considered questionable regarding full collection, the College will provide an allowance for doubtful accounts for those questionable accounts.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accrued interest receivable, prepaid expenses and other assets, and accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments.

A reasonable estimate of the fair value of the loans to students under the U.S. Perkins Loan program could not be made because the notes receivable are salable and can only be assigned to the U.S. government or its designees.

Land, Buildings and Equipment

Land, buildings and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (three to fifty years). The College uses estimated salvage values ranging from five to ten percent of original cost, except for computer equipment and library books, which are assigned no salvage values. All acquisitions of property and equipment in excess of \$3,000 and all expenditures for renewals and improvements that materially prolong the useful lives of assets are capitalized.

Works of Art, Historical Treasures and Similar Assets

The College capitalizes works of art, historical treasures and similar assets, whether held as part of a collection (for education, research or public exhibition rather than for sale), for sale, or other purpose. Accessions are capitalized at cost if purchased and at appraised or fair value at date of accession if received by donation. Gains and losses on deaccessions of donated collections are recorded based on the presence or absence of donor restrictions placed on items at the date of donation. See Note 11 for additional disclosures.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received and within the appropriate net asset category, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided, based upon management's judgment, including such factors as prior collection history, type of contribution and nature of fund-raising activity.

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Debt Issuance Costs

Debt issuance costs consist of legal, underwriting, and other fees for services rendered in connection with the issuance of long-term debt. Debt issuance costs are amortized using the effective interest rate method over the life of the related debt.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements.

Income Tax Status

The College is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the College qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

U.S. Government Loan Funds Refundable

Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government.

Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 establishes the "FASB Accounting Standards Codification" ("Codification"), which officially launched July 1, 2009, to become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. SFAS 168 reorganizes the previously issued GAAP pronouncements into accounting topics and displays them using a consistent structure. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. SFAS 168 will be effective for the College as of the year ended June 30, 2010.

As the Codification was not intended to change or alter existing GAAP, it will not have an impact on the College's financial statements. The only impact will be that references to authoritative accounting literature will be in accordance with SFAS 168 and the new numbering system prescribed by the Codification.

3. INVESTMENTS

Investments in the consolidated statements of financial position, at June 30, 2010 and 2009, consisted of the following:

	2010		2009	
	Cost	Market Value	Cost	Market Value
Operating investments:				
Marketable common stock	\$ 7,214,529	\$ 6,909,334	\$ 6,578,042	\$ 5,587,411
U.S. government and agency securities	676,793	707,941	-	-
Marketable debt securities	608,751	649,366	988,665	1,013,458
Equity mutual funds	4,045,063	3,103,942	8,421,094	6,422,306
Fixed income mutual funds	6,564,786	6,787,086	2,042,376	1,804,957
Other investments	805,971	805,971	848,251	848,251
Subtotal - investments	<u>19,915,893</u>	<u>18,963,640</u>	<u>18,878,428</u>	<u>15,676,383</u>
Endowments:				
Marketable common stock	-	-	2,916,326	2,791,071
U.S. government and agency securities	-	-	2,918,975	2,973,296
Marketable debt securities	-	-	2,263,210	2,334,703
Equity mutual funds	18,657,626	16,070,924	16,630,659	14,643,145
Fixed income mutual funds	9,692,879	10,266,622	-	-
Subtotal - endowments	<u>28,350,505</u>	<u>26,337,546</u>	<u>24,729,170</u>	<u>22,742,215</u>
Total investments	<u>\$48,266,398</u>	<u>\$45,301,186</u>	<u>\$43,607,598</u>	<u>\$38,418,598</u>

As of June 30, 2010 and 2009, the endowments had cash and cash equivalents totaling \$504,335 and \$1,004,963, respectively, that are classified as cash and cash equivalents on the consolidated statements of financial position.

4. ENDOWMENTS

The College adopted the provisions of FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds (FSP 117-1). FSP 117-1 was issued to provide guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to an enacted version of UPMIFA, and to provide increased disclosures about an organization's endowment funds whether or not the organization is subject to UPMIFA. This change has no impact on total long-term investments, endowment net assets or gains (losses) on investments as previously reported in the 2008 financial statements.

The College's permanently restricted net assets consist of multiple endowment funds. These include endowed scholarship funds and endowed program service funds that have donor-

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ENDOWMENTS (CONTINUED)

imposed restrictions. These endowed scholarship and program service funds fall under the control of the governing body of the College, the Board of Trustees.

Also included in the endowed funds are two funds that fall under the control of a separate governing body, the Board of Directors of the Flagler College Endowment Fund and the Jessie Kenan Wise Foundation. One of these is a beneficial interest in a perpetual trust, the Jessie Kenan Wise Foundation, which is further discussed in Note 8. The other is the Flagler College Endowment Fund, an endowment created by donors, the assets of which are not in possession of the College. The College has legally enforceable rights and claims to all such assets, including the sole right to income therefrom.

