

FLORIDA STATE COLLEGE AT JACKSONVILLE

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

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

	<u>County</u>
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Suanne Z. Thamm, Vice Chair from 9-06-11	Nassau
Gwendolyn Yates, Vice Chair	Duval
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Candace T. Holloway from 8-30-11	Nassau
Thomas R. McGehee, Jr.	Duval
Emily B. Smith to 8-29-11 (1)	Duval

Dr. Steven R. Wallace, President

Notes: (1) Board member served beyond the end of term,
May 31, 2010.

(2) Chair position was vacant from August 30, 2011,
through September 5, 2011.

The Vice Chairs serve with equal rank and status on the Board. The purpose of the dual office is to assure leadership representation from each of the two counties served by the College.

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 Lenia Blades, and the audit was supervised by John P. Duffy, 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.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the College'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 State College at Jacksonville and its officers with administrative and stewardship responsibilities for College operations had:

- Presented the College'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 College's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the College'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 College 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 College 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

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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 State College at Jacksonville, 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 College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College 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 represent 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 State College at Jacksonville 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 State College at Jacksonville'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
March 5, 2013

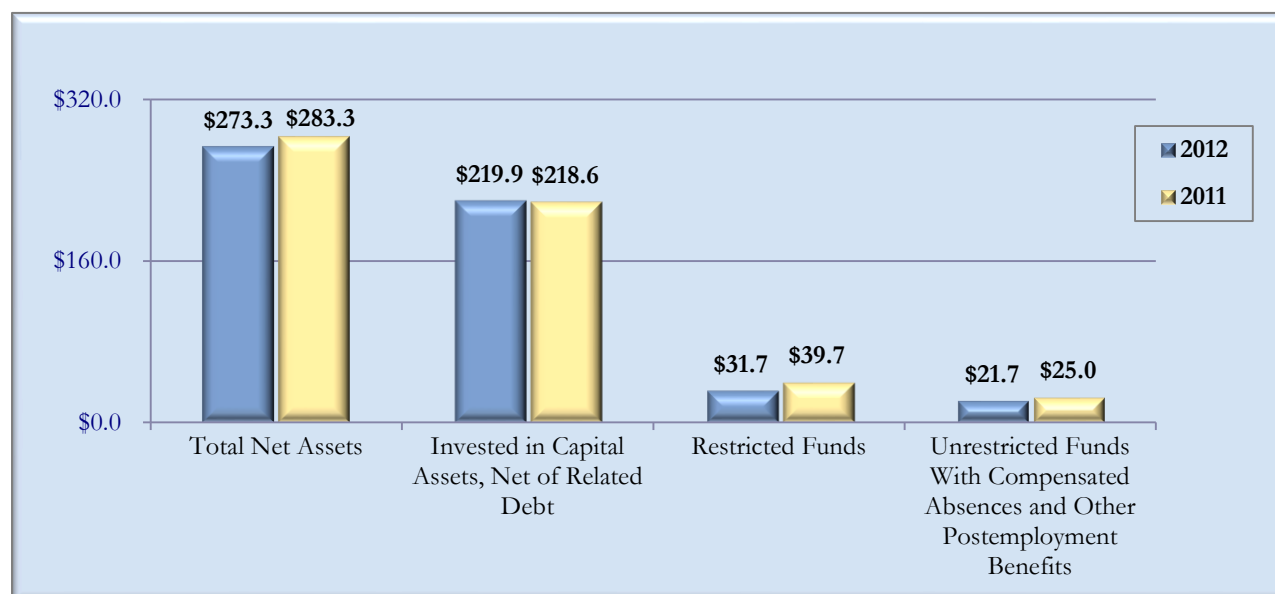
MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College 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 College management. The MD&A contains financial activity of the College and its component unit, the Florida State College Foundation, Inc., for the fiscal years ended June 30, 2012, and June 30, 2011.

FINANCIAL HIGHLIGHTS

Net assets represent the residual interest in the College's assets after deducting liabilities. The College'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: College
(In Millions)**



The College's financial position, as a whole, remains strong as evidenced by \$273.3 million in total net assets. Total net assets did, however, decrease \$10 million from the prior fiscal year primarily because of a decrease in capital projects funding.

The College's operating revenues were \$60.7 million for the 2011-12 fiscal year, a decrease of \$0.2 million, while net nonoperating revenues were \$134.6 million, a decrease of \$12.8 million year on year. The decrease in net nonoperating revenues is primarily due to the end of the Federal American Recovery and Reinvestment Act (ARRA) funding, an increase in other nonoperating expenses related to a Federal government final audit determination (see note to financial statements, No. 8 for additional information), and a decrease in investment income.

Operating expenses totaled \$213.1 million for the 2011-12 fiscal year, representing a decrease of 2.8 percent as compared to the 2010-11 fiscal year. The decrease was due mainly to decreases in materials and supplies, contractual services expenses, and scholarships and waivers, which were partially offset by an increase in personnel services expenses. Materials and supplies expenses decreased \$6.1 million, or 27.3 percent, mainly because the College had a

large scale transition in technology equipment during the 2010-11 fiscal year, and contractual services decreased \$2.2 million, or 14.1 percent, percent, mainly because the College hired Federal military training contract personnel that were previously contracted through a vendor. Personnel services expenses increased \$3.6 million primarily from a 4 percent Board approved salary increase for employees and the hiring of Federal military training contract personnel, partially offset by a decrease in expenses for retirement benefits as a result of a decrease in employer contribution rates.

OVERVIEW OF FINANCIAL STATEMENTS

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

- Florida State College at Jacksonville (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- Florida State College Foundation, Inc. (Component Unit) – The Foundation is a direct-support organization of the College with the mission of raising funds to support academic programs and student scholarships. Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida.

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

One of the most important questions asked about the College's finances is, "Is Florida State College at Jacksonville as a whole, better or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Florida State College at Jacksonville's operating results.

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

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

Total combined net assets of the College and Foundation at June 30, 2012, are \$312 million, a decrease of \$9.1 million from the prior fiscal year, as shown in the following graph:

**Total Combined Net Assets at June 30
(In Millions)**



A condensed statement of assets, liabilities, and net assets of the College and its component unit as of June 30, 2012, and June 30, 2011, is shown in the following table:

**Condensed Statement of Net Assets at
(In Thousands)**

	College		Component Unit	
	6-30-12	6-30-11	6-30-12	6-30-11
Assets				
Current Assets	\$ 24,615	\$ 35,008	\$ 38,789	\$ 37,897
Capital Assets, Net	224,780 (1)	225,417 (1)		
Other Noncurrent Assets	64,132	65,328	13	13
Total Assets	<u>313,527</u>	<u>325,753</u>	<u>38,802</u>	<u>37,910</u>
Liabilities				
Current Liabilities	19,685	22,018	86	51
Noncurrent Liabilities	20,562	20,479		
Total Liabilities	<u>40,247</u>	<u>42,497</u>	<u>86</u>	<u>51</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	219,864	218,558		
Restricted	31,713	39,664	36,490	35,759
Unrestricted	21,703 (2)	25,034 (2)	2,226	2,100
Total Net Assets	<u>\$ 273,280</u>	<u>\$ 283,256</u>	<u>\$ 38,716</u>	<u>\$ 37,859</u>
Increase (Decrease) in Net Assets	<u>\$ (9,976)</u>	-3.52%	<u>\$ 857</u>	2.26%

Notes: (1) Shown at depreciated cost. Life-to-date accumulated depreciation recorded through the 2011-12 fiscal year totaled \$137.3 million. Of this amount, \$10.3 million related to the current fiscal year.

