

FLORIDA GULF COAST UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2012



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2011-12 fiscal year are listed below:

Robbie Roepstorff, Vice Chair from 2-01-12
to 6-27-12, Chair from 6-28-12
Joseph Catti, Vice Chair from 6-28-12
Larry D. Hart, Vice Chair to 1-31-12,
Chair from 2-01-12 to 6-13-12 (1) (2)
Scott F. Lutgert, Chair to 1-31-12
Peter Cuderman from 4-01-12 (3)
Ann Hamilton
Dr. Douglas Harrison from 8-01-11 (4)
Dr. Chuck Lindsey to 7-31-11 (4)
Dr. John Little from 8-31-11 (5)
Dorene McShea
Edward Morton
Russell Priddy
Lauren Schuetz to 3-31-12 (3)
Doug St. Cerny
Robert Wells

Dr. Wilson G. Bradshaw, President

Notes: (1) Board chair position vacant from June 14, 2012,
to June 27, 2012.
(2) Position remained vacant through June 30, 2012.
(3) Student body president.
(4) Faculty Senate Chair
(5) Position was vacant from July 1, 2011, through
August 30, 2011.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was William D. Foster, CPA, and the audit was supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**FLORIDA GULF COAST UNIVERSITY
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the University's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether Florida Gulf Coast University and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represents 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Gulf Coast University and of its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Florida Gulf Coast University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
February 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

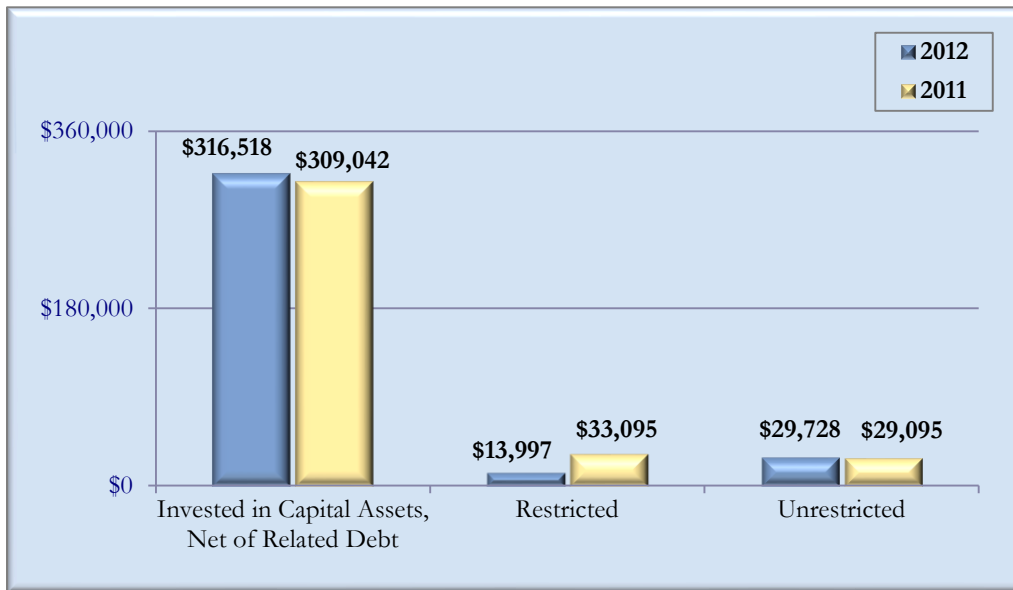
FINANCIAL HIGHLIGHTS

The University's assets totaled \$595.2 million at June 30, 2012. This balance reflects a \$14.1 million, or 2.3 percent, decrease as compared to the 2010-11 fiscal year primarily resulting from a reduced level of State capital appropriations. The \$1.7 million of State capital appropriations for new capital construction was not sufficient to offset capital asset depreciation of \$12.7 million. Liabilities also decreased by a lesser amount of \$3.1 million, or 1.3 percent, totaling \$235 million at June 30, 2012, compared to \$238.1 million at June 30, 2011. The decrease was due primarily to a drop in construction contracts payable of \$3.9 million. As a result, the University's net assets decreased by \$11 million, resulting in a year-end balance of \$360.2 million.

The University's revenues totaled \$170.9 million for the 2011-12 fiscal year, representing an 11.3 percent decrease from the 2010-11 fiscal year primarily due to declines in State noncapital and capital appropriations, as well as the elimination of the State Fiscal Stabilization funds received as appropriations for the 2010-11 fiscal year. Operating expenses totaled \$169.9 million for the 2011-12 fiscal year, representing an increase of 6.2 percent over the 2010-11 fiscal year due mainly to increases in compensation and employee benefits and services and supplies. The increase in compensation and employee benefits reflects a substantial rise in costs for post-employment healthcare benefits administered by the State Group Health Insurance Program. Services and supplies increased due to the capitalization threshold change.

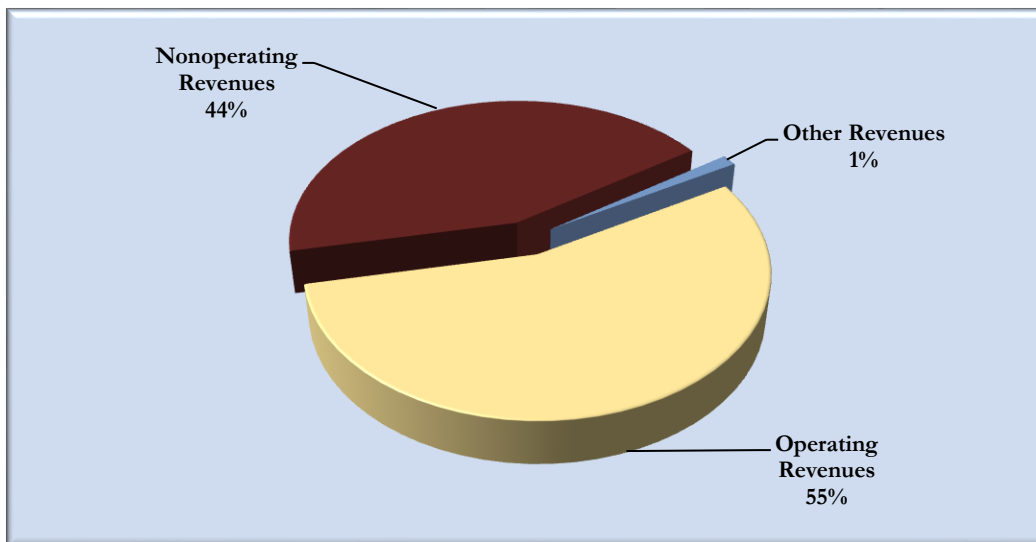
Net assets represent the residual interest in the University's assets after deducting liabilities. The University's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

**Net Assets
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2011-12 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University’s financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. Based upon the application of the criteria for determining component units, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University reporting entity as a blended component unit, and the Florida Gulf Coast University Foundation, Inc. (Foundation), is included within the University reporting entity as a discretely presented component unit. This MD&A focuses on the University, excluding the discretely presented component unit. MD&A information regarding the Corporation and Foundation component units can be found in

their separately issued audit reports. Information regarding these component units is presented in the notes to financial statements.