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	\$ 27,119,390	\$ 615,225	\$ 14,361,198	\$ 42,095,813
Investment income	744,981	413,608	23,874	1,182,463
Net depreciation (realized and unrealized)	(3,651,431)	(1,030,671)	(1,673,859)	(6,355,961)
Contributions	-	-	246,482	246,482
Distributed earnings	(126,894)	(171,922)	-	(298,816)
Other changes	-	35,062	67,059	102,121
Endowment net assets, June 30, 2009	<u>24,086,046</u>	<u>(138,698)</u>	<u>13,024,754</u>	<u>36,972,102</u>
Investment income	453,081	315,317	30,716	799,114
Net depreciation (realized and unrealized)	1,197,991	924,971	69,871	2,192,833
Contributions	-	-	784,871	784,871
Distributed earnings	(60,291)	(311,328)	(5,980)	(377,599)
Other changes	-	-	32,944	32,944
Endowment net assets, June 30, 2010	<u>\$ 25,676,827</u>	<u>\$ 790,262</u>	<u>\$ 13,937,176</u>	<u>\$ 40,404,265</u>

Interpretation of Relevant Law

The Board of Trustees of the College (the "Board") has interpreted the State of Florida Statute (1010.10) cited as the "Florida Uniform Management of Institutional Funds Act" (FUMIFA) as requiring the Board to use reasonable care, skill, and caution as exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long term purchasing power of the endowment fund. The Board determined that the following factors, if relevant, are taken into consideration:

- The purposes of the institution
- The intent of the donors of the endowment fund

- The terms of the applicable instrument
- The long-term and short-term needs of the institution in carrying out its purposes
- The general economic conditions
- The possible effect of inflation or deflation
- The other resources of the institution
- The perpetuation of the endowment
- The present and anticipated financial resources of the institution
- The expected tax consequences, if any, of investment decisions or strategies
- The role that each investment or course of action plays within the overall investment portfolio of the institutional fund
- The expected total return from income and the appreciation of its investments
- The needs of the institution and the institutional fund for liquidity, regularity of income, and preservation or appreciation of capital
- An asset's special relationship or special value, if any, to the purposes of the applicable gift instruction or to the institution

As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by FUMIFA.

The Board of Trustees of the College passed a resolution on October 28, 2009, documenting its interpretation of FUMIFA.

The Flagler College Endowment Board has interpreted the State of North Carolina Statute (Chapter 36E) cited as the "North Carolina Uniform Prudent Management of Institutional Funds Act" (NCUPMIFA), as it relates to the Jessie Kenan Wise Foundation, a trust which is subject to the laws of the State of North Carolina. NCUPMIFA requires the Flagler College Endowment Board, subject to the intent of a donor expressed in a gift instruction, to manage and to invest the fund in good faith and with the care of an ordinarily prudent person, and to appropriate for expenditure as is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, acting in good faith and with the care of an ordinarily prudent person. The Flagler College Endowment Board determined that the following factors, if relevant, are taken into consideration:

- General economic conditions
- The possible effect of inflation or deflation

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ENDOWMENTS (CONCLUDED)

- The expected tax consequences, if any, of investment decisions or strategies
- The role that each investment or course of action plays within the overall investment portfolio of the fund
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The needs of the institution and the fund to make distributions and to preserve capital
- An asset's special relationship or special value, if any, to the charitable purposes of the institution
- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- The investment policy of the institution

As a result of this interpretation, the Flagler College Endowment Board classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NCUPMIFA. The terms of the trust agreement for the Jessie Kenan Wise Foundation provide specific stipulations relating to annual appropriations for expenditure (details provided in Note 8).

The Board of Directors of the Flagler College Endowment Fund and the Jessie Kenan Wise Foundation passed a resolution on October 27, 2009, documenting its interpretation of NCUPMIFA, as it relates to the Jessie Kenan Wise Foundation. The Board of Directors of the Flagler College Endowment Fund passed a resolution on October 27, 2009, documenting that there are no donor restrictions on the Flagler College Endowment Fund that would result in a net asset classification of permanently or temporarily restricted, and also documenting that the Flagler College Endowment Fund net assets are appropriately classified as unrestricted.

Investment Return Objectives, Risk Parameters and Strategies.

The College has adopted investment and spending policies, approved by the Board of Trustees and by the Flagler College Endowment Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment philosophy endorses a long-term perspective in the investment management of the endowment funds. Long-term growth of income and principal is more important than short-term trading strategies of high immediate cash income. Acceptable investments will be those securities which are likely

to produce an above average return over a long period or time as measured by cumulative income payments and future market valuation. Accordingly, the investment objective is to earn an average compound real rate-of-return, over and above inflation, of 5% per annum, net of distributions. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The investment policies for the endowment scholarship funds and the endowed program service funds are approved by the Board of Trustees of the College. The investment policies for the Flagler College Endowment Fund and the Jessie Kenan Wise Foundation are approved by the Flagler College Endowment Board.

Spending Policy

In establishing its spending policies, the College considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The College expects that the spending policies will provide a predictable stream of funding, will preserve the real purchasing power of the endowment assets, and will provide additional real growth through new gifts and investment return.

For the endowed scholarship funds and endowed program service funds, the College has a policy, approved by the Board of Trustees, to appropriate for distribution each year an amount that should not exceed 5% of the endowment fund's estimated market value. The spending policy allows the College to use its discretion in determining the lower limit of the distribution, in consideration of the factors outlined in FUMIFA, and in consideration of preservation of the value that is to be retained in perpetuity.

The spending policy for the Jessie Kenan Wise Foundation is stipulated by the trust agreement, which was amended during the year (see Note 8).

The College has a policy for the Flagler College Endowment Fund, approved by the Flagler College Endowment Board, to appropriate for distribution each year an amount not to exceed 5% of the average market value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. The spending policy allows the College to use its discretion in determining the lower limit of the distribution, taking into consideration factors such as economic conditions, the needs of the College, and maintaining the purchasing power of the endowment fund.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or FUMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in temporarily restricted net assets were \$110,336 and \$571,215 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred during the fiscal year.

