

**FLAGLER COLLEGE, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND**  
**SINGLE AUDIT COMPLIANCE REPORTS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

**FLAGLER COLLEGE, INC.**  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Flagler College, Inc.  
St. Augustine, Florida

We have audited the accompanying consolidated statement of financial position of Flagler College, Inc. (the College) as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year 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 audit. The consolidated financial statements of the College as of June 30, 2010, were audited by other auditors whose report dated October 21, 2010, expressed an unqualified opinion on those 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 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 audit was 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.

*LarsonAllen LLP*  
LarsonAllen LLP

Orlando, Florida  
October 24, 2011



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**FLAGLER COLLEGE, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2011 AND 2010**

<b>ASSETS</b>	2011	2010
Cash and Cash Equivalents	\$ 25,261,220	\$ 18,138,657
Investments	57,364,553	45,301,186
Accounts Receivable, Net Allowance of \$375,010 and \$393,300, Respectively	179,393	154,002
Unconditional Promises	323,698	1,223,858
Inventories	173,212	159,812
Prepaid Expenses and Other Assets	680,790	449,743
Loans to Student, Net Allowance of \$79,800 in 2011 and 2010	308,997	346,059
Other Loans and Advances	455,463	526,996
Nonmarketable Securities	12,997,522	8,006,922
Beneficial Interest in Perpetual Trust	5,601,031	4,880,127
Bond Issuance Costs, Net Amortization of \$149,409 and \$113,991, Respectively	956,119	810,389
Land, Buildings and Equipment, Net	102,959,970	97,621,724
Total Assets	\$ 207,261,968	\$ 177,619,475
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Liabilities	\$ 3,742,004	\$ 3,352,259
Student Deposits and Prepayments	714,982	887,472
Deferred Revenue	133,965	177,046
Amounts Held on Behalf of Others	59,932	107,095
U.S. Government Loan Funds Refundable	348,065	348,765
Premium on Bonds Payable	1,108,129	1,130,347
Bonds Payable	41,070,613	32,256,816
Total Liabilities	47,177,690	38,259,800
<b>NET ASSETS</b>		
Unrestricted	140,458,525	122,205,325
Temporarily Restricted	5,292,494	3,194,380
Permanently Restricted	14,333,259	13,959,970
Total Net Assets	160,084,278	139,359,675
Total Liabilities and Net Assets	\$ 207,261,968	\$ 177,619,475

*See accompanying Notes to Consolidated Financial Statements.*

**FLAGLER COLLEGE, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2011**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
<b>REVENUES, GAINS (LOSSES) AND RECLASSIFICATIONS</b>				
Gross Tuition and Fees	\$ 39,535,787	\$ -	\$ -	\$ 39,535,787
Less: Institutional Aid	(3,544,411)	-	-	(3,544,411)
Net Tuition and Fees	<u>35,991,376</u>	-	-	<u>35,991,376</u>
Government Grants and Contracts:	-	341,443	-	341,443
Private Gifts and Grants	3,173,851	671,954	155,626	4,001,431
Investment Income on Endowments	479,662	356,376	26,305	862,343
Other Investment Income (Loss)	697,709	-	(10,959)	686,750
Net Realized Gains on Endowments	685,064	-	-	685,064
Net Unrealized Gains on Endowments	5,535,489	2,391,732	202,317	8,129,538
Sales and Services of Auxiliary Enterprises	7,798,151	-	-	7,798,151
Increase in Value of Non-marketable Security	4,990,600	-	-	4,990,600
Other Sources	377,276	-	-	377,276
Total Revenues and Gains	<u>59,729,178</u>	<u>3,761,505</u>	<u>373,289</u>	<u>63,863,972</u>
Net Assets Released from Restrictions	1,663,391	(1,663,391)	-	-
Net Assets with Changed Restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains and Reclassifications	61,392,569	2,098,114	373,289	63,863,972
<b>EXPENSES</b>				
Educational Program Services:				
Instruction Expense	14,340,298	-	-	14,340,298
Student Services	6,594,717	-	-	6,594,717
Auxiliary Enterprises	8,230,276	-	-	8,230,276
Scholarships and Fellowships	263,412	-	-	263,412
Supporting Services:				
Academic Support	2,081,213	-	-	2,081,213
Institutional Support	11,629,453	-	-	11,629,453
Total Expenses	<u>43,139,369</u>	<u>-</u>	<u>-</u>	<u>43,139,369</u>
<b>CHANGE IN NET ASSETS</b>	18,253,200	2,098,114	373,289	20,724,603
Net Assets - Beginning of Year	<u>122,205,325</u>	<u>3,194,380</u>	<u>13,959,970</u>	<u>139,359,675</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 140,458,525</u>	<u>\$ 5,292,494</u>	<u>\$ 14,333,259</u>	<u>\$ 160,084,278</u>

See accompanying Notes to Consolidated Financial Statements.

**FLAGLER COLLEGE, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010
<b>REVENUES, GAINS (LOSSES) AND RECLASSIFICATIONS</b>				
Gross Tuition and Fees	\$ 37,567,422	\$ -	\$ -	\$ 37,567,422
Less: Institutional Aid	(3,226,293)	-	-	(3,226,293)
Net Tuition and Fees	<u>34,341,129</u>	-	-	<u>34,341,129</u>
Government 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 (Loss)	585,739	-	(10,704)	575,035
Net Realized Gains 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 and Gains	<u>46,079,165</u>	<u>2,662,009</u>	<u>868,774</u>	<u>49,609,948</u>
Net Assets Released from Restrictions	1,468,276	(1,468,276)	-	-
Net Assets with Changed Restrictions	<u>-</u>	<u>(32,943)</u>	<u>32,943</u>	<u>-</u>
Total Revenues, Gains and Reclassifications	47,547,441	1,160,790	901,717	49,609,948
<b>EXPENSES</b>				
Educational Program Services:				
Instruction Expense	13,836,281	-	-	13,836,281
Student Services	6,073,882	-	-	6,073,882
Auxiliary Enterprises	7,676,434	-	-	7,676,434
Scholarships and Fellowships	301,509	-	-	301,509
Supporting Services:				
Academic Support	2,030,494	-	-	2,030,494
Institutional Support	11,133,696	-	-	11,133,696
Total Expenses	<u>41,052,296</u>	<u>-</u>	<u>-</u>	<u>41,052,296</u>
<b>CHANGE IN NET ASSETS</b>	6,495,145	1,160,790	901,717	8,557,652
Net Assets - Beginning of Year	<u>115,710,180</u>	<u>2,033,590</u>	<u>13,058,253</u>	<u>130,802,023</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 122,205,325</u>	<u>\$ 3,194,380</u>	<u>\$ 13,959,970</u>	<u>\$ 139,359,675</u>

See accompanying Notes to Consolidated Financial Statements.