(2) Unrestricted net assets for the 2011-12 and 2010-11 fiscal years were reduced by \$17.9 and \$16.8 million, respectively, for the liabilities for accrued compensated leave and other postemployment benefits payables for employees.

The largest portion of the College's net assets (80.5 percent) is its investment in capital assets, net of related debt outstanding (e.g., land; buildings; and furniture, machinery, and equipment). The College uses these capital assets in providing educational services; consequently, these capital assets are not available for future spending. The restricted portion of net assets (11.6 percent) represents resources that are subject to external restrictions on how they may be

used. Unrestricted net assets (7.9 percent) may be used to meet the College's ongoing obligations to students, employees, and creditors. Current assets decreased by \$10.4 million, mainly because of decreases in amounts due from other agencies for State capital appropriations and Federal military training contracts.

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 gives up or receives something of equal or similar value.

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

Revenues and expenses of the College and its component unit for the 2011-12 and 2010-11 fiscal years are shown in the following table:

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

	College		Component Unit	
	6-30-12	6-30-11	6-30-12	6-30-11
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 36,923	\$ 35,568	\$	\$
Federal Grants and Contracts	15,167	17,888		
State and Local Grants and Contracts	1,671	1,888		
Nongovernmental Grants and Contracts	1,230	252		
Sales and Services of Educational Departments	935	900		
Auxiliary Enterprises	3,652	3,461	9,768	6,450
Other Operating Revenues	1,073	898	3,407	3,589
Total Operating Revenues	60,651	60,855	13,175	10,039
Operating Expenses				
Personnel Services	124,765	121,196	627	561
Scholarships and Waivers	34,695	36,779	1,283	1,206
Utilities and Communications	7,315	7,199		
Contractual Services	13,278	15,454	9,385	6,027
Other Services and Expenses	6,421	6,426	698	621
Materials and Supplies	16,271	22,374	463	368
Depreciation	10,327	9,753		
Total Operating Expenses	213,072	219,181	12,456	8,783
Operating Income (Loss)	(152,421)	(158,326)	719	1,256
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	73,756	74,396		
Federal and State Student Financial Aid	62,694	63,412		
Investment Income (Loss)	1,216	2,264	(410)	5,472
Other Nonoperating Revenues	1,997	7,655		
Interest on Capital Asset-Related Debt	(293)	(404)		
Other Nonoperating Expenses	(4,819)			
Net Nonoperating Revenues (Expenses)	134,551	147,323	(410)	5,472
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(17,870)	(11,003)	309	6,728
State Capital Appropriations	1,735	9,412		
Capital Grants, Contracts, Gifts, and Fees	6,159	4,949		
Additions to Permanent Endowments			549	1,514
Increase (Decrease) in Net Assets	(9,976)	3,358	858	8,242
Net Assets, Beginning of Year	283,256	279,898	37,859	29,617
Net Assets, End of Year	\$ 273,280	\$ 283,256	\$ 38,717	\$ 37,859

The College's operating revenues were \$60.7 million for the 2011-12 fiscal year, a decrease of \$0.2 million, and net nonoperating revenues were \$134.6 million, a decrease of \$12.8 million, as compared to the 2010-11 fiscal year. Within the operating revenues, the increases in student tuition and fees and nongovernmental grants and contracts were offset by a decrease in Federal grants and contracts. Federal grants and contracts decreased \$2.7 million from \$17.9 million in the 2010-11 fiscal year to \$15.2 million in the 2011-12 fiscal year mainly because of the winding down of large Federal military contracts. The decrease in net nonoperating revenues is primarily the result of a \$6.4 million decrease in Federal ARRA funds at the conclusion of the program, a \$4.8 million increase in other nonoperating

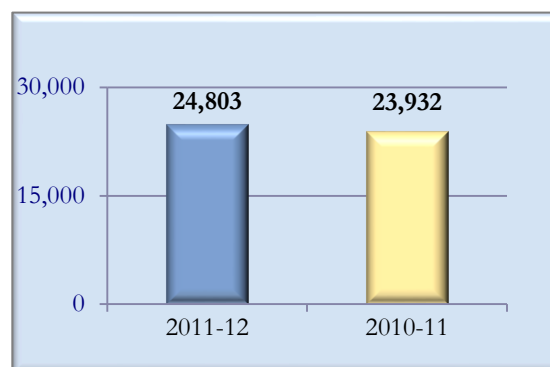
expenses related to a Federal government final audit determination (see note to financial statements, No. 8 for additional information), and a \$1 million decrease in investment income.

Tuition-paying student enrollment increased by 3.6 percent from the prior fiscal year mainly because of a change in State law effective July 1, 2011, requiring students to pay tuition for adult general education programs. The following graphs represent operating revenues and tuition-paying student enrollment for the 2011-12 and 2010-11 fiscal years:

**Operating Revenues: College
(In Millions)**



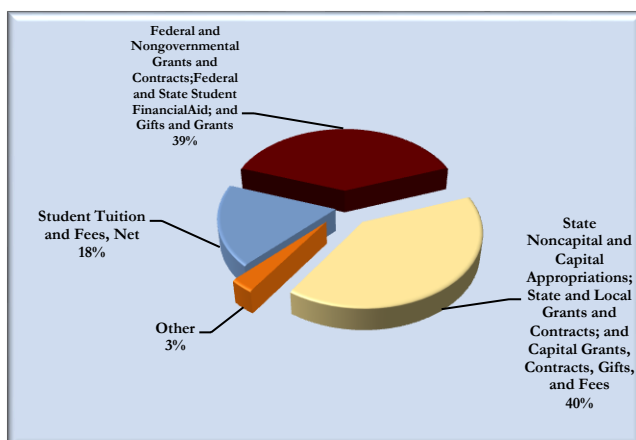
**Tuition-Paying Enrollment
(Full-Time Equivalent Students)**