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENT

Beginning in fiscal year 2008, the College adopted the provisions of Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157), for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.
- Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

The following methods and assumptions were used to estimate the fair values of investments in the tables below:

- Marketable common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.
- Marketable debt securities and U.S. government and agency obligations: Valued at quoted prices or valuations provided by commercial pricing services.
- Mutual funds: Valued at the net asset value (NAV) of units held by the College at year end.
- Nonmarketable securities: Fair value of the securities based on the underlying real estate is not readily available and accordingly, the fair value is estimated by management. See note 7.
- Other investments: Annuity contracts value based on management estimates and/or discounted cash flow methodologies.
- Beneficial interest in perpetual trust: Valued at the net asset value (NAV) of units held by the trustee at year end, with the exception in 2009 of which the trustee held cash and marketable common stock valued at the closing price reported on the active market on which the individual securities are traded.(Level 1 inputs).

Information related to the College's investments and its beneficial interest in a perpetual trust measured at fair value at June 30 is as follows:

	June 30, 2010			
	Fair Value	Level 1	Level 2	Level 3
Marketable common stock	\$ 6,909,282	\$ 6,909,282	\$ -	\$ -
Marketable debt securities	649,418	-	649,418	-
Equity mutual funds	19,193,003	-	19,193,003	-
Fixed income mutual funds	17,053,708	-	17,053,708	-
U.S. government and agency securities	689,804	-	689,804	-
Other investments	805,971	-	-	805,971
Investments	45,301,186	6,909,282	37,585,933	805,971
Non-marketable securities	8,006,922	-	-	8,006,922
Beneficial interest in perpetual trust (Note 8)	4,880,124	-	4,880,124	-
	<u>\$58,188,232</u>	<u>\$ 6,909,282</u>	<u>\$42,466,057</u>	<u>\$ 8,812,893</u>

	June 30, 2009			
	Fair Value	Level 1	Level 2	Level 3
Marketable common stock	\$ 8,378,498	\$ 8,378,498	\$ -	\$ -
Marketable debt securities	3,348,145	-	3,348,145	-
Equity mutual funds	21,065,451	-	21,065,451	-
Fixed income mutual funds	1,804,957	-	1,804,957	-
U.S. government and agency securities	2,973,296	-	2,973,296	-
Other investments	848,251	-	-	848,251
Investments	38,418,598	8,378,498	29,191,849	848,251
Non-marketable securities	8,006,922	-	-	8,006,922
Beneficial interest in perpetual trust (Note 8)	4,625,311	575,321	4,049,990	-
	<u>\$51,050,831</u>	<u>\$ 8,953,819</u>	<u>\$33,241,839</u>	<u>\$ 8,855,173</u>

The table below presents a reconciliation and income statement classification of activity for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010.

	Annuity Contracts	Non-marketable Securities	Total
Beginning balance, June 30, 2009	848,251	8,006,922	8,855,173
Amortization of annuity contract	(42,280)	-	(42,280)
Ending balance, June 30, 2010	<u>\$ 805,971</u>	<u>\$ 8,006,922</u>	<u>\$ 8,812,893</u>

6. PROMISES TO GIVE

Unconditional promises to give are expected to be collected as follows at June 30:

	2010	2009
Less than one year	\$ 691,743	\$ 2,452,531
One to five years	841,140	1,126,265
More than five years	38,698	105,000
	1,571,581	3,683,796
Unamortized discount (1.87% - 3.80%)	(171,723)	(2,325,858)
Allowance for doubtful pledges	(176,000)	(176,000)
	<u>\$ 1,223,858</u>	<u>\$ 1,181,938</u>

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. NON-MARKETABLE SECURITIES

In prior years, the Flagler College Endowment Fund received gifts of Stocking Island Limited Common Stock ("Stocking Island") to further the purpose of the Endowment Fund. The stock held is a non-marketable security and represents a hundred percent (100%) interest in a corporation holding real estate in the Bahamas.

Stocking Island received a good-faith offer from a third party in November 2004 for a lump sum purchase of \$8,000,000 for all the parcels held. The College marked the value of its Stocking Island common stock to \$8,000,000 during the year ended June 30, 2005 based on this offer. The College believes it continues to be a reasonable estimate of fair value as of June 30, 2010 and 2009.

On November 1, 2007, Stocking Island Limited entered into an option contract with Elizabeth Harbour Estate, LLC (the "Buyer"), under which Stocking Island Limited sold the Buyer options to purchase 7 of 10 tracts Stocking Island Limited owns on Stocking Island. The total purchase price that would be payable in the event the Buyer exercises its option on all seven (7) tracts would be \$16,075,000. As of June 30, 2009, the monthly option payment net of abatement was \$10,000 and was to increase to \$12,540 on November 1, 2009. However in October 2009, the Fund and the Buyer agreed to a stand-still agreement through October 31, 2010. The Buyer has given Stocking Island Limited a preliminary indication that it will not be exercising its options on two of the tracts, which would result in a reduction in the total purchase price to \$14,725,000. Management deemed the effect of the contingent gain in fair market value to be measurable but the likelihood indeterminable at June 30, 2010 and 2009, respectively, and therefore did not record a change in fair market value of its holdings in Stocking Island.