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. The difference between total assets and total liabilities, or net assets, is one indicator of the University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, liabilities, and net assets at June 30:

	2012	2011
Assets		
Current Assets	\$ 57,791	\$ 72,256
Capital Assets, Net	515,434	488,892
Other Noncurrent Assets	21,968	48,162
Total Assets	595,193	609,310
Liabilities		
Current Liabilities	18,634	22,085
Noncurrent Liabilities	216,316	215,993
Total Liabilities	234,950	238,078
Net Assets		
Invested in Capital Assets, Net of Related Debt	316,518	309,042
Restricted		
Debt Service	6,374	6,321
Loans	362	430
Capital Projects	3,601	22,616
Other	3,660	3,728
Unrestricted	29,728	29,095
Total Net Assets	\$ 360,243	\$ 371,232

The University's financial position, as a whole, decreased slightly during the fiscal year ended June 30, 2012, with a reduction of net assets in the amount of \$11 million, or 3 percent, from the 2010-11 fiscal year. The \$7.5 million growth in invested in capital assets, net of related debt was not sufficient to offset the impact of the \$19 million fall in restricted capital projects. While the change predicates a slowdown in new capital construction, the University continues to experience sound overall financial condition and health.

Total assets decreased \$14.1 million primarily from a net reduction of \$18.8 million associated with capital asset activity. The majority of the reductions in current and other noncurrent assets are from the utilization of resources to complete several capital projects. The shift of these assets into capital assets, however, was offset by reductions in capital assets of \$12.7 for annual depreciation and a one-time write off of \$6.1 million to reflect a change in the capitalization threshold from \$1,000 to \$5,000.

Total liabilities decreased \$3.1 million, primarily from a net reduction of \$7.7 million associated with capital asset activity from decreases of \$3.9 million in construction contracts payable and \$3.8 million in bond principle payments. Noncapital related liabilities increased \$4.5 million primarily from \$4.2 million of accruals of postemployment health care benefits and compensated absences payables. The change in the University’s net assets is determined by subtracting the decrease in total liabilities from the decrease in total assets. Net assets include \$1 million restricted by the covenants of the Series 2009A bond reimbursement agreement and \$5.4 million in the required debt service reserve accounts for Capital Improvement Revenue Bonds Series 2010A, 2010B, and 2011A.

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

The statement of revenues, expenses, and changes in net assets presents the University’s revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University’s activity for the 2011-12 and 2010-11 fiscal years:

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets
For the Fiscal Years
(In Thousands)**

	2011-12	2010-11
Operating Revenues	\$ 94,242	\$ 86,427
Less, Operating Expenses	169,860	160,015
Operating Loss	(75,618)	(73,588)
Net Nonoperating Revenues	62,584	74,548
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(13,034)	960
Other Revenues, Expenses, Gains, or Losses	2,045	27,370
Net Increase (Decrease) In Net Assets	(10,989)	28,330
Net Assets, Beginning of Year	371,232	342,902
Net Assets, End of Year	\$ 360,243	\$ 371,232

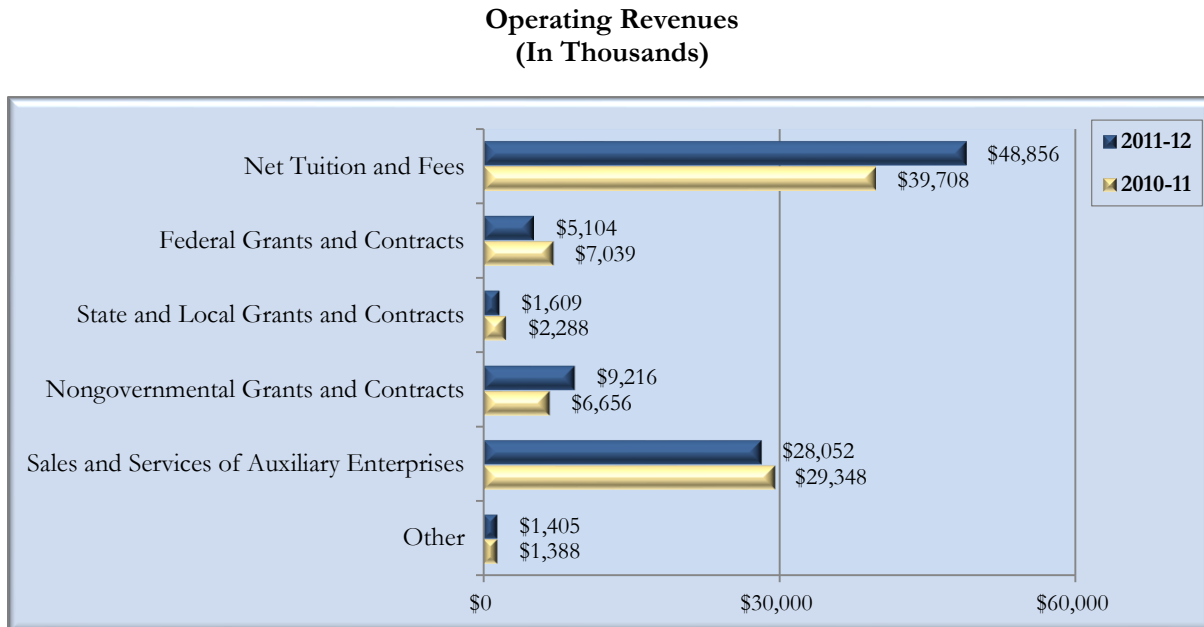
Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. Operating revenues generally consist of student tuition and fees, grants and contracts, and auxiliary service revenues from students and others to provide them with instruction and other goods and services.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2011-12 and 2010-11 fiscal years:

Operating Revenues (In Thousands)		
	2011-12	2010-11
Net Tuition and Fees	\$ 48,856	\$ 39,708
Federal Grants and Contracts	5,104	7,039
State and Local Grants and Contracts	1,609	2,288
Nongovernmental Grants and Contracts	9,216	6,656
Sales and Services of Auxiliary Enterprises	28,052	29,348
Other	1,405	1,388
Total Operating Revenues	\$ 94,242	\$ 86,427

The following chart presents the University’s operating revenues for the 2011-12 and 2010-11 fiscal years:



University operating revenue changes were the result of the following factors:

Total operating revenues for the 2011-12 fiscal year were \$94.2 million, of which \$48.9 million were from net student tuition and fees. A tuition allowance, which represents the difference between the stated charges for goods and services provided by the University and the amount that is actually paid by a student or third party making payment on behalf of a student, totaled \$23.7 million. Its reduction of gross fees of \$72.6 million resulted in net student tuition and fees of \$48.9 million, which represents an increase of \$9.1 million, or 23 percent, over the 2010-11 fiscal year. Increased student enrollment and higher tuition and fee rates comprise approximately 16.5 percent of the increase. The remaining 6.5 percent is the result of a reclassification of \$2.6 million of student parking fees from sales and services of auxiliary enterprises to more appropriately categorize student fees.

Federal grants and contracts experienced a decrease of \$1.9 million offset with an increase in non-Federal grants and contracts of \$1.9, because of the timing of the number and size of grants received through the Office of Research and Sponsored Programs. Sales and services of auxiliary enterprises reflect a \$1.3 million decrease over the 2010-11 fiscal

year primarily from the reclassification of \$2.6 million of student parking fees to tuition and fees to more appropriately categorize student fees.