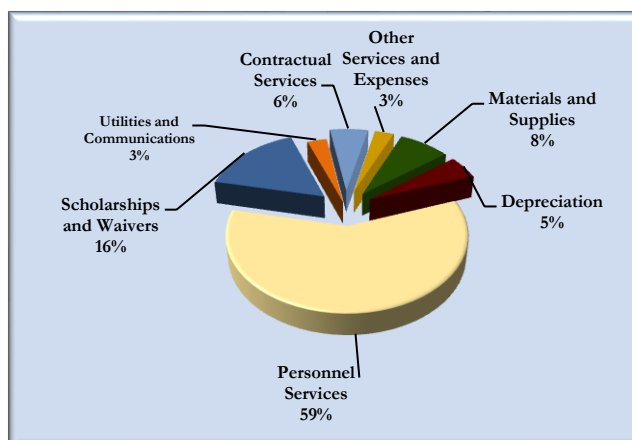
Operating expenses were \$213.1 million for the 2011-12 fiscal year, 59 percent of which represented personnel services expenses. Net nonoperating revenues of the College decreased from \$147.3 million to \$134.6 million, mainly due to decreases in Federal ARRA funds and increases in other nonoperating expenses. Other revenues were \$7.9 million, which consist of State Public Education Capital Outlay (PECO) capital appropriations, capital improvement fees, and parking fees. State noncapital and State capital appropriations, State and local grants and contracts, and capital grants, contracts, gifts, and fees accounted for 40 percent of the College's revenues. Total revenues for the 2011-12 fiscal year were \$208.2 million.

The College's total revenues and operating expenses for 2011-12 fiscal year are presented in the following charts:

**Total Revenues: College
\$208.2 Million**



**Total Operating Expenses: College
\$213.1 Million**



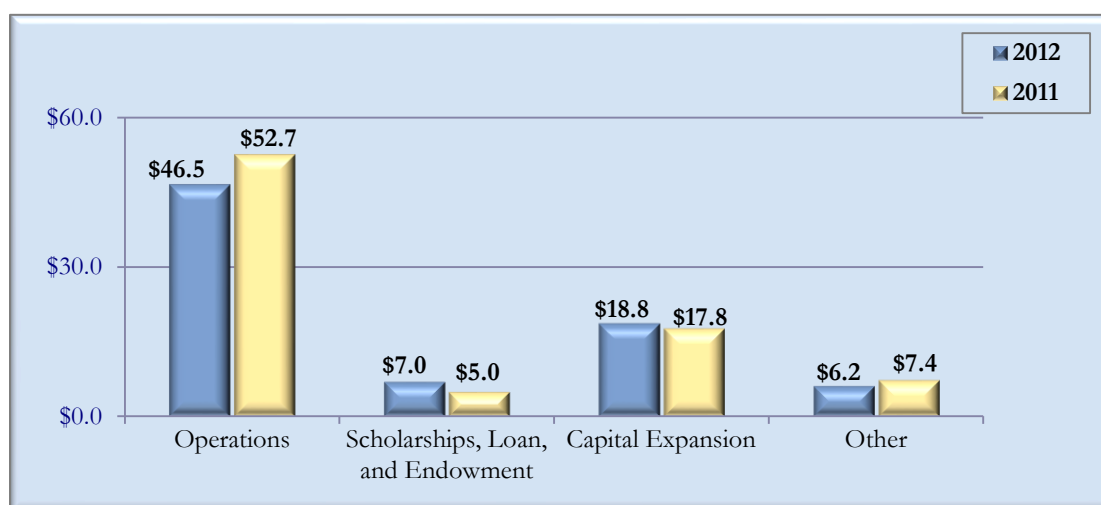
THE STATEMENT OF CASH FLOWS

Another way to assess the financial health of an institution is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet its obligations as they come due.
- Its need for external financing.

Cash and investment balances of the College were \$78.5 million at the end of the current fiscal year, a decrease of \$4.4 million. Year-end cash and investment balances are shown in the chart below:

Cash and Investment Balances at June 30: College
(In Millions)



A summary of the College's cash flows, and cash and investment balances, for the fiscal years ended June 30, 2012, and June 30, 2011, are presented in the following table:

Cash Flows and Investment Balances: College
(In Thousands)

	2011-12	2010-11
Cash Provided (Used) by:		
Operating Activities	\$ (142,591)	\$ (146,730)
Noncapital Financing Activities	135,293	142,303
Capital and Related Financing Activities	1,668	6,889
Investing Activities	(1,777)	256
Net Increase (Decrease) in Cash and Cash Equivalents	(7,407)	2,718
Cash and Cash Equivalents, Beginning of Year	25,713	22,995
Cash and Cash Equivalents, End of Year	18,306	25,713
Investments, End of Year	60,161	57,168
Total Cash and Investments	\$ 78,467	\$ 82,881

Major sources of funds came from State noncapital appropriations (\$73.8 million), Federal and State Student financial aid (\$62.7 million), Federal direct loan program receipts (\$48.7 million), net student tuition and fees (\$34.1 million), grants and contracts (\$18 million), State capital appropriations (\$7.5 million), and capital grants and gifts (\$6.2 million).

Major uses of funds were for payments to employees (\$101.4 million), payments for employee benefits (\$21.9 million), payments for direct loan program disbursements (\$46.7 million), payments to suppliers (\$36 million), payments for scholarships (\$34.7 million), payments for acquisition of capital assets (\$9.8 million), and payments for utilities and communications (\$7.3 million).

The College's overall cash and cash equivalents decreased by \$7.4 million, or 28.8 percent, as compared to the prior fiscal year. Changes in cash and cash equivalents were the result of the following factors:

- Operating activities used \$4.1 million less in cash as compared to the prior fiscal year. The decrease was primarily the result of a decrease in payments to suppliers related to a large scale transition in technology equipment during the 2010-11 fiscal year and the hiring of the Federal military training contract personnel that were previously contracted through a vendor totaling \$8.3 million. In addition, there was a decrease in payments for scholarships totaling \$2.1 million, offset by a \$4.5 million increase in payments for employees and employee benefits related to a 4 percent raise for employees and the hiring of the Federal military training contract personnel, and a \$4.1 million decrease in receipts for tuition and fees primarily because of increases in receivables from third parties, from students related to financial aid overawards, and a net increase of \$2.3 million in other receipts and other payments.
- Noncapital financing activities provided \$7 million less cash as compared to the prior fiscal year. The decrease was the result of decreases in gifts and grants, mainly due to decreases in Federal American Recovery and Reinvestment Act funds, and State noncapital appropriations, totaling \$6.4 million and \$0.6 million, respectively.
- Capital and related financing activities resulted in a decrease of \$5.2 million in cash as compared to the prior fiscal year. The decrease was primarily the result of a \$13.7 million decrease in State capital appropriations offset by a \$7.2 million decrease in capital asset purchases along with a \$1.2 million increase in capital grants and gifts.
- Investing activities used \$1.8 million in cash, which was \$2 million more than the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College had \$362.1 million in capital assets, less accumulated depreciation of \$137.3 million, for net capital assets of \$224.8 million. Depreciation charges for the current fiscal year totaled \$10.3 million. The following table summarizes the College's capital assets at June 30:

Capital Assets, Net at June 30: College
(In Thousands)

<u>Capital Assets</u>	<u>2012</u>	<u>2011</u>
Land	\$ 12,001	\$ 8,217
Other Nondepreciable	15	15
Construction in Progress	1,814	2,186
Buildings	204,213	210,844
Other Structures and Improvements	2,800	648
Furniture, Machinery, and Equipment	3,937	3,507
Total Capital Assets, Net	\$ 224,780	\$ 225,417

State appropriations together with local funds are expected to finance the construction, renovation, and purchase of land and facilities. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$4.9 million in long-term debt outstanding. The following table summarizes outstanding long-term debt by type for the fiscal years ended June 30, 2012, and June 30, 2011:

**Long-Term Debt, at June 30: College
(In Thousands)**

	2012	2011
SBE Capital Outlay Bonds	\$ 4,335	\$ 4,920
Note Payable	581	1,940
Total	\$ 4,916	\$ 6,860

The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. Additional information about the College's long-term debt is presented in the notes to financial statements.

FLORIDA STATE COLLEGE FOUNDATION, INC.

The Florida State College Foundation, Inc., experienced an increase in net assets from \$37.8 million at June 30, 2011, to \$38.7 million at June 30, 2012. This \$0.9 million increase is primarily attributable to Artist Series proceeds.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Florida State College at Jacksonville's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, overall State funding for operations slightly decreased for the 2012-13 fiscal year and recent PECO funding has been limited to allocations for repair, maintenance, and renovation. In response to the decreases in State appropriations, the Board of Trustees increased the tuition rate 3 percent to take effect beginning with the Fall 2012 term. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A (or other required supplementary information) and financial statements and notes thereto, or requests for additional financial information should be addressed to the Associate Vice President for Financial Services, Florida State College at Jacksonville, 501 West State Street, Jacksonville, Florida 32202.

BASIC FINANCIAL STATEMENTS

FLORIDA STATE COLLEGE AT JACKSONVILLE A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2012

	College	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 4,492,316	\$ 5,462,730
Restricted Cash and Cash Equivalents	8,075,646	
Investments	932,176	33,255,722
Restricted Investments	834,849	
Accounts Receivable, Net	6,038,163	70,942
Notes Receivable, Net	189,180	
Due from Other Governmental Agencies	3,863,985	
Due from Component Unit	85,540	
Inventories	62,135	
Prepaid Expenses	40,751	
Total Current Assets	24,614,741	38,789,394
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	5,738,607	
Investments	41,036,872	
Restricted Investments	17,357,143	
Depreciable Capital Assets, Net	210,950,105	
Nondepreciable Capital Assets	13,829,852	
Other Noncurrent Assets		12,667
Total Noncurrent Assets	288,912,579	12,667
TOTAL ASSETS	\$ 313,527,320	\$ 38,802,061
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,353,797	\$
Salary and Payroll Taxes Payable	3,400,529	
Retainage Payable	80,757	
Due to Other Governmental Agencies	5,031,120	
Due to College		85,540
Deferred Revenue	3,686	
Estimated Claims Payable	2,068,248	
Deposits Held for Others	3,946,353	
Long-Term Liabilities - Current Portion:		
Bonds Payable	620,000	
Note Payable	580,690	
Compensated Absences Payable	1,600,000	
Total Current Liabilities	19,685,180	85,540
Noncurrent Liabilities:		
Bonds Payable	3,715,000	
Special Termination Benefits Payable	497,127	
Compensated Absences Payable	13,676,608	
Other Postemployment Benefits Payable	2,672,863	
Total Noncurrent Liabilities	20,561,598	
TOTAL LIABILITIES	40,246,778	85,540

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	College	Component Unit
	<u> </u>	<u> </u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 219,864,267	\$
Restricted:		
Nonexpendable:		
Endowments		29,046,734
Expendable:		
Grants and Other	3,579,794	7,443,479
Endowments	7,250,086	
Capital Projects	20,541,678	
Debt Service	341,388	
Unrestricted	<u>21,703,329</u>	<u>2,226,308</u>
Total Net Assets	<u>273,280,542</u>	<u>38,716,521</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 313,527,320</u>	<u>\$ 38,802,061</u>

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

FLORIDA STATE COLLEGE AT JACKSONVILLE
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

	<u>College</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$33,826,844	\$ 36,923,479	\$
Federal Grants and Contracts	15,166,639	
State and Local Grants and Contracts	1,671,439	
Nongovernmental Grants and Contracts	1,229,533	
Sales and Services of Educational Departments	935,300	
Auxiliary Enterprises	3,651,527	9,768,124
Other Operating Revenues	1,073,566	3,406,427
Total Operating Revenues	<u>60,651,483</u>	<u>13,174,551</u>
EXPENSES		
Operating Expenses:		
Personnel Services	124,765,101	627,294
Scholarships and Waivers	34,695,008	1,283,184
Utilities and Communications	7,315,290	
Contractual Services	13,278,279	9,384,543
Other Services and Expenses	6,420,709	697,775
Materials and Supplies	16,271,496	463,103
Depreciation	10,326,798	
Total Operating Expenses	<u>213,072,681</u>	<u>12,455,899</u>
Operating Income (Loss)	<u>(152,421,198)</u>	<u>718,652</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	73,756,443	
Federal and State Student Financial Aid	62,693,862	
Gifts and Grants	1,964,805	
Investment Income (Loss)	1,215,948	(410,601)
Proceeds from Sale of Capital Assets	32,496	
Other Nonoperating Expenses	(4,819,085)	
Interest on Capital Asset-Related Debt	(293,018)	
Net Nonoperating Revenues (Expenses)	<u>134,551,451</u>	<u>(410,601)</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(17,869,747)</u>	<u>308,051</u>
State Capital Appropriations	1,734,737	
Capital Grants, Contracts, Gifts, and Fees	6,159,109	
Additions to Permanent Endowments		548,965
Total Other Revenues	<u>7,893,846</u>	<u>548,965</u>
Increase (Decrease) in Net Assets	<u>(9,975,901)</u>	<u>857,016</u>
Net Assets, Beginning of Year	283,256,443	37,859,505
Net Assets, End of Year	<u>\$ 273,280,542</u>	<u>\$ 38,716,521</u>