	2010	2009
Stocking Island Limited Common Stock	\$ 8,000,000	\$ 8,000,000
Other non-marketable securities	6,922	6,922
	<u>\$ 8,006,922</u>	<u>\$ 8,006,922</u>

8. BENEFICIAL INTEREST IN PERPETUAL TRUST

The College is the beneficiary of a trust created by a donor; the assets of which are not in the possession of the College (Jessie Kenan Wise Foundation). The College has legally enforceable rights and claims to such assets, including the sole right to income therefrom. The Trustees of the Jessie Kenan Wise Foundation petitioned the Court to convert the trust from an income trust to a total return unitrust. The Petition was approved and made effective on March 1, 2009.

Under the terms of the original Trust Agreement, effective through February 28, 2009, the principal of the trust fund was required to be maintained intact in perpetuity. Further, the entire net income of the trust fund was to be distributed to the College no later than the end of the following fiscal year. Commencing on March 1, 2009, the annual distribution to the College is based on the greater of five percent of the fair market value of the trust fund or the amount required by IRS Section 4942 of the Internal Revenue Code. The historical cost and fair value of the beneficial interest at June 30, 2010 and 2009 were as follows:

	2010		2009	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ -	\$ -	\$ 102,153	\$ 102,153
U.S. government and agency obligations	-	-	855,568	870,293
Marketable debt securities	-	-	568,034	589,946
Marketable common stock	-	-	476,843	473,168
Equity mutual funds	3,471,600	2,954,945	3,064,987	2,569,749
Fixed income mutual fund	1,866,226	1,925,179	-	-
	<u>\$ 5,357,826</u>	<u>\$ 4,880,124</u>	<u>\$ 5,067,585</u>	<u>\$ 4,625,311</u>

9. LAND, BUILDINGS AND EQUIPMENT- NET

Land, buildings and equipment consisted of the following at June 30:

	2010	2009
Land	\$ 9,699,465	\$ 9,699,465
Buildings and improvements	105,339,571	103,680,262
Furnishings and equipment	12,605,589	12,208,809
Library books	3,743,156	3,623,096
Art collection (see Note 11)	382,809	244,059
	<u>131,770,590</u>	<u>129,455,691</u>
Less: Accumulated depreciation	<u>(35,932,240)</u>	<u>(31,119,057)</u>
	95,838,342	98,336,634
Construction in progress (See Note 10)	1,783,382	1,261,763
	<u>\$ 97,621,724</u>	<u>\$ 99,598,397</u>

Idle land and buildings (those not currently in use by the College) included above totaled \$1,460,503 and \$4,327,963 at June 30, 2010 and 2009, respectively.

10. CONSTRUCTION IN PROGRESS

At June 30, 2010 and 2009, construction in progress consisted of the following projects:

	2010	2009
Ponce Hall renovation - Phase V	\$ 502,570	\$ -
Proctor Library chiller upgrade	248,490	-
Presidents' contingency	246,721	-
Flagler Field house	219,110	-
Other	216,593	248,732
Kenan Science Lab renovation	164,754	-
Air conditioner replacement	83,636	-
Florida East Coast soil removal	51,000	51,000
Ponce Hall dining room ceiling	50,508	-
Ponce Tower renovation	-	516,131
Lewis House renovation	-	371,611
	-	f
Air conditioning equipment	-	74,289
	<u>\$ 1,783,382</u>	<u>\$ 1,261,763</u>

11. ART COLLECTION

The College owns a substantial collection of paintings, sculptures and other works of art. Most of the collection was located in the original hotel building at the date of purchase. No value was assigned to the art collection at the date of sale, and accordingly, no value is recorded on the financial statements for the original collection. The amount shown on the consolidated financial statements represents the value assigned to works of art donated to Flagler College since its inception.

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. LONG TERM DEBT

Series 2006 Bonds

On December 1, 2006, the College issued \$20,000,000 in aggregate principal amount of 2006 Revenue Bonds (the "2006 Bonds") through the Higher Education Facilities Financing Authority at the purchase price of \$21,079,458 (which represents the par amount of the 2006 Bonds less underwriter's discount of \$133,000 plus a net original issue premium of \$1,212,458). The 2006 Bonds have interest rates from 3.50% to 5.25%, depending on the maturity dates ranging from 2008 to 2036 in amounts ranging from \$350,000 to \$1,265,000. The 2006 Bonds maturing on and after November 1, 2017 are subject to optional redemption to their respective stated maturities upon the direction of the College, as a whole or part in such that maturities are designated by the College and by random selection within a maturity at a redemption price of 100%, plus interest accrued. The net proceeds of the 2006 Bonds are being used to finance the costs of acquisition, construction and equipping of certain educational facilities (the "Projects"), reimburse advances made by the College to pay the portion of costs of Projects and pay certain expenses incurred in connection of the issuance of the 2006 Bonds, including the policy premium.

Series 2005 Bonds

On November 1, 2005, the Higher Educational Facilities Financing Authority issued \$22,000,000 of Educational Facilities Revenue Bonds - Flagler College, Inc. Project, (the "2005 Bonds"). The proceeds from the sale of the 2005 Bonds were used for the purpose of construction of the Student Center Building, the Molly Wiley Art Building renovation project, the extinguishments of the outstanding 2003 bond principal and other College capital projects. The 2005 Bonds maturity dates ranged from 2006 to 2035 in amounts ranging from \$500,000 to \$1,060,000, with interest at seven-day period rates averaging 1.53% and 3.74% at June 30, 2010 and 2009, respectively. The 2005 Bonds are subject to optional redemption to their respective stated maturities upon the direction of the College, as a whole or part in such that maturities are designated by the College and by random selection within a maturity at a redemption price of 100%, plus interest accrued.