**FLAGLER COLLEGE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student Tuition and Auxiliary Fees	\$ 44,728,386	\$ 40,843,780
Government Appropriations	7,395,572	12,389,261
Interest and Dividends Received	23,293	31,494
Contributions Received	4,825,640	2,030,401
Other Receipts	377,755	378,963
Salaries and Wages Paid to Faculty and Staff	(21,619,238)	(20,516,904)
Payments to Vendors for Goods and Services	(14,010,153)	(13,471,539)
Disbursements to Students for Financial Aid	(8,837,410)	(12,239,276)
Net Cash Provided by Operating Activities	12,883,845	9,446,180
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	15,823,618	128,505,226
Purchase of Investments	(18,499,462)	(130,747,833)
Purchases of Land, Buildings and Equipment	(11,197,846)	(3,127,583)
Loan Advances to Student and Others	(32,689)	(3,381)
Repayments of Loans from Student and Faculty	79,062	975
Repayments of Other Loans	62,611	30,011
Net Cash Used by Investing Activities	(13,764,706)	(5,342,585)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Long-Term Debt	10,000,000	-
Funds Paid on Long-Term Debt and Related	(2,363,553)	(2,610,638)
Contributions Received Designated for Long-Term Investments	415,014	717,987
Receipt from (Advances) to Related Organization	(48,037)	32,396
Net Cash Provided (Used) by Financing Activities	8,003,424	(1,860,255)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,122,563	2,243,340
Cash and Cash Equivalents - Beginning of Year	18,138,657	15,895,317
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 25,261,220	\$ 18,138,657
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 20,724,603	\$ 8,557,652
Depreciation	5,710,805	5,474,540
Amortization	12,070	14,061
Net Realized and Unrealized Gains on Endowments	(8,814,602)	(3,749,453)
Unrealized Gain on Non-Marketable Securities	(4,990,600)	-
Increase in Accounts Receivable	(25,391)	(37,957)
Decrease in Accrued Interest	65	54,168
Decrease in Unconditional Promises to Give	516,502	24,964
Increase in Inventories	(13,400)	(10,926)
Increase in Prepaid Expenses	(231,045)	(10,606)
Increase in Accounts Payable and Accrued Liabilities	545,088	41,667
Decrease in Student Deposits and Prepayments	(172,490)	(150,140)
Increase (Decrease) in Deferred Revenue	(47,163)	23,081
Contributions Restricted for Long-Term Investments	(330,597)	(784,871)
Net Cash Provided by Operating Activities	\$ 12,883,845	\$ 9,446,180

See accompanying Notes to Consolidated Financial Statements.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 1 ORGANIZATION**

Flagler College, Inc. (the College) is a not-for-profit coeducational 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.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

These consolidated 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.

**Basis of Consolidation**

The consolidated financial statements consist of the financial statements of the College, the Flagler College Endowment Fund, and the Jessie Kenan Wise Foundation. The consolidation is due to the fact that the sole purpose of both the Flagler College Endowment Fund and the Jessie Kenan Wise Foundation is to function as a supporting organization of the College. All material inter-organization transactions have been eliminated.

**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.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 2    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 consolidated statements 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 consolidated statements 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 (3 to 50 years). The College uses estimated salvage values ranging from 5% to 10% 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.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 12 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 fundraising activity.

**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. These reclassifications resulted in the reduction of revenues and expenses by \$12,390,848 related to federal and state financial aid assistance for the year ended June 30, 2010 which have been eliminated for financial statement reporting purposes since they are pass-through amounts to students of the College.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 re-loaned after collections. These funds are ultimately refundable to the government.

**NOTE 3 INVESTMENTS**

Investments in the consolidated statements of financial position at June 30, 2011 and 2010 consist of the following:

	2011		2010	
	Cost	Market Value	Cost	Market Value
<b>OPERATING INVESTMENTS</b>				
Marketable Common Stock	\$ 7,415,265	\$ 8,307,588	\$ 7,214,529	\$ 6,909,334
U.S. Government and Agency Securities	486,292	497,883	676,793	707,941
Marketable Debt Securities	334,976	351,673	608,751	649,366
Equity Mutual Funds	7,833,647	8,103,224	4,045,063	3,103,942
Fixed Income Mutual Funds	4,381,434	4,559,453	6,564,786	6,787,086
Other Investments	762,846	762,846	805,971	805,971
Subtotal Investments	<u>21,214,460</u>	<u>22,582,667</u>	<u>19,915,893</u>	<u>18,963,640</u>
<b>ENDOWMENTS</b>				
Equity Mutual Funds	20,788,775	22,956,243	18,657,626	16,070,924
Fixed Income Mutual Funds	11,490,925	11,825,643	9,692,879	10,266,622
Subtotal Investments	<u>32,279,700</u>	<u>34,781,886</u>	<u>28,350,505</u>	<u>26,337,546</u>
Total Investments	<u>\$ 53,494,160</u>	<u>\$ 57,364,553</u>	<u>\$ 48,266,398</u>	<u>\$ 45,301,186</u>

As of June 30, 2011 and 2010, the investment accounts had cash and cash equivalents totaling \$718,910 and \$2,288,676, respectively, that are classified as cash and cash equivalents on the consolidated statements of financial position.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 4 ENDOWMENTS**

The College has adopted the provisions of the accounting standard for endowments of non-profit organizations. The standard was issued to provide guidance on the net asset classification of donor-restricted endowment funds for non-profit organizations, and to provide increased disclosures about an organization's endowment funds.