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

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	<u>College</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 34,104,836
Grants and Contracts	18,032,838
Payments to Suppliers	(35,999,248)
Payments for Utilities and Communications	(7,315,290)
Payments to Employees	(101,413,694)
Payments for Employee Benefits	(21,916,933)
Payments for Scholarships	(34,695,008)
Loans Issued to Students	(116,770)
Collection on Loans to Students	105,386
Auxiliary Enterprises	3,651,527
Sales and Service of Educational Departments	935,300
Other Receipts	2,036,045
Net Cash Used by Operating Activities	<u>(142,591,011)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	73,756,443
Federal and State Student Financial Aid	62,693,862
Federal Direct Loan Program Receipts	48,658,940
Federal Direct Loan Program Disbursements	(46,728,445)
Gifts and Grants Received for Other Than Capital or Endowment Purposes	1,964,805
Other Nonoperating Disbursements	(5,052,704)
Net Cash Provided by Noncapital Financing Activities	<u>135,292,901</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	7,487,191
Capital Grants and Gifts	6,159,109
Proceeds from Sale of Capital Assets	32,496
Purchases of Capital Assets	(9,773,349)
Principal Paid on Capital Debt	(1,943,957)
Interest Paid on Capital Debt	(293,018)
Net Cash Provided by Capital and Related Financing Activities	<u>1,668,472</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	30,856,249
Purchase of Investments	(34,032,639)
Investment Income	1,399,025
Net Cash Used by Investing Activities	<u>(1,777,365)</u>
Net Decrease in Cash and Cash Equivalents	(7,407,003)
Cash and Cash Equivalents, Beginning of Year	<u>25,713,572</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 18,306,569</u></u>

**FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012**

	<u>College</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (152,421,198)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,326,798
Changes in Assets and Liabilities:	
Receivables, Net	(2,853,555)
Loans to Students	(11,384)
Inventories	11,987
Prepaid Expenses	(40,751)
Deposits	150,000
Accounts and Other Payables	1,180,374
Deferred Revenue	143
Deposits Held for Others	(216,812)
Special Termination Benefits Payable	110,687
Compensated Absences Payable	661,593
Other Postemployment Benefits Payable	511,107
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (142,591,011)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY	
Unrealized losses on investments were recognized as a reduction 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.	\$ (183,077)

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

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 District Board of Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the District Board of Trustees are such that exclusion would cause the College's financial statements to be misleading or incomplete. Based upon the application of these criteria, the College is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The Foundation's financial statements also include the financial activity of its blended component unit, the Florida State College Foundation Real Estate Holding, Inc. (Holding Company). The Holding Company is a subsidiary of the Foundation and was formed exclusively to hold title to certain real property, and to collect and transfer its income to the Foundation in support of the Foundation's mission. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended June 30, 2012.

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

Basis of Presentation. The College's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the College with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public colleges various reporting options.

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

The College has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and 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 College's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

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

The College follows GASB pronouncements and FASB pronouncements issued on or before November 30, 1989, unless FASB pronouncements conflict with GASB pronouncements. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College has the option to elect to apply all pronouncements of FASB issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

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.

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State 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.

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the College and the amount that is actually paid by the student or the third party making payment on behalf of the student. The College's accounting system identifies the specific amounts paid for tuition and fees from students and third parties (e.g., financial aid, scholarships, etc.). To the extent that third-party resources are used to pay student charges, the College records a scholarship allowance against tuition and fee revenue.

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

At June 30, 2012, the College reported as cash equivalents \$4,007 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The College's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, as of June 30, 2012, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average maturity (WAM) of 38 days as of June 30, 2012. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating-rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

Capital Assets. College capital assets consist of land; capitalized collections; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. 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

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. INVESTMENTS

The College's Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College 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 by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College's Board of Trustees as authorized by law. State Board of Education (SBE) Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College's investments at June 30, 2012, are reported at fair value, as follows:

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investment Type	Debt Service Funds	Endowment Funds	Other College Funds	Total
Debt Securities:				
United States Government Obligations	\$	\$ 375,121	\$ 14,351,074	\$ 14,726,195
Federal Agency Obligations		151,290	21,297,449	21,448,739
Corporate Bonds and Notes		452,734	17,741,945	18,194,679
Total Debt Securities		979,145	53,390,468	54,369,613
Other Investments:				
State Board of Administration Fund B Surplus Funds Trust Fund			347,435	347,435
State Board of Administration Debt Service Accounts	91,388			91,388
Stocks and Other Equity Securities		4,585,309		4,585,309
Money Market Funds		695,618	71,677	767,295
Total Other Investments	91,388	5,280,927	419,112	5,791,427
Total College Investments	\$ 91,388	\$ 6,260,072	\$ 53,809,580	\$ 60,161,040

State Board of Administration Fund B Surplus Funds Trust Fund

The Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B on December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2012, the College reported investments at fair value of \$347,435 in Fund B. The College's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2012. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The College reported investments totaling \$91,388 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the SBE for the benefit of the College. The College's investments consist of United States Treasury securities, with maturity dates of six months or less and are reported at fair value. The College relies on policies developed by the SBA for managing interest rate risk or credit risk for this account. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Debt Securities and Other Investments

The following risks apply to the College's debt securities and other investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's investment policy limits investments to a maximum average duration of the portfolio to no greater than 125 percent of the target benchmark's average duration. The policy also provides that the maximum effective maturity of an individual security will not be greater than five years, and the maximum average life of the portfolio will not be greater than three years. At June 30, 2012, the College had \$36,174,934 in obligations of the United States government and its agencies, with various call dates with final maturity dates between December 2012 and June 2040, having a weighted-average maturity of 2.69 years for endowment funds and 3.02 years for other College funds. Also, at June 30, 2012, the College had \$18,194,679 in corporate securities, with various call dates with final maturity dates between November 2012 and September 2021, with weighted-average maturities of 4.32 years for endowment funds and 1.74 years for other College funds. For the \$767,295 in money markets funds, the average maturity was 32 days for endowment funds and 28 days for other College funds. The overall weighted-average life of the other College fund's portfolio was 2.54 years as of June 30, 2012.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy addresses credit risk through the authorization of the following investments:

- United States Treasury bills, notes, bonds, strips and other obligations whose principal and interest is fully guaranteed by the United States of America, any of its agencies or instrumentalities.
- Government Sponsored Enterprises: Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Student Loan Marketing Association (SLMA), Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board and all other government sponsored agencies and enterprises.
- Repurchase agreements that are collateralized by United States Treasury securities at 102 percent of cost.
- Certificates of deposit in State-certified qualified public depositories.
- Mortgage-backed securities guaranteed by the U.S. Government or a Federal agency.
- Money market funds, including, but not limited to, commercial paper, time deposits and bankers' acceptances, rated at least "A1/P1" or the equivalent by Standard & Poor's, Moody's, and all other nationally recognized credit rating organizations.
- Corporate bonds and notes with at least an "A" rating.
- Money market funds registered with the Securities and Exchange Commission and only invested in securities with the highest credit quality rating from a nationally recognized rating company.
- Any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes, which maintains a similar investment objective.