In May 2009, \$13,970,000 of the 2005 Bonds were tendered to SunTrust (the "remarketing agent") while \$70,000 remained in the market. SunTrust attempted to and was not successful in remarketing the bonds when they were tendered. At June 30, 2009, SunTrust had still not remarketed the bonds.

In August 2009, SunTrust was successful in remarketing the 2005 Bonds. Once remarketed, pursuant to the terms of the trust indenture, the interest rate reverted to the weekly rate set by SunTrust.

On November 1, 2009, the College agreed to a bank qualified, tax exempt term loan (the "Loan") with PNC Bank for the full amount of the 2005 Bonds. The Loan bears interest at a variable interest rate equal to sixty-five percent (65%) times the 30-day LIBOR rate plus 144 basis points (1.44%). The interest rate at June 30, 2010 was 1.67%. The Loan will be amortized over 20 years, and the College will make monthly principal and interest payments.

PNC Bank has a put option on the fifth anniversary of the closing date, and every five years thereafter. The College will be notified of the intent of National City Bank to exercise the put option nine months prior to the anniversary date to allow the College time to pursue other options.

Collateralization and Financial Covenants

The 2006 Bonds and the Loan are collateralized with the College's gross revenues. The 2006 bonds and Loan agreements with the financial institutions contains covenants pertaining to the maintenance of a minimum debt service coverage, minimum liquidity factor and a net revenue covenant. Under the terms of the agreements, if the College fails to maintain the liquidity factor and does not cure such failure in sixty days the bank has the right to request that the College grant a first mortgage on selected land and facilities up to the aggregate principal amount due on the Loan and the 2006 Bonds.

Principal repayments on long-term debt during the next five years and thereafter are as follows:

2011	\$	878,483
2012		939,996
2013		969,996
2014		999,996
2015		1,029,996
Thereafter		27,438,349
	\$	32,256,816

At June 30, 2010 and 2009, cash and cash equivalents totaling \$145,118 and \$1,024,345, respectively, were held by bond trustees and considered restricted in nature.

13. GOVERNMENT STUDENT FINANCIAL ASSISTANCE

The College participates in federal and state student financial assistance programs and therefore receives and awards to students federal and state monies designated for student financial assistance. Federal awards to students (excluding student loans) totaled \$3,855,446 and \$2,440,213 for the years ended June 30, 2010 and 2009, respectively. State awards to students totaled \$8,562,922 and \$9,165,523 for the years ended June 30, 2010 and 2009, respectively.

14. RESTRICTIONS AND LIMITATIONS ON NET ASSETS

The College's Board of Trustees has chosen to place the following limitations on unrestricted net assets:

	2010	2009
Designated for endowment purposes	\$ 25,676,825	\$ 24,086,046
Designated for plant expansion	4,915,780	-
Designated unrestricted net assets	30,592,605	24,086,046
Investment in plant	64,551,004	66,319,245
Undesignated net assets	27,061,716	25,304,889
Total unrestricted net assets	\$ 122,205,325	\$ 115,710,180

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. RESTRICTIONS AND LIMITATIONS ON NET ASSETS (CONCLUDED)

Temporarily restricted net assets are available for the following purposes:

	2010	2009
Student scholarships	\$ 215,300	\$ (207,608)
Instruction and academic program service	667,991	306,902
Athletics	304,934	286,559
Capital projects	835,599	432,434
General institutional support	674,848	432,519
Debt service	495,708	782,784
Total temporarily restricted net assets	\$ 3,194,380	\$ 2,033,590

Permanently restricted net assets consist of endowment funds to be held indefinitely. Such funds have been designated by donors for the following purposes:

	2010	2009
Jessie Kenan Wise Foundation	\$ 4,198,710	\$ 4,198,710
Student scholarship funds	6,361,049	5,470,739
Endowed program service funds	3,377,417	3,355,304
Student loan funds	22,794	33,500
Total permanently restricted net assets	\$ 13,959,970	\$ 13,058,253

15. NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows:

	2010	2009
Instruction and divisional support	\$ 202,767	\$ 140,023
Student financial assistance	12,422,040	11,632,362
Student work study wages	191,151	156,347
Plant fund grant	67,508	10,172
Jessie Kenan Wise temporary income and expense release	252,654	170,659
Debt Service	390,000	2,360,000
Student services	118,282	113,320
Other transactions	214,722	328,169
Total	\$ 13,859,124	\$ 14,911,052

16. RELATED PARTIES

President Dr. William T. Abare, Jr.

The College entered into an agreement with Dr. William T. Abare, Jr., President of the College (the "President"), to finance the President's home. This agreement provides a long-term loan of \$381,650 to be paid back over 15 years at an interest rate of 2.70%. The President will pay this loan back in monthly payments of \$2,581. The balance of the loan was \$247,208 and \$271,153 at June 30, 2010 and 2009, respectively.

Future annual minimum loan payments to the College are as follows for the years ended June 30:

2011	\$ 24,599
2012	25,271
2013	25,962
2014	26,672
2015	27,401
Thereafter	117,303
	\$ 247,208

Operating Lease Agreement

The College entered into a lease agreement with a board trustee for office space located at 170 Malaga Street commencing on March 1, 2009. The initial lease is for a period of three years with an option for an additional term of five years. The College is to pay the board trustee a fixed monthly payment of \$7,000 plus sales tax of \$420. The College did not owe a balance to the trustee at June 30, 2010 and 2009, respectively.