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-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 9. 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 there from.

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

Endowment net assets consist of the following:

	June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 3,033,410	\$ 14,321,479	\$ 17,354,889
Board Designated Endowment Funds	36,360,605	-	-	36,360,605
Total Endowment Funds	<u>\$ 36,360,605</u>	<u>\$ 3,033,410</u>	<u>\$ 14,321,479</u>	<u>\$ 53,715,494</u>
	June 30, 2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted Endowment Funds	\$ -	\$ 790,262	\$ 13,937,176	\$ 14,727,438
Board Designated Endowment Funds	25,676,827	-	-	25,676,827
Total Endowment Funds	<u>\$ 25,676,827</u>	<u>\$ 790,262</u>	<u>\$ 13,937,176</u>	<u>\$ 40,404,265</u>

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 4 ENDOWMENTS (CONTINUED)**

Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ENDOWMENT NET ASSETS</b>				
<b>JUNE 30, 2009</b>	\$ 24,086,046	\$ (138,698)	\$ 13,024,754	\$ 36,972,102
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
<b>ENDOWMENT NET ASSETS</b>	<b>25,676,827</b>	<b>790,262</b>	<b>13,937,176</b>	<b>40,404,265</b>
<b>JUNE 30, 2010</b>				
Investment Income	486,466	356,377	30,621	873,464
Net Depreciation (Realized and Unrealized)	8,205,625	2,391,733	202,318	10,799,676
Contributions	2,537,065	5,062	130,818	2,672,945
Distributed Earnings	(545,378)	(510,024)	(4,259)	(1,059,661)
Other Changes	-	-	24,805	24,805
<b>ENDOWMENT NET ASSETS</b>	<b>25,676,827</b>	<b>790,262</b>	<b>13,937,176</b>	<b>40,404,265</b>
<b>JUNE 30, 2011</b>	<b>\$ 36,360,605</b>	<b>\$ 3,033,410</b>	<b>\$ 14,321,479</b>	<b>\$ 53,715,494</b>

**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

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4    ENDOWMENTS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

- 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
- 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

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 ENDOWMENTS (CONTINUED)**

**Interpretation of Relevant Law (Continued)**

- 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.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4    ENDOWMENTS (CONTINUED)**

**Investment Return Objectives, Risk Parameters and Strategies (Continued)**

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.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 5 FAIR VALUE MEASUREMENT**

The College adopted the provisions of the standard 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 consolidated financial statements on a recurring basis. The standard 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. The standard 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. The College can redeem its mutual fund investments at the NAV per share at the measurement date. These mutual fund investments can be redeemed monthly on the last business day with a 5-business-day notice period.
- 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.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 5 FAIR VALUE MEASUREMENT (CONTINUED)**

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

	June 30, 2011			
	Fair Value	Level 1	Level 2	Level 3
Marketable Common Stock	\$ 8,307,588	\$ 8,307,588	\$ -	\$ -
Marketable Debt Securities	351,673	-	351,673	-
Equity Mutual Funds	31,059,467	-	31,059,467	-
Fixed Income Mutual Funds	16,385,096	-	16,385,096	-
U.S. Government and Agency Securities	497,883	-	497,883	-
Other Investments	762,846	-	-	762,846
Investments	57,364,553	8,307,588	48,294,119	762,846
Nonmarketable Securities	12,997,522	-	-	12,997,522
Beneficial Interest in Perpetual Trust	5,601,031	-	5,601,031	-
Total	<u>\$ 75,963,106</u>	<u>\$ 8,307,588</u>	<u>\$ 53,895,150</u>	<u>\$ 13,760,368</u>

	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
Nonmarketable Securities	8,006,922	-	-	8,006,922
Beneficial Interest in Perpetual Trust	4,880,124	-	4,880,124	-
Total	<u>\$ 58,188,232</u>	<u>\$ 6,909,282</u>	<u>\$ 42,466,057</u>	<u>\$ 8,812,893</u>

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2011 and 2010:

	Annuity Contracts	Nonmarketable 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	805,971	8,006,922	8,812,893
Unrealized Investment Gain	-	4,990,600	4,990,600
Amortization of Annuity Contract	(43,125)	-	(43,125)
Ending Balance - June 30, 2011	<u>\$ 762,846</u>	<u>\$ 12,997,522</u>	<u>\$ 13,760,368</u>

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6 PROMISES TO GIVE**

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

	2011	2010
Less than One Year	\$ 290,642	\$ 691,743
One to Five Years	271,522	841,140
More than Five Years	-	38,698
	562,164	1,571,581
Unamortized Discount (1.87% - 3.80%)	(62,466)	(171,723)
Allowance for Doubtful Pledges	(176,000)	(176,000)
Total	\$ 323,698	\$ 1,223,858

**NOTE 7 NONMARKETABLE SECURITIES**

Nonmarketable securities consisted of the following at June 30:

	2011	2010
Stocking Island Limited Common Stock	\$ 12,990,600	\$ 8,000,000
Other Nonmarketable Securities	6,922	6,922
Total	\$ 12,997,522	\$ 8,006,922

In prior years, the Endowment Fund received gifts of Stocking Island Limited Common Stock (Stocking Island Limited) to further the purpose of the Endowment Fund. The stock is a non-marketable security and represents 100% interest in a corporation holding real estate in the Bahamas. Stocking Island Limited 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 Fund marked the value of its Stocking Island common stock to \$8,000,000 during the year ended June 30, 2005 based on this offer, and in the years since had estimated this remained a reasonable estimate of fair value based on potential purchase offers and other factors. In 2011, a purchase and sale agreement for one tract was executed (see details below), and as a result the Fund examined the fair value for each tract individually and adjusted the estimate of fair value as of June 30, 2011, on all ten tracts combined from \$8,000,000 to \$12,990,600.