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

United States government obligations are not considered to have credit risk. As of June 30, 2012, the College's investments in Federal agency obligations (Government Sponsored Enterprises) are rated Aa2 by Moody's Investor Services. Corporate debt securities have average credit quality ratings by Moody's Investor Services and Standard & Poor's of Aa2 for endowment funds and A+ for other College funds, respectively.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover that value of investments or collateral securities that are in the possession of an outside party. Investments purchased on behalf of the College pursuant to Section 218.415, Florida Statutes, must be properly earmarked and (1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the College's interest in the security; (2) if in a book-entry form, the investment must be held for the credit of the College by a depository chartered by the Federal Government, the State, or any other State or territory of the United States, that has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States that is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or (3) if physically issued to the holder but not registered with the issuer or its agents, must be immediately placed for safekeeping in a secured vault. The College's \$36,174,934 of investments in obligations of the United States government agencies and instrumentalities, and \$18,194,679 in corporate debt securities, are held by the safekeeping agent in the name of the College.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College's investment policy provides that a maximum of five percent of the portfolio may be invested in securities of a single issuer. United States government and government agency-backed securities are not subject to this limitation.

Component Unit Investments

Investments held by the Foundation at June 30, 2012, are reported at fair value as follows:

FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Investment Type	Fair Value	Weighted Average Life	Effective Duration	Average Credit Quality
Equities	\$ 20,035,565	(1)	(1)	(1)
Sawgrass Fixed Income Fund	3,871,721	2.6 years	1.6 years	AA**
Commonfund Fixed Income Fund	5,677,512	7.6 years	3.7 years	A+**
Limited Partnerships	2,520,707	(1)	(1)	(1)
Commonfund Commodities Fund	1,002,891	0.5 years	0.1 years	AA-**
Real Property	55,000	(1)	(1)	(1)
Money Market Fund	68,651	(2)	(2)	AAAm**
Artwork	23,675	(1)	(1)	(1)
Total Investments	\$ 33,255,722			

Note: (1) Disclosure of maturity, duration and credit quality risk is not required for these investment types.

(2) Weighted Average Maturity is 34 days.

** Rating by Standard & Poor's

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 specifically limit debt obligation maturities. However, as a means of managing the Foundation's exposure to fair value losses arising from increasing interest rates, the policy provides for diversifying fixed-income investments among maturities according to interest rate prospects.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy provides that no more than 15 percent of the corporate debt securities in the fixed-income portfolio may be rated below investment-grade.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover that value of investments or collateral securities that are in the possession of an outside party. The Foundation's investment policy does not address custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Foundation's investment policy provides that the maximum amount invested in the securities of a single issuer may not exceed five percent of the total investments. Securities issued by the United States government and its agencies are not subject to this limitation.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, financial aid overawards, various student services provided by the College, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$5,098,125 allowance for doubtful accounts. The significant increase in the allowance from \$680,530 as of June 30, 2011, resulted mainly from the College's estimate of amounts that will not be collected from students relating to \$4,232,790 in ineligible Federal student financial aid awards made during the 2010-11 and 2011-12 fiscal years and were due to the Federal government pursuant to a final audit determination (see note to financial statements, No. 8 for additional information). The College has

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estimated that five percent of the amount billed backed to the students for the improperly awarded Federal student financial aid was likely to be collected.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under the College's short-term loan program of \$294,567. Notes receivable are reported net of a \$105,387 allowance for doubtful notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$2,962,539 of Public Education Capital Outlay allocations due from the State for construction of College facilities and may not be entirely collected within one year.

6. INVENTORIES

Inventories consist of consumable materials and supplies of \$62,135 at the Central Stores Warehouse, and are valued using the average cost method. Consumable laboratory supplies, teaching materials, and office supplies on hand in College departments are expensed when purchased, and are not considered material. Accordingly, these items are not included in the reported inventory.

7. CAPITAL ASSETS

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 8,217,504	\$ 3,783,436	\$	\$ 12,000,940
Capitalized Collections	15,000			15,000
Construction in Progress	2,186,499	3,069,195	3,441,782	1,813,912
Total Nondepreciable Capital Assets	\$ 10,419,003	\$ 6,852,631	\$ 3,441,782	\$ 13,829,852
Depreciable Capital Assets:				
Buildings	\$ 312,374,514	\$ 929,309	\$	\$ 313,303,823
Other Structures and Improvements	3,392,819	2,512,473		5,905,292
Furniture, Machinery, and Equipment	27,318,618	2,836,627	1,063,406	29,091,839
Total Depreciable Capital Assets	343,085,951	6,278,409	1,063,406	348,300,954
Less, Accumulated Depreciation:				
Buildings	101,530,583	7,560,542		109,091,125
Other Structures and Improvements	2,744,680	360,540		3,105,220
Furniture, Machinery, and Equipment	23,812,194	2,405,716	1,063,406	25,154,504
Total Accumulated Depreciation	128,087,457	10,326,798	1,063,406	137,350,849
Total Depreciable Capital Assets, Net	\$ 214,998,494	\$ (4,048,389)	\$	\$ 210,950,105

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8. DUE TO OTHER GOVERNMENTAL AGENCIES

An audit of the College's Federal Awards programs for student financial aid disclosed deficiencies in the College's satisfactory academic progress (SAP) appeals procedures that resulted in improperly awarded Federal student financial aid. In a letter dated May 29, 2012, the United States Department of Education (USED) instructed the College to review all SAP appeals for the 2010-11 and 2011-12 academic years, and to report the results. The review was completed and submitted to the USED in September 2012 and, in a Federal final audit determination letter dated December 20, 2012, the College was notified it was required to repay \$5,030,725, which included \$4,232,790 in ineligible student financial aid awards, \$750,212 in estimated lost interest and allowances on ineligible Federal loans awarded, and \$47,723 in lost interest on the ineligible student financial aid awards.

9. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2012, include bonds payable, note payable, special termination benefits payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 4,920,000	\$	\$ 585,000	\$ 4,335,000	\$ 620,000
Note Payable	1,939,647		1,358,957	580,690	580,690
Special Termination Benefits Payable	386,440	110,687		497,127	
Compensated Absences Payable	14,615,015	1,728,933	1,067,340	15,276,608	1,600,000
Other Postemployment Benefits Payable	2,161,756	787,139	276,032	2,672,863	
Total Long-Term Liabilities	\$ 24,022,858	\$ 2,626,759	\$ 3,287,329	\$ 23,362,288	\$ 2,800,690

Bonds Payable. The State Board of Education (SBE) issues capital outlay bonds on behalf of the College. These bonds mature serially and are secured by a pledge of the College's portion of the State-assessed motor vehicle license tax and by the State's full faith and credit. The SBE and the State Board of Administration (SBA) administer the principal and interest payments, investment of debt service resources, and compliance with reserve requirements. The College had the following bonds payable at June 30, 2012:

Bond Type	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
SBE Capital Outlay Bonds: Series 2005B, Refunding	<u>\$ 4,335,000</u>	5	2018

Annual requirements to amortize all bonded debt outstanding as of June 30, 2012, are as follows:

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Fiscal Year Ending June 30	SBE Capital Outlay Bonds		
	Principal	Interest	Total
2013	\$ 620,000	\$ 216,750	\$ 836,750
2014	655,000	185,750	840,750
2015	695,000	153,000	848,000
2016	740,000	118,250	858,250
2017	785,000	81,250	866,250
2018	840,000	42,000	882,000
Total	\$ 4,335,000	\$ 797,000	\$ 5,132,000

Note Payable. Section 1009.23(12), Florida Statutes, provides that parking fee revenue may be pledged by a college board of trustees as a dedicated revenue source for the repayment of debt. During the 2005-06 fiscal year, the College entered into an agreement with a commercial bank to borrow \$8.7 million, at a stated interest rate of 3.56 percent, to construct a parking garage at the Deerwood Center for which final payment will be made during the 2012-13 fiscal year as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 580,690	\$ 5,133	\$ 585,823

Special Termination Benefits Payable. Effective July 1, 2004, the Board of Trustees established a severance pay plan that is available to certain College administrative employees. The plan provides that once certain eligibility guidelines are met, benefit day credits of one-half to one full day are accrued for each month of service payable at various percentages in conjunction with the employee's daily rate of pay at the time of separation. The severance pay plan benefit is not available to an eligible employee until the date of separation from the College, and must be paid as a one-time lump-sum payment. At June 30, 2012, a liability for accrued plan benefits of \$497,127 for 13 employees was reported by the College as Special Termination Benefits Payable.

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$15,276,608. Of this amount, \$1.6 million is considered to be a current liability expected to be paid in the coming fiscal year, and represents the College's estimate of leave payments plus benefits for retirements, separations, and Deferred Retirement Option Program (DROP) participants during the 2012-13 fiscal year based on an average of actual payments over the previous several years.

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Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment benefits administered by the College.

Plan Description. The Other Postemployment Benefits Plan (Plan) is a single-employer, defined-benefit plan administered by the College. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the College are eligible to participate in the College's self-insured health insurance program for medical and prescription drug coverage. The College 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. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The College did not issue a stand-alone report and the Plan is not included in the annual 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 the Board of Trustees has established and may amend plan benefits and contribution rates. The College 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, 129 retirees received other postemployment benefits. The College provided required contributions of \$276,032 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 \$1,007,873.

Annual OPEB Cost and Net OPEB Obligation. The College'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 College's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College's net OPEB obligation:

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<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 441,568
Amortization of Unfunded Actuarial Accrued Liability	306,390
Interest on Normal Cost and Amortization	<u>29,918</u>
Annual Required Contribution	777,876
Interest on Net OPEB Obligation	86,470
Adjustment to Annual Required Contribution	<u>(77,207)</u>
Annual OPEB Cost (Expense)	787,139
Contribution Toward the OPEB Cost	<u>(276,032)</u>
Increase in Net OPEB Obligation	511,107
Net OPEB Obligation, Beginning of Year	<u>2,161,756</u>
Net OPEB Obligation, End of Year	<u><u>\$ 2,672,863</u></u>

The College'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:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 919,058	41.5%	\$ 1,702,024
2010-11	975,560	52.9%	2,161,756
2011-12	787,139	35.1%	2,672,863

Funded Status and Funding Progress. As of July 1, 2011, the most recent valuation date, the actuarial accrued liability for benefits was \$7,638,240 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$7,638,240 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$75,280,000 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.1 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

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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 College'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 College's 2011-12 fiscal year ARC. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3.5 percent per year, and an annual healthcare cost trend rate of 9.5 percent for the 2011-12 fiscal year, reduced by decrements to an ultimate rate of 5.5 percent after six years. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 25 years.

10. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the College 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. 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. 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.

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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. College employees already participating in the State College System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. 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 for employer contributions and vest fully and immediately for employee contributions.

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

Class or Plan	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
State and County Officers and Employees' Retirement System, Plan B	4.00	9.10
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 0.03 percent for administrative costs of the Investment Plan.

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

The College's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$4,242,868, \$5,408,271, and \$3,617,375, respectively, which were equal to the required contributions for each fiscal year.

There were 390 College participants in the Investment Plan during the 2011-12 fiscal year. The College's contributions including employee contributions to the Investment Plan totaled \$1,052,378, 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.

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State College System Optional Retirement Program. Section 1012.875, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible college instructors and administrators. The Program is designed to aid colleges in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing college contributes, on behalf 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 college 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 196 College participants during the 2011-12 fiscal year. The College's contributions to the Program totaled \$899,895 and employee contributions totaled \$340,870 for the 2011-12 fiscal year. The Program is no longer available to employees with an effective full-time hire date on or after September 1, 2011.

11. SENIOR MANAGEMENT SERVICE CLASS LOCAL ANNUITY PROGRAM

Section 121.055, Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class may elect to withdraw from the FRS altogether and participate in a lifetime monthly annuity program offered by the local agency. Pursuant thereto, the College established a Senior Management Service Class Local Annuity Program (Annuity Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Annuity Program, rather than the FRS. The employing college contributes, on behalf of the participant, 10.6 percent of the participant's salary and employees contribute 3 percent of the employee's salary. There were nine College participants during the 2011-12 fiscal year. The College's contributions to the Annuity Program totaled \$253,655 and employee contributions totaled \$71,789 for the 2011-12 fiscal year.

12. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through a self-insured program and commercially purchased insurance.

Self-Insured Program. The Board has established an individual self-insured program to provide group health insurance for its employees, retirees, former employees, and their dependents. The College's liability was limited by excess reinsurance to \$300,000 per insured person per year and by \$1 million of coverage for aggregate medical claims exceeding \$13.5 million for the 2012 calendar year. The plan is provided by an insurance company licensed by the Florida Department of Financial Services, Office of Insurance Regulation. The College contributes

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employee premiums as a fringe benefit. Employee dependent coverage is by payroll deduction and coverage for retirees, former employees, and their dependents is by prepaid premium.

The College reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claims liabilities depend on such complex factors as inflation, change in legal doctrines, and damage awards, the process used in computing the claims liabilities does not necessarily result in an exact amount. The College reevaluates claims liabilities periodically and the claims liabilities totaled \$1,794,525 as of June 30, 2012.