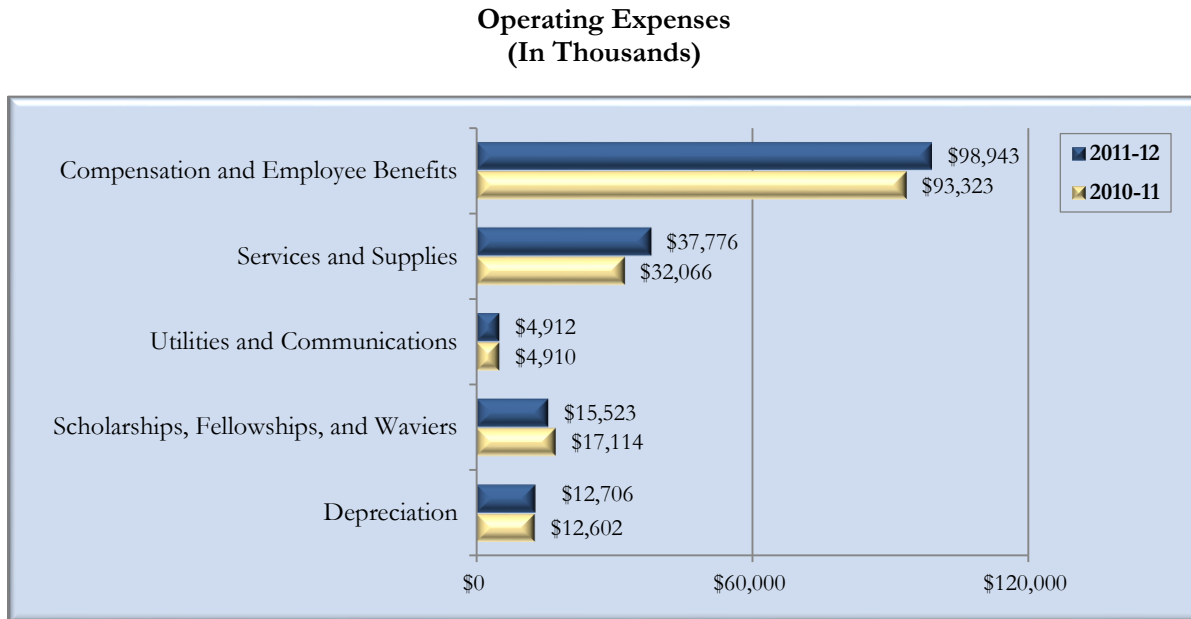
Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2011-12 and 2010-11 fiscal years:

Operating Expenses (In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
Compensation and Employee Benefits	\$ 98,943	\$ 93,323
Services and Supplies	37,776	32,066
Utilities and Communications	4,912	4,910
Scholarships, Fellowships, and Waivers	15,523	17,114
Depreciation	12,706	12,602
Total Operating Expenses	<u>\$ 169,860</u>	<u>\$ 160,015</u>

The following chart presents the University’s operating expenses for the 2011-12 and 2010-11 fiscal years:



University operating expense changes were the result of the following factors:

Total operating expenses for the 2011-12 fiscal year were \$169.9 million, an increase of \$9.8 million, or 6.2 percent, over the 2010-11 fiscal year. Compensation and employee benefits increased \$5.6 million, or 6 percent, primarily from a substantial rise in compensated absences and post-employment benefit accruals as well as a mid-year salary increase of 2 percent. Services and supplies increased \$5.7 million of which \$2.4 million is attributable to an increase

in contractual expenses supporting non-Federal grants and contracts. The remaining difference is attributed to the change in capitalization threshold. Scholarships, fellowships, and waivers decreased by \$1.6 million. The reduction of \$1.6 million in State financial aid awards was due to changes in the eligibility and renewal criteria for all Bright Futures programs. While Federal Pell Grants increased \$1.5 million, reductions of Federal grants and contracts of \$0.9 million were experienced due to the elimination of the Academic Competitive Grant and the National SMART Grant. A net \$0.1 million increase in depreciation resulted from the addition of new capital assets during the year offset with reductions from the purchase of previously capitalized items that are now expensed as services and supplies.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses)		
(In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
State Noncapital Appropriations	\$ 45,899	\$ 46,836
Federal and State Student Financial Aid	25,519	26,714
State Appropriated American Recovery and Reinvestment Act Funds		3,429
Investment Income	2,016	1,608
Other Nonoperating Revenues	1,227	240
Interest on Capital Asset-Related Debt	(5,955)	(4,236)
Other Nonoperating Expenses	<u>(6,122)</u>	<u>(43)</u>
Net Nonoperating Revenues	<u>\$ 62,584</u>	<u>\$ 74,548</u>

In response to the continued slow-moving economy during the 2011-12 fiscal year, the University received a decreased level of State noncapital appropriations for strategic initiatives, which include providing funding for enrollment growth. The \$0.9 million reduction in State noncapital appropriations was compounded with a loss of \$3.4 million from the State appropriated American Recovery and Reinvestment Act (ARRA) Funds as the 2010-11 fiscal year was the final year for this supplementation. Federal and State student financial aid decreases of \$1.2 million correspond to the reduction in State funded Bright Futures awards and other Federal financial aid. The increase in other nonoperating expenses results from the implementation of a revision to the capitalization threshold, the effect of which is a \$6.1 million removal of net capital assets with a historical cost between \$1,000 and \$5,000.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

**Other Revenues, Expenses, Gains, or Losses
(In Thousands)**

	2011-12	2010-11
State Capital Appropriations	\$ 1,665	\$ 15,910
Capital Grants, Contracts, Donations, and Fees	380	11,460
Total	\$ 2,045	\$ 27,370

State capital appropriations experienced a decrease of \$14.2 million in funding as compared to the 2010-11 fiscal year. State contributions (appropriations) for capital projects, depending upon the various stages of planning and completion, will fluctuate from year to year; however, the level of State capital appropriations was adversely impacted in the 2011-12 fiscal year by the sustained economic condition of the State of Florida. Capital grants, contracts, donations, and fees also experienced a decrease of \$11.1 million from the 2010-11 fiscal year. The 2010-11 fiscal year included \$11.4 million representing a donation of 505 acres of State-owned land located on Buckingham Road in East Fort Myers, which was incorporated into the University's existing ground lease with the Florida Department of Environmental Protection.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2011-12 and 2010-11 fiscal years:

**Condensed Statement of Cash Flows
(In Thousands)**

	2011-12	2010-11
Cash Provided (Used) by:		
Operating Activities	\$ (58,160)	\$ (60,888)
Noncapital Financing Activities	72,557	77,927
Capital and Related Financing Activities	(37,253)	10,185
Investing Activities	(1,433)	(789)
Net Increase (Decrease) in Cash and Cash Equivalents	(24,289)	26,435
Cash and Cash Equivalents, Beginning of Year	31,726	5,291
Cash and Cash Equivalents, End of Year	\$ 7,437	\$ 31,726

Major sources of funds included in operating activities are net student tuition and fees of \$49.1 million; Federal and State and local grants and contracts of \$15.6 million; and sales and services of auxiliary enterprises of \$35.6 million. Major uses of funds were payments made to and on behalf of employees totaling \$94.4 million; payments to suppliers totaling \$49.6; and payments to and on behalf of students for scholarships and fellowships totaling \$15.5 million. The decrease in cash used from operating activities was due primarily to an increase in net student tuition and fees of

\$9.3 million and sales and services of auxiliary enterprises of \$6.8 million offset by increased payments to suppliers for services and supplies of \$13.9 million.

The largest source of inflow of cash from noncapital financing activities was State noncapital appropriations in the amount of \$45.9 million. Also included in noncapital financing revenues was Federal and State student financial aid of \$25.5 million and Federal direct loan program receipts of \$44.6 million. The major use of funds were Federal direct loan program disbursements of \$44.7 million. The overall decrease of \$5.4 million in cash provided by noncapital financing activities was primarily due to the reduction of State noncapital appropriations of \$1.9 million and State appropriated American Recovery and Reinvestment Act (ARRA) funds of \$3.4 million.

Cash used by capital and related financing activities was \$37.3 million, an increase of \$47.4 million. Cash provided was from State capital appropriations of \$21.3 million offset with \$48.6 million used in the purchase or construction of capital assets and \$9.9 million used for payments of principal and interest on asset related debt.