Communities in Schools

Communities in Schools of St. Johns County ("CIS") is a non-profit organization with the following mission statement: "To champion the connection of needed community resources with schools to help young people successfully learn, stay in school and prepare for life." CIS operates as a separate entity from the College, and reports separately to the Internal Revenue Service. Two of the board members of CIS are employees of the College, Dr. William Proctor (Chancellor) and Mary Jane Dillon (Assistant to the President). The College provides office space, telephone services, instruction services to CIS on a continuing basis, and during the summer provides facilities and resources for a college experience camp for eighth graders which is administered by CIS.

The College received a State of Florida College Reach Out Program Grant ("CROP") during the years ended June 30, 2010 and 2009, in the amounts of \$52,986 and \$64,188, respectively. CIS administers the CROP program for the College. The College is responsible for reporting on CROP expenditures to the State of Florida.

17. RETIREMENT PLAN

The College participates in a retirement plan through TIAA-CREF. All College employees are eligible to participate. The plan is not administered by the College, except for monthly reports and payment of contributions. Employees pay five percent (5%) of their salary, and the College matches their contribution with between five and ten percent (5% and 10%) of the employees' salary based on length of employment. Contributions are paid each pay period. For the years ended June 30, 2010 and 2009, the contributions to this plan made by the College were \$637,311 and \$565,005, respectively.

18. COMMITMENTS AND CONTINGENCIES

Compliance Audits

State and federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any material liabilities that may arise from such audits.

Construction Contracts

Outstanding commitments for construction contracts amounted to approximately \$2,268,387 and \$262,036 at June 30, 2010 and 2009, respectively.

FLAGLER COLLEGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. INSTITUTIONAL ADVANCEMENT EXPENSES

The College incurred expenses amounting to \$1,629,380 and \$1,702,653 related to development and fundraising for the years ended June 30, 2010 and 2009, respectively. Such amounts are included in institutional support expenses in the accompanying consolidated statements of activities.

20. DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Instruction - Includes expenditures for all activities that are part of the College's instruction program.

Academic Support - Includes expenditures to provide support services for the College's primary missions of instruction and public service. Includes (a) the retention, preservation, and display of educational materials, (b) media, such as audiovisual services and technology support, (c) academic administration and personnel providing administrative support and management direction related to the College's missions.

Student Services - Includes expenditures for offices of admissions, registrar and financial aid. Also includes expenditures related to activities whose primary purpose is to contribute to a student's emotional and physical well being and to the student's intellectual, cultural, and social development outside the context of formal instructional programs.

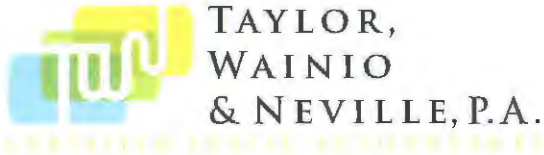
Institutional Support - Includes expenditures for central executive and management activities, fiscal operations, personnel, development and fundraising, safety and security, and support services.

Auxiliary Services - Includes expenditures for such auxiliary enterprises as residence halls and food services.

Scholarships - Includes expenditures for funded scholarships.

21. SUBSEQUENT EVENTS

The College has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 21, 2010, the date the financial statements were available to be issued.



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

To the Audit Committee of the Board of Trustees
Flagler College, Inc.
St. Augustine, Florida

We have audited the consolidated financial statements of Flagler College, Inc. (the "College") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 21, 2010. 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 the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

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. However, we noted several matters involving the internal control over financial reporting, which we have reported to management of the College in a separate letter dated October 21, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's consolidated 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 results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Taylor, Wainio & Neville, P.A.

St. Augustine, Florida
October 21, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM
AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND CHAPTER 10.650**

To the Audit Committee of the Board of Trustees
Flagler College, Inc.
St. Augustine, Florida

Compliance

We have audited the compliance of Flagler College, Inc. (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the year ended June 30, 2010. The College's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, *Rules of the Auditor General*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

As described in item 10-1 in the accompanying schedule of findings and questioned costs, the College did not comply with a specific State Student Financial Assistance Program cluster requirement. Item 10-1 notes the College did not return Gold Seal Vocational Scholarship funds within 30 days after the end of the semester for a student that received funds for a course that was dropped subsequent to the drop/add period. Compliance with such requirement is necessary, in our opinion, for the College to comply with requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs and state projects for the year ended June 30, 2010.

Internal Control over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs or state projects. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the College's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

To the Audit Committee of the Board of Trustees
Flagler College, Inc.
Page Two

Our consideration of the internal control over compliance 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 compliance that we consider to be material weaknesses, as described above.

This report is intended solely for the information and use of the audit committee, management and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Jaylor, Wainio & Neville, P.A.