On May 18, 2011, Stocking Island Limited entered into a purchase and sale agreement for one tract with a purchase price to be paid of \$750,000, with a closing not later than 18 months following the date executed.

The option contracts executed in November 2007 with Elizabeth Harbor Estates, LLC, and subsequently amended, have expired, and all funds received have been recognized as revenue.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 CONTRIBUTIONS FROM THE ESTATE OF MARY L. F. WILEY**

During the fiscal year ended June 30, 2011, the Fund received a \$2.5 million contribution as the result of a bequest from the estate of Mary L. F. “Molly” Wiley, sister of the College’s founder, Lawrence Lewis, Jr. Molly Wiley was a longstanding friend and supporter of the College, and in previous years had served as a trustee of the Fund and of the College.

**NOTE 9 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 there from. 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 cost and fair value of the beneficial interest at June 30, 2011 and 2010 were as follows:

	2011		2010	
	Cost	Market Value	Cost	Market Value
Equity and Proprietary Mutual Funds	\$ 3,342,871	\$ 3,673,794	\$ 3,471,600	\$ 2,954,945
Fixed Income Mutual Fund	1,857,503	1,927,237	1,886,226	1,925,182
Total	<u>\$ 5,200,374</u>	<u>\$ 5,601,031</u>	<u>\$ 5,357,826</u>	<u>\$ 4,880,127</u>

**FLAGLER COLLEGE, INC.**  
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**NOTE 10 LAND, BUILDINGS AND EQUIPMENT, NET**

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

	<u>2011</u>	<u>2010</u>
Land	\$ 11,597,920	\$ 9,699,465
Buildings and Improvements	107,203,454	105,339,571
Furnishings and Equipment	14,119,844	12,605,589
Library Books	3,859,915	3,743,156
Art Collection	382,809	382,809
	<u>137,163,942</u>	<u>131,770,590</u>
Less: Accumulated Depreciation	<u>(40,736,566)</u>	<u>(35,932,248)</u>
	96,427,376	95,838,342
Construction in Progress	6,532,594	1,783,382
Total	<u>\$ 102,959,970</u>	<u>\$ 97,621,724</u>

Idle land and buildings (those not currently in use by the College) included above totaled \$4,061,837 and \$1,872,282 at June 30, 2011 and 2010, respectively.

**NOTE 11 CONSTRUCTION IN PROGRESS**

At June 30, 2011 and 2010, construction in progress consisted of the following projects:

	<u>2011</u>	<u>2010</u>
Florida East Coast Building A Renovation	\$ 2,462,076	\$ -
Flagler Field Locker Room Facility	2,458,493	219,110
Baseball Stadium Improvements	244,739	-
Ponce Hall Dorm Renovations	243,974	502,570
Presidents' Contingency	188,560	246,721
Air Conditioning Replacements	110,223	83,636
Ponce Hall Solarium Renovation	108,292	-
Admissions / Financial Aid Building	106,186	36,393
Flagler Room Renovations	77,355	-
Kenan Science Lab Renovations	76,815	164,754
Ponce Hall Dining Exterior Renovations	70,700	-
Security System Improvements	60,353	-
Florida East Coast Soil Removal	51,000	51,000
Proctor Library Chiller Upgrade	-	248,490
Ponce Hall Dining Room Ceiling	-	50,508
Other	273,828	180,200
Total	<u>\$ 6,532,594</u>	<u>\$ 1,783,382</u>

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 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.

**NOTE 13 LONG-TERM DEBT**

**Series 2011 Bonds**

On May 20, 2011, the College issued \$10,000,000 in aggregate principal amount of 2011 Revenue Bonds (the 2011 Bonds) through the St. Johns County Educational Facilities Authority. PNC Bank made a direct purchase of the 2011 Bonds per its agreement with the College. The 2011 Bonds have a fixed interest rate of 3.33% with 25-year amortization, with monthly maturities through May 2036. PNC Bank has a put option on the seventh anniversary of the closing date. The College will be notified of the intent of PNC Bank to exercise the put option 12 months prior to the anniversary date to allow the College time to pursue other options. The net proceeds of the 2011 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 2011 Bonds. The College is making monthly principal and interest payments on the 2011 Bonds. The outstanding balance on the Series 2011 Bonds was \$9,970,633 as of June 30, 2011.

**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. The outstanding balance on the Series 2006 Bonds was \$18,905,000 and \$19,285,000 as of June 30, 2011 and 2010, respectively.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 LONG-TERM DEBT (CONTINUED)**

**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, 2011 and 2010, 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 Variable Rate Loan) with PNC Bank for the full amount of the 2005 Bonds. Up until May 20, 2011, the Variable Loan had interest at a variable interest rate equal to 65% times the 30-day LIBOR rate plus 144 basis points (1.44%). The interest rate at June 30, 2010 was 1.67%, and the interest rate for May 2011 was 1.58%. The Variable Rate Loan was to be amortized over 20 years originally.

On May 20, 2011, the College and PNC Bank agreed to some changes in the Variable Rate Loan. A portion was refunded and replaced with the Fixed Rate Loan, as described below. The remaining principal balance of \$9,000,000 bears interest at a variable rate equal to 65.00% of one-month LIBOR, plus 1.35%. The interest rate at June 30, 2011 was 1.47%. The Variable Rate Loan is amortized over 24½ years, with monthly maturities through December 2035. PNC Bank has a put option on the seventh anniversary of the closing date. The College will be notified of the intent of PNC Bank to exercise the put option 12 months prior to the anniversary date to allow the College time to pursue other options. The College is making monthly principal and interest payments on the Variable Rate Loan.