Cash used by investing activities was \$1.4 million, representing an increase of \$0.6 million primarily resulting from an increase in net purchases of investments.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the University had \$600.3 million in capital assets, less accumulated depreciation of \$84.9 million, for net capital assets of \$515.4 million. Depreciation charges for the current fiscal year totaled \$12.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30 (In Thousands)

	2012	2011
Land	\$ 56,057	\$ 55,971
Buildings	386,896	342,934
Construction in Progress	30,463	43,739
Infrastructure and Other Improvements	20,834	21,691
Furniture and Equipment	17,206	20,989
Library Resources	1,295	1,229
Property Under Capital Leases	224	197
Works of Art and Historical Treasures	2,238	1,803
Other Capital Assets	221	339
Capital Assets, Net	\$ 515,434	\$ 488,892

Additional information about the University's capital assets is presented in the notes to financial statements.

CAPITAL EXPENSES AND COMMITMENTS

The University’s capital commitments at June 30, 2012, are as follows:

	Amount (In Thousands)
Total Committed	\$ 38,419
Completed to Date	<u>(30,463)</u>
Balance Committed	<u>\$ 7,956</u>

Additional information about the University’s capital commitments is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2012, the University had \$203.6 million in outstanding bonds payable, loan payable, and capital leases payable, representing a decrease of \$3.7 million, or 1.8 percent, from the prior fiscal year resulting primarily from debt service principle payments of \$3.8 million. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30 (In Thousands)		
	<u>2012</u>	<u>2011</u>
Bonds Payable	\$ 198,003	\$ 201,850
Loan Payable	5,000	5,000
Capital Leases Payable	<u>571</u>	<u>423</u>
Total	<u>\$ 203,574</u>	<u>\$ 207,273</u>

Additional information about the University’s long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on its financial position or operations during the 2012-13 fiscal year. The University’s financial outlook for the future continues to be positive. The level of State support, compensation and benefit increases, and student tuition and fee increases impact the University’s ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. State noncapital appropriations, as a percentage of operating revenues and nonoperating revenues, represent 27.2 percent of the total of these combined revenues. The level of State support is, therefore, one of the key factors influencing the University’s activities. Financial and political support from State government is expected to remain at lower levels in the short-term until economic conditions improve and will be managed through tuition increases, targeted expenditure reductions, and efficiencies.

The budget that the Florida Legislature adopted for the 2012-13 fiscal year provided \$42.1 million for the University’s State noncapital appropriations, or a decrease of 8.1 percent from the 2011-12 fiscal year. Regarding the University’s legislative priorities, the Legislature did not provide a salary increase for State university employees or additional funding for enrollment growth at State universities.

Another significant factor in the University’s economic position relates to its ability to recruit and retain high quality students. The Fall 2012 enrollment of 13,615 students increased 5.8 percent over the Fall 2011 enrollment of 12,869 students. First time-in-college freshman admission of 2,795 students represents a 7.9 percent increase over the 2011-12 fiscal year. Efforts to improve retention, such as an aggressive marketing plan to recruit qualified students

and enhanced intervention to assist academic success, will help ensure total enrollment continues in a positive trend. In the 2012-13 fiscal year, the University expects an increase in revenue from student tuition and fees due to a combination of increased enrollment and higher student tuition and fee rates. The State has approved and appropriated funds to the University's capital budget for the 2012-13 fiscal year in the amount of \$4.9 million. Public Education Capital Outlay appropriations for the 2012-13 fiscal year are for the Innovation Hub Research Building in the amount of \$4.9 million, and repairs and maintenance in the amount of \$69 thousand.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Mr. Steve Magiera, CPA, Vice President of Administration and Finance, Florida Gulf Coast University, 10501 FGCU Boulevard South, Fort Myers, Florida 33965.

BASIC FINANCIAL STATEMENTS

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2012**

	<u>University</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 374,110	\$ 9,824,847
Investments	51,579,699	
Accounts Receivable, Net	3,092,611	82,595
Loans Receivable	44,520	
Due from State	2,274,770	
Other Current Assets	425,738	3,049
Total Current Assets	<u>57,791,448</u>	<u>9,910,491</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	7,062,630	
Investments		631,103
Restricted Investments	7,880,710	55,219,920
Accounts and Pledges Receivable, Net		796,632
Note Receivable		5,000,000
Real Estate Held for Investment		4,551,500
Depreciable Capital Assets, Net	427,178,794	24,700
Nondepreciable Capital Assets	88,254,688	
Other Noncurrent Assets	7,024,676	
Total Noncurrent Assets	<u>537,401,498</u>	<u>66,223,855</u>
TOTAL ASSETS	<u>\$ 595,192,946</u>	<u>\$ 76,134,346</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 6,823,133	\$ 41,136
Loan Payable		3,000,000
Construction Contracts Payable	2,519,371	
Salaries and Wages Payable	1,583,097	
Deposits Payable	1,116,421	
Deferred Revenue	2,048,557	
Other Current Liabilities		3,049
Long-Term Liabilities - Current Portion:		
Bonds Payable	3,860,000	
Capital Leases Payable	138,505	
Compensated Absences Payable	544,742	
Gift Annuities Payable		20,447
Total Current Liabilities	<u>18,633,826</u>	<u>3,064,632</u>

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	University	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 194,143,490	\$
Loan Payable	5,000,000	4,000,000
Capital Leases Payable	432,014	
Compensated Absences Payable	7,600,762	
Other Postemployment Benefits Payable	9,140,000	
Gift Annuities Payable		221,723
	216,316,266	4,221,723
Total Noncurrent Liabilities		
	216,316,266	4,221,723
TOTAL LIABILITIES	234,950,092	7,286,355
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	316,518,157	24,700
Restricted for Nonexpendable:		
Endowment		51,031,361
Restricted for Expendable:		
Debt Service	6,374,366	
Loans	361,613	
Capital Projects	3,600,464	
Other	3,660,044	12,479,712
Unrestricted	29,728,210	5,312,218
	360,242,854	68,847,991
TOTAL NET ASSETS		
	360,242,854	68,847,991
TOTAL LIABILITIES AND NET ASSETS	\$ 595,192,946	\$ 76,134,346

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	University	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$23,682,282. (\$2,601,721 Pledged for Parking Facility Capital Improvement Debt)	\$ 48,855,875	\$
Federal Grants and Contracts	5,104,001	
State and Local Grants and Contracts	1,609,331	
Nongovernmental Grants and Contracts	9,215,804	
Sales and Services of Auxiliary Enterprises (\$444,967 Pledged for Parking Facility Capital Improvement Debt, \$23,112,660 Pledged for the Housing Facility Capital Improvement Debt, and \$1,497,023 Pledged for Student Services Capital Improvement Debt)	28,052,114	
Gifts and Donations		5,171,493
Rental Income Other		1,416,491
Other Operating Revenues	1,404,913	
Total Operating Revenues	94,242,038	6,587,984
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	98,942,448	
Services and Supplies	37,775,597	
Utilities and Communications	4,912,124	
Scholarships, Fellowships, and Waivers	15,523,397	1,286,270
Depreciation	12,706,325	7,504
General and Administrative		1,112,948
University Support		1,716,558
Program Services		4,492,740
Total Operating Expenses	169,859,891	8,616,020
Operating Loss	(75,617,853)	(2,028,036)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	45,898,951	
Federal and State Student Financial Aid	25,519,527	
Investment Income (Loss)	2,015,623	(497,774)
Other Nonoperating Revenues	1,227,231	
Interest on Capital Asset-Related Debt	(5,955,118)	(186,119)
Other Nonoperating Expenses	(6,121,961)	
Net Nonoperating Revenues (Expenses)	62,584,253	(683,893)
Loss Before Other Revenues, Expenses, Gains, or Losses	(13,033,600)	(2,711,929)
State Capital Appropriations	1,665,234	
Capital Grants, Contracts, Donations, and Fees	379,577	1,420,061
Decrease in Net Assets	(10,988,789)	(1,291,868)
Net Assets, Beginning of Year	371,231,643	70,139,859
Net Assets, End of Year	\$ 360,242,854	\$ 68,847,991