St. Augustine, Florida
October 21, 2010

FLAGLER COLLEGE, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal/State Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA/ CSFA Number</u>	<u>Pass Through Identifying Number</u>	<u>Federal/State Expenditures</u>
FEDERAL AWARDS			
U.S. Department of Education:			
Direct Programs:			
Federal Pell Grant	84.063	N/A	\$ 3,338,222
Federal Supplemental Educational Opportunity Grant	84.007	N/A	115,056
Federal Perkins Loans	84.038	N/A	32,000
Federal Work Study	84.033	N/A	111,369
Academic Competitiveness Grant	84.375	N/A	156,799
Teacher Education Assistance for College and Higher Education Grants	84.379	N/A	86,000
National Science and Mathematics Access to Retain Talent Grant	84.376	N/A	<u>16,000</u>
Subtotal U.S. Department of Education direct programs			3,855,446
Pass through programs from Jacksonville University:			
Improving Teacher Quality State Grants	84.367B	862-2259A-OR001	<u>90,891</u>
Total U.S. Department of Education			<u>3,946,337</u>
U.S. Department of Interior			
Pass through program from National Endowment for the Humanities:			
Save America's Treasures Grant	15.929	PT-50166-10	<u>18,314</u>
National Endowment for the Humanities			
Pass through program from Florida Humanity Council			
Promotion of the Humanities- Federal/State Partnership	45.129	GR 0909-3546-2158	<u>14,816</u>
Total Expenditures of Federal Awards			<u>\$ 3,979,467</u>
 STATE PROJECTS			
Florida Department of Education Direct Programs:			
Florida Resident Access Grant	48.064	N/A	\$ 5,058,258
Florida Medallion Scholars Award	48.059	N/A	2,307,265
Florida Academic Scholar's Grant	48.059	N/A	485,856
Florida Private Student Access Grant	48.054	N/A	570,719
College Reach Out Program	48.028	N/A	52,986
Gold Seal Vocational Scholars Program	48.059	N/A	23,940
Minority Teacher Educational Scholars Program	48.049	N/A	82,000
Robert C. Byrd Honors Scholarship	N/A	N/A	6,000
Florida Work Experience Program	48.053	N/A	7,860
Florida Academic Top Scholars Award	48.059	N/A	1,620
Children of Deceased or Disabled Veterans Scholarship	48.055	N/A	<u>19,404</u>
Total Florida Department of Education			<u>8,615,908</u>
Florida Department of Motor Vehicles Direct Program:			
Flagler College License Plate Project	76.046	N/A	<u>37,853</u>
Florida Department of State Division of Historical Services Direct Program:			
Historic Preservation Small Matching Grants-in Aid	48.031	N/A	<u>50,000</u>
Total Expenditures of State Projects			<u>\$ 8,703,761</u>

See accompanying notes.

FLAGLER COLLEGE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state projects includes the federal grant and state assistance activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Pass-through entity identifying numbers are presented where available.

2. FEDERAL PERKINS LOAN PROGRAM

The College administers a Federal Perkins Loan Program funded by the U.S. Department of Education. At June 30, 2010, the loans receivable balance of the program totaled \$424,024. Total program disbursements, under the program for the year ended June 30, 2010, were:

	<u>Amount</u>
Loans made in current year	\$ 32,000
Outstanding balance of loans made in prior year	408,719
Administrative cost allowance	<u>(16,695)</u>
	<u>\$ 424,024</u>

3. FEDERAL FAMILY EDUCATION LOAN PROGRAM

The values of the new Federal Family Education Loan Program loans received by students attending the College during the year ended June 30, 2010 were:

	<u>Amount</u>
Unsubsidized Stafford Loan	\$ 7,052,427
Subsidized Stafford Loan	5,993,021
Federal PLUS Loan	<u>2,035,958</u>
	<u>\$ 15,081,406</u>

4. SUBRECIPIENTS

Of the State expenditures presented in the schedule, the College provided state awards to subrecipients as follows:

CFDA/CSFA Number	Program	Amount
48.028	College Reach Out Program	\$ 52,986

5. FLORIDA RESIDENT ACCESS GRANT ("FRAG")

FRAG provides up to \$2,511 in financial assistance to certain qualified, full-time, undergraduate students with financial assistance in paying for tuition and fees; it is available only to students who have been Florida residents for the preceding year and who are attending eligible, independent, nonprofit colleges and universities located in Florida. FRAG is authorized by Section 1009.89, Florida Statutes, and is principally administered through Rule 6A-20.007, Florida Administrative Code.

6. FLORIDA MEDALLION SCHOLARS AWARD ("FMS")

FMS provides financial assistance to students who have met certain specified levels of academic achievement, who have been Florida residents for the preceding year, and who are not eligible to participate in the FAS program. FMS is authorized by Section 1009.535, Florida Statutes.

7. FLORIDA ACADEMIC SCHOLARS' FUND ("FAS")

FAS provides financial assistance to students who have met certain specified levels of academic achievement, who have been Florida residents for the preceding year and who attend a qualified, postsecondary, educational institution in Florida. FAS is authorized by Section 1009.534, Florida Statutes.

8. FLORIDA PRIVATE STUDENT ASSISTANCE GRANT ("FSAG")

FSAG provides financial assistance to certain qualified, full-time students who have been Florida residents for the preceding year and who attend a qualified, postsecondary, educational institution in Florida. FSAG is authorized by Section 1009.51, Florida Statutes, and is principally administered through Rule 6A-20.032, Florida Administrative Code.

9. COLLEGE REACH OUT PROGRAM GRANT ("CROP")

CROP provides assistance to postsecondary educational institutions to provide low income educationally disadvantaged students in grades 6-12 with programs to motivate the students to pursue a postsecondary education, enhance the students' learning skills, strengthen the participants' understanding of postsecondary education and to offer supplemental instruction. CROP is authorized by Section 1007.34, Florida Statutes.

10. GOLD SEAL VOCATIONAL SCHOLARS AWARD ("GSVSA")

GSVSA is created within the Florida Bright Futures Scholarship Program to recognize and reward academic achievement and vocational preparation by high school students who wish to continue their education. Students must meet certain residency, eligibility, and academic requirements. GSVSA is authorized by Section 1009.53, Florida Statutes.