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**NOTE 13 LONG-TERM DEBT (CONTINUED)**

**Series 2005 Bonds (Continued)**

On May 20, 2011, the College agreed to a bank qualified, tax exempt term loan (the Fixed Rate Loan) with PNC Bank, for \$3,259,916 principal of the Variable Rate Loan. The Fixed Rate Loan has an interest rate of 3.26% with 24½-year amortization, with monthly maturities through December 2035. PNC Bank has a put option on the seventh anniversary of the closing date. The College will be notified of the intent of PNC Bank to exercise the put option 12 months prior to the anniversary date to allow the College time to pursue other options. The College is making monthly principal and interest payments on the Fixed Rate Loan. The outstanding balance on the Series 2005 Bonds was \$12,194,980 and \$12,971,816 as of June 30, 2011 and 2010, respectively.

**Collateralization and Financial Covenants**

The bonds and loans are collateralized with the College's gross revenues. The agreements relating to the bonds and the loans with the financial institutions contain covenants pertaining to the maintenance of minimum debt service coverage, minimum unrestricted cash and investments to total long-term debt ratio, 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 60 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 bonds and the loans.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 1,050,799
2012	1,082,642
2013	1,114,588
2014	1,147,022
2015	1,184,635
Thereafter	35,490,927
Total	<u>\$ 41,070,613</u>

At June 30, 2011 and 2010, cash and cash equivalents totaling \$7,762,103 and \$145,118, respectively, were held by bond trustees and considered restricted in nature.

**FLAGLER COLLEGE, INC.**  
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**NOTE 14 RESTRICTION AND LIMITATIONS ON NET ASSETS**

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

	<u>2011</u>	<u>2010</u>
Designated for Endowment Purposes	\$ 36,360,605	\$ 25,676,825
Designated for Plant Expansion	5,468,371	4,915,780
Designated Unrestricted Net Assets	<u>41,828,976</u>	<u>30,592,605</u>
Investment in Plant	69,118,672	64,551,004
Undesignated Net Assets	<u>29,510,877</u>	<u>27,061,716</u>
Total Unrestricted Net Assets	<u><u>\$ 140,458,525</u></u>	<u><u>\$ 122,205,325</u></u>

Temporarily restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Student Scholarships	\$ 1,109,647	\$ 215,300
Instruction and Academic Program Service	1,173,432	667,991
Athletics	200,043	304,934
Capital Projects	1,210,874	835,599
General Institutional Support	1,400,632	674,848
Debt Service	197,866	495,708
Total Temporarily Restricted Net Assets	<u><u>\$ 5,292,494</u></u>	<u><u>\$ 3,194,380</u></u>

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

	<u>2011</u>	<u>2010</u>
Jessie Kenan Wise Foundation	\$ 4,198,710	\$ 4,198,710
Student Scholarship Funds	6,987,357	6,361,049
Endowed program Service Funds	3,135,412	3,377,417
Student Loan Funds	11,780	22,794
Total Permanently Restricted Net Assets	<u><u>\$ 14,333,259</u></u>	<u><u>\$ 13,959,970</u></u>

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 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:

	2011	2010
Instruction and Divisional Support	\$ 178,963	\$ 202,767
Student Financial Assistance	237,026	31,192
Student Work Study Wages	-	191,151
Plant Fund Grant	226,739	67,508
Jessie Kenan Wise Temporary Income and Expense Release	-	252,654
Debt Service	258,000	390,000
Student Services	146,779	118,282
Other Transactions	615,884	214,722
Total	\$ 1,663,391	\$ 1,468,276

**NOTE 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 2.7%. The President will pay this loan back in monthly payments of \$2,581. The balance of the loan was \$222,609 and \$247,208 at June 30, 2011 and 2010, respectively.

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

Year Ending June 30,	Amount
2012	\$ 25,271
2013	25,962
2014	26,672
2015	27,401
Thereafter	117,303
Total	\$ 222,609

**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, 2011 and 2010.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 16 RELATED PARTIES (CONTINUED)**

**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). During the summer, the College provides facilities and resources for a college experience camp for eighth graders, which is administered by CIS. The College had been providing office space, telephone services, and instruction services to CIS, but this was discontinued in the fall of 2010.

The College received a State of Florida College Reach Out Program Grant (CROP) during the years ended June 30, 2011 and 2010 in the amounts of \$54,792 and \$52,986, respectively. CIS administers the CROP program for the College. The College is responsible for reporting on CROP expenditures to the State of Florida.

**NOTE 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 5% of their salary, and the College matches their contribution with between 5% and 10% of the employees' salary based on length of employment. Contributions are paid each pay period. For the years ended June 30, 2011 and 2010, the contributions to this plan made by the College were \$691,444 and \$637,311, respectively.

**NOTE 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 \$363,457 and \$2,268,387 at June 30, 2011 and 2010, respectively.

**FLAGLER COLLEGE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

**NOTE 18 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Contingencies**

The College is involved in various legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by various regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management believes that the resolution of these pending matters will not have a materially adverse effect on the College's consolidated financial statements.

**NOTE 19 INSTITUTIONAL ADVANCEMENT EXPENSES**

The College incurred expenses amounting to \$1,688,499 and \$1,629,380 related to development and fundraising for the years ended June 30, 2011 and 2010, respectively. Such amounts are included in institutional support expenses in the accompanying consolidated statements of activities.

**NOTE 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.

**NOTE 21 SUBSEQUENT EVENTS**

The College has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through October 24, 2011, the date the consolidated financial statements were available to be issued.

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

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, 2011, and have issued our report thereon dated October 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered 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 consolidated 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 entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any certain deficiencies in internal control over financial reporting that we would consider to be material weaknesses or other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We noted no such deficiencies to report in the accompanying schedule of findings and questioned costs that would be considered material weaknesses.

**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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated October 24, 2011.

This report is intended for the information and use of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Orlando, Florida  
October 24, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR FEDERAL AWARD PROGRAM AND STATE FINANCIAL ASSISTANCE PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133 AND CHAPTER 10.650 RULES OF THE AUDITOR GENERAL**

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 *OMB Circular A-133 Compliance Supplement* and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that could have a direct and material effect on each of the College's major federal programs and state financial assistance projects for the year ended June 30, 2011. The College's major federal programs and state financial assistance 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 financial assistance 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, OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance 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.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, and which are described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2.