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 49,053,173
Grants and Contracts	15,608,021
Sales and Services of Auxiliary Enterprises	35,551,901
Other Operating Receipts	1,167,951
Payments to Employees	(94,449,965)
Payments to Suppliers for Goods and Services	(49,567,939)
Payments to Students for Scholarships and Fellowships	(15,523,397)
Net Loans Issued to Students	629
	(58,159,626)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	45,898,951
Federal and State Student Financial Aid	25,519,527
Federal Direct Loan Program Receipts	44,617,654
Federal Direct Loan Program Disbursements	(44,669,370)
Net Change in Funds Held for Others	(36,833)
Other Receipts	1,227,231
	72,557,160
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	21,316,266
Purchase or Construction of Capital Assets	(48,640,858)
Principal Paid on Capital Debt and Leases	(3,973,499)
Interest Paid on Capital Debt and Leases	(5,955,118)
	(37,253,209)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	138,252,037
Purchase of Investments	(141,258,765)
Investment Income	1,573,063
	(1,433,665)
Net Decrease in Cash and Cash Equivalents	(24,289,340)
Cash and Cash Equivalents, Beginning of Year	31,726,080
Cash and Cash Equivalents, End of Year	\$ 7,436,740

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (75,617,853)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	12,706,325
Change in Assets and Liabilities:	
Receivables, Net	7,619,174
Other Current Assets	(7,450,414)
Accounts Payable	555,220
Salaries and Wages Payable	317,902
Deposits Payable	(823,305)
Compensated Absences Payable	653,580
Deferred Revenue	358,745
Other Postemployment Benefits Payable	3,521,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (58,159,626)

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND
CAPITAL FINANCING ACTIVITIES**

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 412,118
Expenses from the change in capitalization threshold for tangible personal property were recognized as other nonoperating expenses on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (6,075,798)

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

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

Blended Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University's reporting entity as a blended component unit. The Corporation was incorporated on April 11, 2003, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is a direct-support organization of the University. The Corporation was established to receive, hold, invest, and administer property and to make expenditures for the exclusive benefit of the University. Due to the substantial economic relationship between the Corporation and the University, the financial activities of the Corporation are included in the University's financial statements. An annual audit of the Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Corporation, including copies of audit reports, is available by contacting the University Controller's Office.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Foundation, Inc. (Foundation), as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, is included within the University's reporting entity as a discretely presented component unit. The Foundation was incorporated on April 19, 1993, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is a direct-support organization of the University. Its purpose is to encourage, solicit, collect, receive, and administer gifts and bequests of property and funds for scientific, educational, and charitable purposes, all for the advancement of the University and its

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

objectives. An annual audit of the Foundation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Foundation, including copies of audit reports, is available by contacting the University Controller's Office.

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

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's blended and discretely presented component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting.

The University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has elected to apply those FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents - University. Cash and cash equivalents consist of cash on hand, cash in demand accounts, and amounts held by a trustee for the Florida Gulf Coast University Financing Corporation (Corporation). University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

The amount reported as restricted cash and cash equivalents for the University at June 30, 2012, includes at fair value \$6,548,582 of Corporation moneys held in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The Corporation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Cash and Cash Equivalent – Component Unit. The amount reported as restricted cash and cash equivalents for the Foundation (discretely presented component unit) at June 30, 2012, includes \$3,160,205 of bank deposits of which \$492,565 is insured by the Federal deposit insurance with the remainder of \$2,667,640 collateralized under the Florida Public Deposits Program. The Foundation also had cash held on deposit with investment managers at June 30, 2012, totaling \$1,382,422, of which \$631,944 was covered by the Securities Investor Protection Corporation, and \$750,478 was uninsured and uncollateralized.

Cash and cash equivalents reported for the Foundation at June 30, 2012, also includes at fair value \$5,282,020 of Foundation moneys held in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The Foundation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Capital Assets. University capital assets consist of land; construction in progress; buildings; infrastructure and other improvements; furniture and equipment; library resources; property under capital lease; works of art and historical treasures; and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*, effective July 1, 2011, revising the capitalization threshold for tangible personal property. The revision was intended to achieve administrative efficiencies and cost savings by increasing the capitalization threshold of tangible personal property from \$1,000 to \$5,000. Previously capitalized tangible personal property costing between \$1,000 and \$5,000 and related accumulated depreciation were written off during the 2011-12 fiscal year. The adjustment column in the capital assets note disclosure shows the change by category resulting from the increase in the threshold.

The change in the threshold resulted in a \$6,075,798 other nonoperating expense in the statement of revenues, expenses and changes in net assets. This is a nonrecurring, noncash item and has been reported in the supplemental disclosure of noncash capital and related financing and investing activities section of the statement of cash flows.

The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 35 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment:

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

- Equipment (Other than Moveable) – 10 to 25 years
- Computer Equipment – 3 to 6 years
- Moveable Equipment – 5 to 20 years
- Library Resources – 10 years
- Property Under Capital Lease – 5 to 8 years
- Works of Art and Historical Treasures – 20 years
- Other Capital Assets – 4 to 10 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, loan payable, capital leases payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the State Board of Administration (SBA); interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Of the reported investments, \$1 million is restricted by the covenants of the bond reimbursement agreement for the Capital Improvement Revenue Bonds, Series 2008A and \$5,374,366 for debt service reserve accounts for the Series 2010A, 2010B, and 2011A bonds. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

External Investment Pools

The University reported investments at fair value totaling \$59,460,409 at June 30, 2012, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Component Unit Investments

Investments held by the University's discretely presented component unit (Foundation) at June 30, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Government and Federal Agency Obligations	\$ 2,914,196
Bonds, Notes and Other Debt Securities	4,584,884
Stocks and Other Equity Securities	9,944,461
Mutual Funds	32,818,615
Other Investments	5,588,867
Total Component Unit Investments	\$ 55,851,023

The Foundation's investment policy allows for investments in equity securities traded on the three principal United States Stock Exchanges (NYSE, AMEX, and NASDAQ), and the Foundation only purchases securities of companies with at least a market capitalization of \$1 billion. For fixed income instruments, the Foundation's policy allows investments in bonds issued by the United States Government and an agency of the United States Government, public traded corporations or their affiliates, taxable municipal bonds, preferred stocks, and real estate investment trusts.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit debt obligation maturities. The Foundation's investments in debt securities at June 30, 2012, are reported at fair value as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>Over 10 Years</u>
United States Government and Federal Agency Obligations	\$ 2,914,196	\$ 1,191	\$ 1,383,798	\$ 796,645	\$ 732,562
Bonds, Notes, and Other Debt Securities	4,584,884	144,591	1,709,398	2,001,247	729,648
Total	\$ 7,499,080	\$ 145,782	\$ 3,093,196	\$ 2,797,892	\$ 1,462,210

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligation. As required by the Foundation's investment policy, all corporate bond issues are rated BAA or BBB or better by Moody's or Standard & Poor's rating services, respectively. The Foundation's mutual funds are not rated by a nationally recognized statistical rating organization.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the component unit and not registered in their names. The Foundation utilizes the services of an investment advisor and several investment managers. All

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

investments, except for certificates of deposit and debt securities, are held by the investment managers and are uninsured and unregistered, with securities held by the counter-party’s trust department or agent in the Foundation’s name. The Foundation has \$7,499,080 in debt securities, of which \$2,382,313 is held by the investment managers and is uninsured and unregistered, with securities held by the counter-party’s trust department or agent in the Foundation’s name. The Foundation’s mutual fund investments totaling \$32,818,615 at June 30, 2012, are not exposed to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form. There were no losses during the period due to default by counter-parties to investment transactions.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the component unit’s investment in a single issuer. The Foundation’s investment policy limits investment in a single corporation’s stock to 10 percent of the market value of each of its equity manager’s portfolio, and also limits investments in debt securities of a single corporate issue to 10 percent of the market value of each of its fixed income manager’s portfolio.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2012, the University reported the following amounts as accounts receivable:

Description	Amount
Contracts and Grants	\$ 1,946,678
Student Tuition and Fees	1,025,935
Other	119,998
Total Accounts Receivable, Net	\$ 3,092,611

Loans Receivable. Loans receivable consist of short-term loans made to students pending the receipt of student financial aid. University management considers these loans to be fully collectible.