FLAGLER COLLEGE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE PROJECTS

11. MINORITY TEACHER EDUCATION SCHOLARS PROGRAM ("MTES")

MTES provides financial assistance to minority undergraduate students for up to three undergraduate years. This scholarship shall be made available to eligible students entering programs of study that lead to a degree in a teaching position. MTES is authorized by Section 1009.60, Florida Statutes.

12. ROBERT C. BYRD HONORS SCHOLARSHIP ("BYRD")

BYRD provides financial assistance to full-time students who attain specified levels of academic achievement. BYRD is offered through the U. S. Department of Education, and is administered by the OSFA, Florida Department of Education.

13. FLORIDA WORK EXPERIENCE PROGRAM ("FWEP")

FWEP provides financial assistance to Florida residents for up to eight semesters, who meet certain financial need and academic progress requirements, and who attend a qualified postsecondary education institution in Florida. FWEP is authorized by Section 1009.77, Florida Statutes, and is principally administered through Rule 6A-20.038, Florida Administrative Code.

14. FLORIDA ACADEMIC TOP SCHOLARS AWARD ("ATSP")

ATSP provides additional financial assistance per academic year to the undergraduate student receiving a Florida Academic Scholarship with the highest academic ranking in each school district. The award is funded through the Florida Bright Futures Scholarship Program. ATSP is authorized by Section 1009.534 (4), Florida Statutes.

15. CHILDREN OF DECEASED OR DISABLED VETERANS SCHOLARSHIP ("CDDV")

The Scholarships for Children and Spouses of Deceased or Disabled Veterans and Service members (CDDV) provides scholarships for dependent children or unremarried spouses of Florida veterans or service members who died as a result of service-connected injuries, diseases, or disabilities sustained while on active duty or who have been certified by the Florida Department of Veterans Affairs as having service-connected 100% permanent and total disabilities. CDDV also provides funds for dependent children whose parent is classified as a prisoner of war or missing in action by the Armed Forces of the United States or as civilian personnel captured while serving with the consent or authorization of the United States Government during wartime service. CDDV provides a fixed award amount at an eligible public or private postsecondary institution.

16. FLAGLER COLLEGE LICENSE TAG PROJECT

These are funds received by the College from the proceeds of Flagler College specialty license tag sales. The proceeds benefit scholarships and numerous academic programs.

17. HISTORIC PRESERVATION GRANT - HOTEL PONCE DE LEON SOLARIUM

The grant is a matching grant and is for the rehabilitation of the solarium in the Ponce de Leon Hotel. The grant is authorized by Section 267.0617, Florida Statutes.

FLAGLER COLLEGE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of the College.
2. No significant deficiencies relating to the audit of the consolidated financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No instances of noncompliance material to the consolidated financial statements of the College, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies disclosed during the audit of internal control over the major federal award programs and state projects are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report expresses an unqualified opinion on compliance for the major federal award programs for the College .
6. The auditors' report expresses a qualified opinion on compliance for the major state projects for the College.
7. No audit findings are reported in this schedule that are required to be reported in accordance with OMB Circular A-133.
8. One audit finding is required to be reported in this schedule in accordance with Chapter 10.650.
9. Major programs:
Federal Programs
 - Federal Student Financial Assistance ClusterState Programs
 - State Student Financial Assistance Cluster
10. The threshold used for distinguishing between Type A and B programs was \$300,000 for federal programs and \$300,000 for state programs.
11. The College was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AND STATE PROJECTS AUDIT

FLORIDA DEPARTMENT OF EDUCATION

10-1 Gold Seal Vocational Scholars Award - CSFA No. 48.059

Condition: The College did not return funds within 30 days after the end of the semester for a student that received funds for a course that was dropped subsequent to the drop/add period.

Criteria: Florida Statute 1009.53(4)(a) states that after the end of the drop/add period, an institution is not required to reevaluate or revise a student's eligibility status; however, an institution must make a refund to the Florida Department of Education within 30 days after the end of the semester of any funds received for courses dropped by a student or courses from which a student has withdrawn after the end of the drop/add period, unless the student has been granted an exception by the Florida Department of Education pursuant to subsection (11).

Perspective Information: Population 9; Sample 9; Not in Compliance 1

Questioned Costs: \$285

Cause of Condition: Communication oversight between the registrar office and the financial aid office.

Recommendation: We recommend the College implement procedures to ensure that the financial aid office is notified in a timely fashion of students that are administratively dropped from a course.

Management Response: The registrar department and the financial aid department will work together to implement additional procedures to ensure the condition is not repeated. In addition, the College will request the questioned costs to be returned to the State of Florida.

D. CORRECTIVE ACTION PLAN

See finding 10-1 for management's corrective action plan.

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Not applicable. No findings noted in the prior year.



TAYLOR,
WAINIO
& NEVILLE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

To the Audit Committee of the Board of Trustees
Flagler College, Inc.
St. Augustine, Florida

We have audited the consolidated financial statements of Flagler College, Inc., as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated October 21, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated October 21, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General, which requires disclosure in the management letter of violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In addition, for matters that are inconsequential, considering both quantitative and qualitative factors, the following may be reported based on personal judgment: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements or major State projects; (2) improper expenditures or illegal acts that would not materially affect the financial statements or major State projects; (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no items related to State financial assistance required to be reported.

This management letter is intended solely for the information of Flagler College, Inc. and management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Taylor, Wainio & Neville, P.A.

St. Augustine, Florida
October 21, 2010