## **INTERNAL CONTROL OVER COMPLIANCE**

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 and state financial assistance projects. In planning and performing our audit, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state financial assistance project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state financial assistance project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state financial assistance project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The College's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the College's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the College in a separate letter dated October 24, 2011.

**SUPPLEMENTAL INFORMATION**

We have audited the basic consolidated financial statements of the College as of and for the year ended June 30, 2011, and have issued our report thereon dated October 24, 2011. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of the College taken as a whole. The Summary of Populations, Samples Tested and Test Results Obtained – Florida Financial Assistance Program on pages 34 and 35 is presented for purposes of additional analysis as required by the State of Florida, Florida Statutes, State Board of Education Administrative Rules, and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the consolidated basic financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Larson Allen LLP*  
**LarsonAllen LLP**

Orlando, Florida  
October 24, 2011

**FLAGLER COLLEGE, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND**  
**STATE FINANCIAL ASSISTANCE**  
**YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Program Title</u>	<u>Federal Identification Number</u>	<u>Contract Grant Number</u>	<u>Expenditures</u>
<b>Student Financial Assistance Cluster</b>			
Department of Education:			
Pell Grant Program	84.063	-	\$ 4,403,723
Supplemental Educational Opportunity Grant Program	84.007	-	157,663
College Workstudy Program	84.033	-	106,857
Academic Competitiveness Grant Program	84.375	-	197,200
National Science and Mathematics Access to Retain Talent Grant Program	84.376	-	14,000
Teacher Education Assistance for College and Higher Education Grants	84.379	-	119,000
Federal Perkins Loans Outstanding	84.038	-	386,962
Federal Direct Loan Program	84.268	-	<u>16,629,609</u>
Total Student Financial Aid Cluster			22,015,014
<b>Other Programs</b>			
Department of Education - Pass-Through From Jacksonville University - Improving Teacher Quality State Grant	84.367B	862-2251A-1R001	62,500
National Endowment for the Humanities - Pass-Through From Florida Humanity Council - Promotion of the Humanities - Federal/State Partnership	45.129	GR_0810_3642_2210	9,000
Department of the Interior - Pass-Through From National Endowment for the Humanities: Save America's Treasures Grant Program	15.929	PT-50166-10	<u>19,414</u>
Total Other Programs			<u>90,914</u>
Total Expenditures of Federal Awards			<u>\$ 22,105,928</u>
<u>Florida Agency/Program Title</u>	<u>State Identification Number</u>	<u>Contract Grant Number</u>	<u>State Program Expenditures</u>
<b>Florida Department of Education</b>			
Student Financial Aid Assistance Cluster:			
Florida Resident Access Grant	48.064	-	\$ 4,766,397
Florida Private Student Assistance Grant	48.054	-	599,400
Florida Medallion Scholars Award	48.059	-	2,171,212
Florida Academic Scholars Award	48.059	-	451,625
Florida Bright Futures Academic Top Scholars Award	48.059	-	1,431
Florida Gold Seal Vocational Scholars Award	48.059	-	20,022
Minority Teacher Educational Scholars Program	48.049	-	94,000
Florida Work Experience Program	48.053	-	4,692
Robert C. Byrd Honors Scholarship Program	N/A	-	6,750
College Reach Out Program	48.028	-	54,792
Children and Spouses of Deceased/Disabled Veterans	48.055	-	<u>8,544</u>
Total Student Financial Assistance			8,178,865
<b>Other Programs</b>			
Florida Department of Motor Vehicles Direct Program: Flagler College License Plate Project	76.046	-	37,418
Florida Department of Education - Pass-Through From University of West Florida - Florida Public Archaeology Network	N/A	22131C-221317-7491	<u>184,737</u>
Total Expenditures of Florida Financial Assistance			<u>\$ 8,401,020</u>

*The accompanying notes are an integral part of this schedule.*

**FLAGLER COLLEGE, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND**  
**STATE FINANCIAL ASSISTANCE**  
**JUNE 30, 2011**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state award activity of Flagler College, Inc. 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 consolidated financial statements.

Pass-through entity identifying numbers are presented where available.

**NOTE 2 FEDERAL LOANS DISBURSED**

The amount presented for Federal Perkins Loans represents loan balances outstanding at June 30, 2011 for which the government imposes continuing compliance requirements. During 2011, the College distributed \$25,550 in Perkins loans. This included no new federal funds.

The College also participates in the Federal Direct Loan Program, including Federal Stafford Loans (Stafford) and Federal PLUS Loans (PLUS). The dollar amounts are listed in the schedule of federal awards although the College is not the recipient of the funds. Such programs are considered a component of the student financial assistance cluster. Loans processed by the College under this Loan Program were the following for the year ended June 30, 2011:

Federal Direct Loan Program:

Stafford:

Subsidized	\$ 6,833,719
Unsubsidized	7,226,140
PLUS	2,569,750
	\$ 16,629,609

**NOTE 3 SUBRECIPIENTS**

Of the State expenditures presented in the Schedule of Expenditures of Federal Awards and State Financial Assistance, the College provided state awards to subrecipients as follows:

<u>Program</u>	<u>CSFA Number</u>	<u>Amount</u>
College Reach Out Program	48.028	\$ 54,792

**FLAGLER COLLEGE, INC.**  
**FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAM –**  
**SUMMARY OF POPULATIONS, SAMPLES TESTED AND TEST RESULTS OBTAINED**  
**JUNE 30, 2011**