Allowance for Doubtful Receivables. Allowances for doubtful accounts receivable are reported based on management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable are reported net of allowances of \$846,332 at June 30, 2012.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

4. DUE FROM STATE

This amount consists of \$2,274,770 due from the State from Public Education Capital Outlay funds for construction of University facilities.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 55,970,708	\$	\$ 85,909	\$	\$ 56,056,617
Works of Art and Historical Treasures	1,763,158	48,100	20,300		1,735,358
Construction in Progress	43,738,766		44,102,747	57,378,800	30,462,713
Total Nondepreciable Capital Assets	\$ 101,472,632	\$ 48,100	\$ 44,208,956	\$ 57,378,800	\$ 88,254,688
Depreciable Capital Assets:					
Buildings	\$ 384,671,095	\$ 7,794	\$ 52,658,756	\$ 36,692	\$ 437,285,365
Infrastructure and Other Improvements	28,245,361	46,491	137,982		28,336,852
Furniture and Equipment	43,751,515	15,111,196	4,689,651	409,264	32,920,706
Library Resources	9,590,773	190	289,645		9,880,228
Property Under Capital Leases	1,671,342		274,917		1,946,259
Works of Art and Historical Treasures	43,206	12,410	488,525		519,321
Other Capital Assets	1,379,517	163,185		22,951	1,193,381
Total Depreciable Capital Assets	469,352,809	15,341,266	58,539,476	468,907	512,082,112
Less, Accumulated Depreciation:					
Buildings	41,736,520	4,731	8,672,435	14,924	50,389,300
Infrastructure and Other Improvements	6,554,173	25,579	973,766		7,502,360
Furniture and Equipment	22,763,366	9,152,112	2,496,881	393,023	15,715,112
Library Resources	8,361,504	72	224,211		8,585,643
Property Under Capital Leases	1,474,367		247,376		1,721,743
Works of Art and Historical Treasures	3,440	1,965	15,167		16,642
Other Capital Assets	1,040,616	129,109	76,489	15,478	972,518
Total Accumulated Depreciation	81,933,986	9,313,568	12,706,325	423,425	84,903,318
Total Depreciable Capital Assets, Net	\$ 387,418,823	\$ 6,027,698	\$ 45,833,151	\$ 45,482	\$ 427,178,794

Note: (1) The adjustments to capital assets totaling \$6,075,798 are the result of a change in the capitalization threshold for tangible personal property from \$1,000 to \$5,000, effective July 1, 2011. See Note No. 1 - Summary of Accounting Policies.

6. DEFERRED REVENUE

Deferred revenue consists of grants and contracts received prior to fiscal year-end related to subsequent accounting periods.

7. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2012, include bonds payable, loan payable, capital leases payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 201,850,088	\$	\$ 3,846,598	\$ 198,003,490	\$ 3,860,000
Loan Payable	5,000,000			5,000,000	
Capital Leases Payable	422,502	274,918	126,901	570,519	138,505
Compensated Absences Payable	7,491,924	1,338,648	685,068	8,145,504	544,742
Other Postemployment Benefits Payable	5,619,000	3,647,000	126,000	9,140,000	
Total Long-Term Liabilities	\$ 220,383,514	\$ 5,260,566	\$ 4,784,567	\$ 220,859,513	\$ 4,543,247

Revenue Bonds Payable. Capital Improvement Revenue Bonds were issued to construct University facilities, including parking garages and student housing facilities. Capital Improvement Revenue Bonds outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and an assessed transportation fee based on credit hours.

In prior years, the Florida Gulf Coast University Financing Corporation (Corporation) issued Capital Improvement Revenue Bonds, Series 2003, 2005A, 2007A, 2008A, 2010A, 2010B, and 2011A to construct or purchase student housing facilities, Series 2007B to construct and equip an addition to the Student Union Facility, and Series 2005B, 2007C, and 2009A to construct student parking garages.

The University has entered into a Master Ground and Operating Lease Agreement with the Corporation. The University leases land to the Corporation for a rental fee of \$1 per year. The land covered by the ground lease together with the improvements thereon is leased back to the University to manage and operate. The master lease will terminate on the date on which the revenue bonds and any related obligations are paid in full. Revenue from the student residence facilities and parking facilities is pledged to pay rent to the Corporation or its assignees equal to the debt service on the revenue bonds. During the 2011-12 fiscal year, parking facilities rental and fee income, student residence rental income, and student union facilities sales and services totaled \$3,046,688, \$23,112,660, and \$1,497,023, respectively.

The University had the following bonds payable outstanding at June 30, 2012:

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Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Revenue Bonds:				
2003 Student Residences (Phase VI)	\$ 47,500,000	\$ 41,320,000	4.00 - 5.00	2034
2005A Student Residences (Phase VII)	8,000,000	7,000,000	.17 (2)	2035
2005B Student Parking (Phase I)	6,000,000	5,200,000	.17 (2)	2035
2007A Student Residences Phase VIII	25,000,000	23,577,497	4.00 - 5.00	2037
2007B Student Union (Facility)	6,000,000	5,600,000	.30 (2)	2037
2007C Student Parking (Phase II)	10,000,000	9,063,913	4.00 - 4.75	2037
2008A Student Residences (Phase IX)	22,000,000	20,725,000	.16 (2)	2038
2009A Student Parking (Phase III)	8,000,000	7,665,000	.16 (2)	2039
2010A Student Housing (Phase X)	32,000,000	31,260,909	3.00 - 5.50	2040
2010B Student Housing (Phase XI)	17,000,000	16,625,929	2.00 - 5.00	2040
2011A Student Housing (Phase XII)	30,000,000	29,965,242	4.00 - 5.50	2041
Total Auxiliary Revenue Bonds	\$ 211,500,000	\$ 198,003,490		

Notes: (1) Amount outstanding includes unamortized bond discounts and premiums.
 (2) Variable interest rate at June 30, 2012.