The following schedule represents the changes in claims liability for the past two fiscal years for the College's self-insured group health insurance program:

Fiscal Year	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	End of Fiscal Year
2010-11	\$ 1,630,001	\$ 11,715,409	\$ (11,735,211)	\$ 1,610,199
2011-12	1,610,199	12,037,391	(11,853,065)	1,794,525

The Board has established an individual self-insured program to provide workers' compensation coverage for its employees. The College's liability was limited by excess reinsurance to \$350,000 per occurrence for the 2011-12 fiscal year. The program administrator has been approved by the Florida Department of Financial Services, Office of Insurance Regulation. An actuarial review has determined a present value of estimated outstanding losses, including incurred but not reported claims, in the amount of \$273,723 discounted at a rate of three percent, at June 30, 2012.

The following schedule represents the changes in the claims liability for the past two fiscal years for the College's self-insured workers' compensation program:

Fiscal Year	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	End of Fiscal Year
2010-11	\$ 265,313	\$ 189,529	\$ (179,060)	\$ 275,782
2011-12	275,782	151,778	(153,837)	273,723

Settled claims arising from the risks associated with the self-insured programs have not exceeded coverage in any of the past three fiscal years.

Commercially Purchased Insurance. The College's insurance coverages for property, boiler and machinery, general liability, automobile liability, employee faithful performance, employee benefits liability, errors and omissions, and student professional liability were obtained through commercially purchased insurance. The College has also designated net assets of \$4 million in recognition of its two percent wind and hail property damage deductible in the event of major storm damage.

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Settled claims arising from these risks have not exceeded coverage in any of the past three fiscal years.

13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 68,298,591
Public Services	2,251,482
Academic Support	25,597,592
Student Services	19,073,673
Institutional Support	25,524,390
Operation and Maintenance of Plant	25,338,982
Scholarships and Waivers	34,695,008
Auxiliary Enterprises	1,966,165
Depreciation	<u>10,326,798</u>
Total Operating Expenses	<u><u>\$ 213,072,681</u></u>

14. RELATED PARTY TRANSACTION

The College entered into an agreement with the Florida State College Foundation, Inc., to serve as the contracting agent and execute performance agreements for the FSCJ Artist Series, a co-sponsored program of the College and the Foundation that provides a wide variety of cultural events (theatre productions, concerts, etc.). The agreement was effective for the 2011-12 fiscal year and provided, in part, for the Foundation to reimburse the College \$850,000 from the Artist Series surplus as reimbursement for salaries, benefits, and administrative costs paid by the College, except that the College reserved the right to waive the reimbursement in part or whole in the best interest of the College. On June 5, 2012, the Board of Trustees approved waiving reimbursement for \$1,021,470 in Artist Series expenses incurred by the College, and the College elected to not bill the Foundation for \$698,772 in other Foundation support expenses. As a result of these transactions, the College provided in-kind contributions to the Foundation, totaling \$1,720,242 to support Foundation scholarship activities.

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15. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

Statement of Current Unrestricted Funds Net Assets

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,492,316
Investments	932,176
Accounts Receivable, Net	5,687,700
Due from Other Governmental Agencies	106,335
Inventories	62,135
Prepaid Expenses	40,751

Total Current Assets	<u>11,321,413</u>
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Noncurrent Assets:

Investments	<u>41,036,872</u>
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TOTAL ASSETS	<u><u>\$ 52,358,285</u></u>
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 1,465,483
Salary and Payroll Taxes Payable	3,400,529
Due to Other Governmental Agencies	5,030,725
Deferred Revenue	3,686
Estimated Claims Payable	2,068,248
Deposits Held For Others	239,687
Compensated Absences Payable	1,600,000

Total Current Liabilities	<u>13,808,358</u>
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Noncurrent Liabilities:

Special Termination Benefits	497,127
Compensated Absences Payable	13,676,608
Other Postemployment Benefits Payable	<u>2,672,863</u>

TOTAL LIABILITIES	<u>30,654,956</u>
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TOTAL NET ASSETS	<u>21,703,329</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 52,358,285</u></u>
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**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Assets**

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$33,826,844	\$ 33,522,802
Federal Grants and Contracts	57,007
Sales and Services of Educational Departments	735,675
Auxiliary Enterprises	3,650,934
Other Operating Revenues	<u>801,997</u>
Total Operating Revenues	<u>38,768,415</u>

EXPENSES

Operating Expenses:

Personnel Services	112,960,196
Scholarships and Waivers	142,145
Utilities and Communications	7,293,954
Contractual Services	11,106,607
Other Services and Expenses	5,901,603
Materials and Supplies	<u>8,994,628</u>
Total Operating Expenses	<u>146,399,133</u>
Operating Loss	<u>(107,630,718)</u>

NONOPERATING REVENUES (EXPENSES)

State Noncapital Appropriations	73,756,443
Gifts and Grants	212,983
Investment Income	1,123,327
Proceeds from Sale of Capital Assets	32,496
Other Nonoperating Expenses	<u>(4,819,085)</u>
Net Nonoperating Revenues	<u>70,306,164</u>

Loss Before Other Revenues, Expenses,

Gains, or Losses	(37,324,554)
Transfers to/from Other Funds	<u>33,993,820</u>

Decrease in Net Assets	(3,330,734)
Net Assets, Beginning of Year	<u>25,034,063</u>

Net Assets, End of Year	<u><u>\$ 21,703,329</u></u>
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**FLORIDA STATE COLLEGE AT JACKSONVILLE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

16. SUBSEQUENT EVENTS

The USED Office of Federal Student Aid, Atlanta School Participation Division (ASPD), conducted an on-site review from July 30, 2012, through August 3, 2012, of the College's administration of its Federal student financial aid program. The ASPD issued a preliminary Program Review Report, Dated November 7, 2012, that included several findings. One of the findings related to students for which automated changes were made to the program of study without documentation of student intent for the change. As a result of the preliminary review, the College was required to conduct a review of students who had automated program of study changes and submit the results to the USED ASPD to make its final determinations and issue the final report. At the conclusion of our audit fieldwork in February 2013, the Final Program Review Report was not completed and required repayments to the Federal government, if any, had not been determined.

**FLORIDA STATE COLLEGE AT JACKSONVILLE
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)	Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 10,585,442	\$10,585,442	0%	\$ 57,986,868	18.3%
7/1/2009		9,798,279	9,798,279	0%	60,890,371	16.1%
7/1/2011		7,638,240	7,638,240	0%	75,280,000	10.1%

Note: (1) The College's OPEB actuarial valuation used the entry age cost actuarial method to estimate the actuarial accrued liability.

**FLORIDA STATE COLLEGE AT JACKSONVILLE
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 \$7,638,240 was significantly lower than the July 1, 2009, liability of \$9,798,279; primarily because the actual healthcare claims experience was less than the projected healthcare cost trend rate.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

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 Florida State College at Jacksonville, 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 College'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 College'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 College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *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 College'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 College'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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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
March 5, 2013