	Number of Students	Percentage of Population	Number of Awards	Percentage of Population	Amount of Awards	Percentage of Population
<b>Florida Resident Access Grant</b>						
Population *	2,208	100.00%	2,208	100.00%	\$ 4,766,397	100.00%
Tested	50	2.26%	50	2.26%	109,128	2.29%
Findings	-	0.00%	-	0.00%	-	0.00%
<b>Florida Private Student Assistance Grant</b>						
Population *	380	100.00%	380	100.00%	599,400	100.00%
Tested	50	13.16%	50	13.16%	80,399	13.41%
Findings	1	0.26%	1	0.26%	1,213	0.20%
<b>Florida Medallion Scholars Award</b>						
Population *	852	100.00%	852	100.00%	2,171,212	100.00%
Tested	50	5.87%	50	5.87%	127,652	5.88%
Findings	1	0.12%	1	0.12%	282	0.01%
<b>Florida Academic Scholars Award</b>						
Population *	124	100.00%	124	100.00%	451,625	100.00%
Tested	31	25.00%	31	25.00%	105,125	23.28%
Findings	-	0.00%	-	0.00%	-	0.00%
<b>Florida Bright Futures Academic Top Scholar Award</b>						
Population *	1	100.00%	1	100.00%	1,431	100.00%
Tested	1	100.00%	1	100.00%	1,431	100.00%
Findings	-	0.00%	-	0.00%	-	0.00%

**FLAGLER COLLEGE, INC.**  
**FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAM –**  
**SUMMARY OF POPULATIONS, SAMPLES TESTED AND TEST RESULTS OBTAINED (CONTINUED)**  
**JUNE 30, 2011**

	<u>Number of Students</u>	<u>Percentage of Population</u>	<u>Number of Awards</u>	<u>Percentage of Population</u>	<u>Amount of Awards</u>	<u>Percentage of Population</u>
<b>Florida Gold Seal Vocational Scholars Award</b>						
Population *	7	100.00%	7	100.00%	20,022	100.00%
Tested	7	100.00%	7	100.00%	20,022	100.00%
Findings	-	0.00%	-	0.00%	-	0.00%
<b>Minority Teacher Educational Scholars Program</b>						
Population *	27	100.00%	27	100.00%	94,000	100.00%
Tested	10	37.04%	10	37.04%	36,000	38.30%
Findings	-	0.00%	-	0.00%	-	0.00%
<b>Florida Work Experience Program</b>						
Population *	5	100.00%	5	100.00%	4,692	100.00%
Tested	5	100.00%	5	100.00%	4,692	100.00%
Findings	-	0.00%	-	0.00%	-	0.00%
<b>Children and Spouses of Deceased or Disabled Veterans</b>						
Population *	3	100.00%	3	100.00%	8,544	100.00%
Tested	3	100.00%	3	100.00%	8,544	100.00%
Findings	-	0.00%	-	0.00%	-	0.00%
<b>Robert Byrd</b>						
Population *	5	100.00%	5	100.00%	6,750	100.00%
Tested	5	100.00%	5	100.00%	6,750	100.00%
Findings	-	0.00%	-	0.00%	-	0.00%

\* See Note B

**FLAGLER COLLEGE, INC.**  
**NOTES TO FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAM –**  
**SUMMARY OF POPULATIONS, SAMPLES TESTED AND**  
**TEST RESULTS OBTAINED**  
**JUNE 30, 2011**

**NOTE A SUMMARY OF FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAMS**

Below is a summary of significant features and applicable statutes and rules of importance to the administration of the Florida Student Financial Assistance Programs at Flagler College, Inc.:

Florida Resident Access Grant (FRAG): The FRAG provides financial assistance to Florida undergraduate students attending independent non-profit Florida colleges or universities. It is a non-repayable grant available to one-year residents of Florida. The FRAG is not based on need. A student may receive the FRAG for a maximum of nine undergraduate semesters. The amount to be awarded to each applicant will be determined by the State of Florida. The FRAG is a tuition and fee grant; therefore, the amount of the FRAG plus all other scholarships and grants specifically designated for payment of tuition and fees cannot exceed the total amount of tuition and fees charged by the institution. FRAG is authorized by Section 1009.89, Florida Statutes.

Florida Student Assistance Grant Fund (FSAG): The FSAG is a non-repayable grant awarded only on a need basis to one-year residents of Florida. A student may receive the FSAG for a maximum of nine undergraduate semesters. The amount to be awarded to each applicant will be determined by the State of Florida. FSAG is authorized by Section 1009.50-1009.52, Florida Statutes.

Florida Academic Scholars" Award (FASA): The FASA is a State of Florida scholarship under the Florida Bright Futures Scholarship Program which provides certain qualified, first-time-in-college, full-time, undergraduate students with assistance in paying for the costs of education. FASA is available only to Florida residents attending eligible colleges and universities located in the State of Florida. The amount awarded to each applicant will be determined by the State of Florida. FASA is authorized by Section 1009.53, Florida Statutes.

Florida Gold Seal Vocational Scholars" Award (VGSA): Vocational Student Assistance grants, under the Bright Futures Scholarship Program, are administered by the Department of Education. Awards are made on a need basis. The amount to be awarded to each applicant will be determined by the State of Florida. Student must be enrolled in a public vocational technical center, community college, or any non-public post-secondary trade, vocational, or business school accredited by the National Association and Technical Schools, Association of Independent Colleges and Schools, or the Southern Association of Colleges. VGSA is authorized by Section 1009.53, Florida Statutes.

Robert C. Byrd Honors Scholarship Program (RBHSP): The applicant should be a U.S. citizen or eligible non-citizen, and legal resident of Florida. The applicant should be enrolled as a full time student and should be selected by the high school principal or Adult Education Director as the school's nominee. The amount to be awarded to each applicant will be determined by the State of Florida. The applicant should meet the measurable progress standards of their post-secondary educational institution.

**FLAGLER COLLEGE, INC.**  
**NOTES TO FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAM –**  
**SUMMARY OF POPULATIONS, SAMPLES TESTED AND**  
**TEST RESULTS OBTAINED (CONTINUED)**  
**JUNE 30, 2011**

**NOTE A SUMMARY OF FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAMS  
(CONTINUED)**

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. The MTES is authorized by Section 1009.60, Florida Statutes.

Children and Spouses of Deceased or Disabled Veterans (CSDDV): The applicant must be a dependent child or un-remarried spouse of a Florida veteran or service member who died as a result of service-connected injuries, diseases, or disabilities sustained while on active duty or have been verified by the Florida Department of Veterans' Affairs as having service connected 100% total and permanent disabilities. Veterans must have been Florida residents at the time of death or determination of 100% disability. The applicant must enroll in an eligible post-secondary institution at least half-time.