Annual requirements to amortize all capital improvement revenue bonds outstanding as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	3,860,000	7,082,687	10,942,687
2014	4,565,000	6,978,662	11,543,662
2015	4,820,000	6,847,737	11,667,737
2016	5,070,000	6,708,241	11,778,241
2017	5,135,000	6,562,281	11,697,281
2018-2022	29,490,000	30,147,756	59,637,756
2023-2027	36,100,000	24,634,961	60,734,961
2028-2032	45,510,000	17,389,881	62,899,881
2033-2037	45,425,000	8,651,032	54,076,032
2038-2041	17,890,000	1,902,848	19,792,848
Subtotal	197,865,000	116,906,086	314,771,086
Net Discounts and Premiums	138,490		138,490
Total	\$ 198,003,490	\$ 116,906,086	\$ 314,909,576

Loans Payable. On March 27, 2006, the Florida Gulf Coast University Financing Corporation (Corporation) entered into a Tax Exempt Note, Series 2005, in the amount of \$5 million. The Corporation drew the entire \$5 million to purchase land for the purpose of establishing a Naples Center which reflects the outstanding balance of the loan at June 30, 2012. Principal payments are equal to all funds collected by the Foundation pursuant to a capital campaign of the Florida Gulf Coast University Naples Center Project. The obligations under the loan are

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secured solely by the assignment of the capital campaign. As of June 30, 2012, the Foundation had raised \$1 million of the \$5 million capital campaign toward this project. Interest is assessed on the difference between the \$5 million borrowed and the donations collected reduced by the amount of interest income earned during the year on the donations. Net capitalized interest expense for the year ended June 30, 2012, was \$85,908. A schedule of future minimum payments remaining under the loan agreement cannot be amortized due to the unknown timing of capital campaign pledges and receipt of such pledges. The maturity date of the loan and all indebtedness outstanding was amended on April 1, 2010, and becomes due on or before March 31, 2014.

On February 1, 2011, the University entered into a non-interest bearing loan and hold harmless agreement with the Financing Corporation in the amount of \$3,800,000. The proceeds of the loan were used to purchase approximately 12.7 acres of buildable property from Miromar Lakes, LLC adjacent and contiguous to the northwest corner of the University campus. The loan is due on demand but no later than February 1, 2016 and is uncollateralized.

On May 3, 2011, the University entered into a non-interest bearing loan and hold harmless agreement with the Financing Corporation, in the amount of \$8,000,000. The proceeds of the loan were used to purchase approximately 24 acres of buildable property adjacent to the west side of the existing West Lake Village Student Residence (Phase XI) located approximately one mile northwest from the University Campus. The Financing Corporation made available \$5,000,000 to the University on May 3, 2011, with two additional payments each in the amount of \$1,500,000 to be paid one year from the date of closing and the second payment to be paid two years from the date of closing. On June 9, 2011, the University entered into a Satisfaction of Mortgage and Security Agreement in the amount of \$2,760,000 as payment in full on the Promissory Note and Mortgage on the original principal amount of \$3,000,000. At June 30, 2011, the early payoff reduced the loan and hold harmless agreement by the amount of \$240,000 leaving the balance of the loan in the amount of \$7,760,000. The loan is due on demand but no later than May 3, 2018, and is uncollateralized.

The Financing Corporation reports these two loans as loans receivable on its separately issued financial statements. Because the financial activity of the Financing Corporation is blended with the financial activity of the University for University reporting purposes, these transactions offset each other and do not appear in the University's financial statements.

Loans Payable – Component Unit. The Foundation borrowed \$5,000,000 to assist a related entity to acquire real estate in Naples, Florida. The line of credit bears interest at 65 percent of the bank's prime rate minus 50 basis points (1.7875 percent at June 30, 2012) which is payable quarterly. Principal payments are made when donations are received for this project. This line of credit was renewed and reduced to \$4,000,000 in 2009. On June 30, 2012, the outstanding balance of this line of credit was \$4,000,000. The interest rate on the renegotiated note remains at 65 percent of prime and is due quarterly, with the principal due at October 1, 2013. The Foundation has pledged the \$5,000,000 loan receivable and certain negative pledge agreements and other pledge receivables as collateral for the line of credit. In addition the related party has guaranteed repayment of the line of credit.

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On July 27, 2007, the Foundation secured a \$3,000,000 five year loan from Northern Trust Bank at a fixed rate of 4.28 percent to purchase the Marine Science and Environmental Education Center property. On March 25, 2009, the Foundation entered into an agreement with Northern Trust Bank to lower the fixed rate on the note from 4.28 percent to 3.61 percent. This agreement involved converting the 4.28 percent fixed rate note to a variable rate note, and simultaneously entering into an interest rate swap agreement to swap the variable rate note to a 3.61 percent fixed rate note. The Foundation was granted a 90-day extension on the loan and it now matures on October 31, 2012.

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Loans Payable	\$ 7,000,000	\$	\$	\$ 7,000,000	\$ 3,000,000

Debt service requirements of the loans are as follows:

Year Ending June 30	Mortgage Note		Line of Credit		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 3,000,000	\$ 36,100	\$	\$ 71,500	\$ 3,000,000	\$ 107,600
2014			4,000,000	17,875	4,000,000	17,875
Total	\$ 3,000,000	\$ 36,100	\$ 4,000,000	\$ 89,375	\$ 7,000,000	\$ 125,475

Interest Rate Swap Agreement – Component Unit. The effect of the interest rate swap agreement is to reduce the interest rate from a variable rate to a fixed rate. Under the interest rate swap agreement, the Foundation pays Northern Trust a fixed rate of 3.61 percent and receives a variable payment computed as 65 percent of the three-month London Interbank Offered Rate (LIBOR) plus 2.13 percent. The interest rate swap agreement has notational amount of \$3,000,000 and the associated variable rate note has a \$3,000,000 principal amount.

Terms. The interest rate swap agreement and the note both mature on August 1, 2012. The interest rate swap agreement was not renewed. The variable rate swap for \$3,000,000 was granted a 90-day extension pending negotiations of a long-term note with Northern Trust to refinance the obligation. As of June 30, 2012, the rates were as follows:

Description	Terms	Rate
Fixed Payment to Northern Trust	Fixed	3.61%
Variable Payment from Northern Trust	65 Percent (3M LIBOR) + 2.13 Percent	2.43%

Fair Value. The interest rate swap agreement is a fully effective cash flow hedge. As of June 30, 2012, the interest rate swap agreement has a negative fair value of \$3,049 reported on the balance sheet as other current assets. For the year ended June 30, 2012, the change in fair value of the interest rate swap agreement decreased by \$37,192. This fair value is the future net settlement payments required by the interest rate swap agreement, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates.

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Credit Risk. As of June 30, 2012, the Foundation was not exposed to credit risk because the interest rate swap agreement had a negative fair value. The counterparty to the interest rate swap agreement, Northern Trust, was rated AA- by Standard & Poor’s as of June 30, 2012.

Swap Payments and Associated Debt. Using rates as of June 30, 2012, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

Year Ending June 30	Variable Rate Mortgage Note		Interest Rate Swap	Total Interest
	Principal	Interest		
2013	\$ 3,000,000	\$ 24,300	\$ 11,800	\$ 36,100

Capital Leases Payable. The University entered into an energy savings contract in July 2003 and acquired equipment under a capital lease. The stated interest rate is 4.3 percent. In August 2011 the University entered into a capital lease for network storage equipment. The stated interest rate is 1.8 percent. Principal and interest requirements on the capital leases outstanding as of June 30, 2012, are presented in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 156,582
2014	150,961
2015	152,914
2016	150,915
Total Minimum Payments	611,372
Less, Amount Representing Interest	(40,853)
Present Value of Minimum Payments	<u>\$ 570,519</u>

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee’s unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the University’s share of the Florida Retirement System and FICA contributions, totaled \$8,145,504. The current portion of the compensated absences liability, \$544,742, is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a historical percentage of leave used applied to total accrued leave liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

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Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 34 retirees received postemployment healthcare benefits. The University provided required contributions of \$126,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$247,000.

Annual OPEB Cost and Net OPEB Obligation. The University’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University’s annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University’s net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 2,611,000
Amortization of Unfunded Actuarial Accrued Liability	867,000
Interest on Normal Cost and Amortization	139,000
Annual Required Contribution	3,617,000
Interest on Net OPEB Obligation	225,000
Adjustment to Annual Required Contribution	(195,000)
Annual OPEB Cost (Expense)	3,647,000
Contribution Toward the OPEB Cost	(126,000)
Increase in Net OPEB Obligation	3,521,000
Net OPEB Obligation, Beginning of Year	5,619,000
Net OPEB Obligation, End of Year	\$ 9,140,000

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The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 2,087,000	5.7%	\$ 3,772,000
2010-11	1,980,000	6.7%	5,619,000
2011-12	3,647,000	3.5%	9,140,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$26,010,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$26,010,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$66,215,314 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 39.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University’s OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the University’s 2011-12 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Healthcare cost trend rates were 7.24 percent, 8.38 percent, and 8.57 percent for the first three years respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.81 percent, 3.11 percent, and 8.42 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.5 percent in the fourth year grading identically to 5 percent over 70 years. The unfunded actuarial

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accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

8. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.

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

The University’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University’s contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$2,052,008, \$2,480,885, and \$1,753,861, respectively, which were equal to the required contributions for each fiscal year.

There were 177 University participants in the Investment Plan during the 2011-12 fiscal year. The University’s contributions including employee contributions to the Investment Plan totaled \$581,829, which was equal to the required contribution for the 2011-12 fiscal year.

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

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf

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of the participant 7.92 percent of the participant’s salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee’s salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant’s annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 528 University participants during the 2011-12 fiscal year. Required employer contributions made to the Program totaled \$2,674,809, and employee contributions totaled \$1,974,333.

9. CONSTRUCTION COMMITMENTS

The University’s construction commitments at June 30, 2012, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
FY12 Infrastructure	\$ 1,664,526	\$	\$ 1,664,526
Phase XII - South Housing	27,882,462	23,223,778	4,658,684
Subtotal	29,546,988	23,223,778	6,323,210
Project Balances Under \$1 Million	8,871,468	7,238,935	1,632,533
Total	\$ 38,418,456	\$ 30,462,713	\$ 7,955,743

10. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers’ compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2011-12 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$61 million for named windstorm and flood losses through February 14, 2012, and decreased to \$50 million starting February 15, 2012. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers’ compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

11. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 58,741,641
Research	3,143,957
Public Services	4,175,629
Academic Support	10,568,264
Student Services	10,854,850
Institutional Support	19,497,386
Operation and Maintenance of Plant	9,970,132
Scholarships and Fellowships	15,523,397
Depreciation	12,706,325
Auxiliary Enterprises	<u>24,678,310</u>
Total Operating Expenses	<u>\$ 169,859,891</u>

12. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University's Housing, Parking, and Student Services Center facilities represents identifiable activities for which one or more bonds are outstanding:

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Condensed Statement of Net Assets

	Housing Facility	Parking Facility	Student Services
Assets			
Current Assets	\$ 21,394,780	\$ 1,877,967	\$ 2,316,514
Capital Assets, Net	157,754,288	23,107,386	5,870,000
Other Noncurrent Assets	5,374,367		
Total Assets	184,523,435	24,985,353	8,186,514
Liabilities			
Current Liabilities	7,956,209	697,304	289,370
Noncurrent Liabilities	167,204,577	21,438,913	5,500,000
Total Liabilities	175,160,786	22,136,217	5,789,370
Net Assets			
Invested in Capital Assets, Net of Related Debt	(3,017,100)	(172,728)	270,000
Restricted - Expendable	6,374,366		
Unrestricted	6,005,383	3,021,864	2,127,144
Total Net Assets	\$ 9,362,649	\$ 2,849,136	\$ 2,397,144

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets**

	Housing Facility	Parking Facility	Student Services
Operating Revenues	\$ 23,112,660	\$ 3,046,688	\$ 1,497,023
Depreciation Expense	(2,871,510)	(503,897)	(120,000)
Other Operating Expenses	(14,840,434)	(1,678,968)	(704,372)
Operating Income	5,400,716	863,823	672,651
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	389,411	31,411	39,854
Nonoperating Expense	(3,332,434)	(361,058)	(313,923)
Net Nonoperating Expenses	(2,943,023)	(329,647)	(274,069)
Increase in Net Assets	2,457,693	534,176	398,582
Net Assets, Beginning of Year	6,904,956	2,314,960	1,998,562
Net Assets, End of Year	\$ 9,362,649	\$ 2,849,136	\$ 2,397,144

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Condensed Statement of Cash Flows

	Housing Facility	Parking Facility	Student Services
Net Cash Provided (Used) by:			
Operating Activities	\$ 9,005,743	\$ 1,371,579	\$ 935,639
Noncapital Financing Activities	(3,332,434)	(361,058)	(313,923)
Capital and Related Financing Activities	(27,438,254)	(575,000)	(100,000)
Investing Activities	(2,508,310)	(435,521)	(521,716)
Net Decrease in Cash and Cash Equivalents	(24,273,255)		
Cash and Cash Equivalents, Beginning of Year	30,822,237		
Cash and Cash Equivalents, End of Year	\$ 6,548,982	\$	\$

13. RELATED PARTY TRANSACTIONS

University and Blended Component Unit. As part of a Master Ground and Operating Lease Agreement (see note 7), the University operates and pays all operating costs of the facilities leased from the Florida Gulf Coast University Financing Corporation (Corporation) from the gross rental income from the respective student residences and parking facilities. The net rental income is then paid to the Corporation by the University in arrears based on collections. The University provides office space and related occupancy costs such as utilities and use of other office machines as well as accounting and record keeping services at no cost to the Corporation.

Discretely Presented Component Unit. On March 15, 2006, the Florida Gulf Coast University Foundation, Inc. (Foundation), loaned \$5 million to the Corporation to purchase a two-acre lot in Naples as the future location of the University’s Naples Center (Naples Center). The Naples Center will offer for-credit classes and house a 300-seat auditorium. The land purchase was deemed necessary to aid in the Foundation’s fundraising efforts for construction of the Naples Center. The Corporation is responsible for the interest due on the balance not raised by donations.

The Foundation maintains a portion of its investments and had one outstanding line of credit with a financial institution of which a Foundation board member was an officer during the fiscal year ended June 30, 2012. The Foundation investments managed by the financial institution at June 30, 2012, totaled \$23,296,708. The Foundation had outstanding loans totaling \$7 million with the financial institution at June 30, 2012, and paid \$186,119 in interest during the fiscal year ended June 30, 2012.

The Foundation maintains a portion of its fixed-income investments with an investment firm of which a Foundation board member was an officer during the fiscal year ended June 30, 2012. The Foundation investments managed by the investment firm at June 30, 2012, totaled \$5,161,577.

On July 5, 2007, the University entered into a lease agreement with the Foundation for the use of waterfront property for the University’s Vester Marine Science and Environmental Education Center. The monthly lease payment of \$20,000 covers the general operating and maintenance expenses incurred by the Foundation.

**FLORIDA GULF COAST UNIVERSITY
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 10,557,000	\$ 10,557,000	0%	\$ 55,932,003	18.9%
7/1/2009		17,315,000	17,315,000	0%	57,220,579	30.3%
7/1/2011		26,010,000	26,010,000	0%	66,215,314	39.3%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

**FLORIDA GULF COAST UNIVERSITY
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$26,010,000 was significantly higher than the July 1, 2009, liability of \$17,315,000 as a result of changes in the methodology used by the actuary to calculate this liability. The most significant modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and the passage of the Patient Protection and Affordable Care Act.



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

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

We have audited the financial statements of the Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 25, 2013