Florida Medallion Scholars' Award (FMSA): The applicant should be a Florida resident, and should be accepted and enrolled in an eligible Florida public or independent post-secondary education institution. The applicant should complete a Bright Futures Scholarship Program Student Authorization Form by spring high school graduation. The amount to be awarded to each applicant will be determined by the State of Florida. The FMSA is authorized by Section 1009.53, Florida Statutes.

Florida Bright Futures Academic Top Scholars Award (BFATS): One FASA award recipient in each district will be designated at the ATS recipient. The recipient receives an award in addition to the FASA award. The applicant to be awarded this honor will be determined by the State of Florida, based on the product of their Bright Futures Grade Point Average and their composite SAT or equivalent. The BFATS is authorized by Section 1009.53, Florida Statutes.

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. The FWEP is authorized by Section 1009.77, Florida Statutes.

College Reach Out Program (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.

**FLAGLER COLLEGE, INC.**  
**NOTES TO FLORIDA STUDENT FINANCIAL ASSISTANCE PROGRAM –**  
**SUMMARY OF POPULATIONS, SAMPLES TESTED AND**  
**TEST RESULTS OBTAINED (CONTINUED)**  
**JUNE 30, 2011**

**NOTE B    POPULATIONS AND SAMPLE SELECTIONS**

The populations were provided by the Bureau of Auditing Services, Florida Department of Education.

Samples were determined using State of Florida Administrative Code guidelines provided in Rule 6A-20.0021. A random sample of 50 award recipients or 25%, whichever is less, but no less than 10 award recipients or 100% of the recipients if less than 10, were chosen for each program.

Students were classified as ineligible, if our examination of supporting documentation disclosed instances of noncompliance with eligibility criteria. Awards were classified as questioned costs, if our examination disclosed one or more of the following conditions: awards made to ineligible students, awards for which supporting documentation was missing, and awards, or the portions thereof, not properly credited to students' accounts.

**FLAGLER COLLEGE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2011**

**SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of Flagler College, Inc. (the College).
2. No material weaknesses were identified and disclosed during the audit of the consolidated financial statements of the College.
3. No instances of material noncompliance were identified during the audit of the consolidated financial statements of the College.
4. Two significant deficiencies were identified during the audit of the major federal award programs and state financial assistance projects of the College.
5. The auditors' report on compliance for the major federal award programs and state financial assistance projects for the College expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the College are reported in Part C of this schedule.
7. The programs tested as major programs include:

Program	CFDA/CSFA Number
Student Financial Aid Cluster	Various
Florida Student Financial Assistance Cluster	Various

8. The threshold for distinguishing type A and B programs was \$300,000.
9. The College was determined not to be a low risk auditee.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**NONE**

**FLAGLER COLLEGE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS –**  
**FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)**  
**YEAR ENDED JUNE 30, 2011**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS AUDITS**

**CURRENT YEAR**

**11-1 – Florida Department of Education – Student Financial Aid Assistance Cluster – Florida Medallion Scholars Award (FMSA), CSFA No. 48.059**

**Condition - Return of Funds**

During the performance of our audit procedures, we noted one student in our sample receiving the FMSA who received an award based on a number of credits taken which was greater than the number credits the student was enrolled for.

**Criteria**

Students eligible for the FMSA are to receive a grant equal to \$94 per credit hour enrolled. If classes are added or dropped, the awards must be adjusted accordingly.

**Questioned Costs**

\$282 needs to be returned to the Florida Department of Education.

**Cause of Condition:**

The error was caused by an oversight of the financial aid office.

**Auditors' Recommendation**

We recommend the College implement procedures to assure all awards are calculated correctly, and refunds are properly returned in a timely manner in accordance with state statutes.

**Management's Response**

The College acknowledges the oversight in failing to adjust the Florida Medallion Scholarship award due to the student dropping a course during the fall semester, 2010-11. The College will return \$282 to the Florida Medallion Scholarship Program for the 2010-11 school year. The College has reviewed its awarding and review procedures to ensure all awards are calculated correctly and in accordance with state statutes and refunds are properly returned in a timely manner.

**FLAGLER COLLEGE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS –**  
**FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)**  
**YEAR ENDED JUNE 30, 2011**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS AUDITS (CONTINUED)**

**CURRENT YEAR (CONTINUED)**

**11-2 – Florida Department of Education – Student Financial Aid Assistance Cluster – Florida Private Student Access Grant (FSAG), CSFA No. 48.054**

**Condition – FSAG Eligibility**

During the performance of our audit procedures, we noted one student in our sample who received the FSAG, but did not meet the eligibility requirements for the award due to insufficient financial need.

**Criteria**

The FSAG is a need-based grant program available to degree-seeking, resident, undergraduate students who demonstrate substantial financial need.

**Questioned Costs**

\$900 needs to be returned to the Florida Department of Education.

**Cause of Condition:**

The error was caused by an incorrect expected family contribution (EFC) amount used in the student's financial award packaging.

**Auditors' Recommendation**

We recommend the College review its awarding and review procedures to ensure all awards are calculated correctly and in accordance with state statutes.

**Management's Response**

The College acknowledges the oversight in awarding FSAG funds in error to an ineligible student. The College will return \$900 to the State of Florida FSAG Program for the fall semester of the 2010-11 school year. The College has reviewed its awarding and review procedures to ensure all awards are calculated correctly and in accordance with state statutes and refunds are properly returned in a timely manner.

**FLAGLER COLLEGE, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS –**  
**FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)**  
**YEAR ENDED JUNE 30, 2011**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AND STATE FINANCIAL ASSISTANCE PROJECTS AUDITS (CONTINUED)**

**PRIOR YEAR**

**10-1 – Florida Department of Education – Student Financial Aid Assistance Cluster - Gold Seal Vocational Scholars Award – CSFA No. 48.059**

**Condition**

During the 2010 audit, 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.

**Current Status**

No instances of noncompliance identified during the 2011 audit.