

FLORIDA GULF COAST UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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Notes: (1) Student body president.
(2) Faculty senate chair.
(3) Position was vacant from July 1, 2012,
through May 30, 2013.
(4) Position was vacant from January 11, 2013,
through May 30, 2013.

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 was conducted by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

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) 412-2722; 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 University's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2013. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2014-027.

Audit Methodology

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



DAVID W. MARTIN, CPA
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AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Gulf Coast University and of its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** and **SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**, 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.

Other Reporting Required by Government Auditing Standards

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

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
January 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2013, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2013, and June 30, 2012.

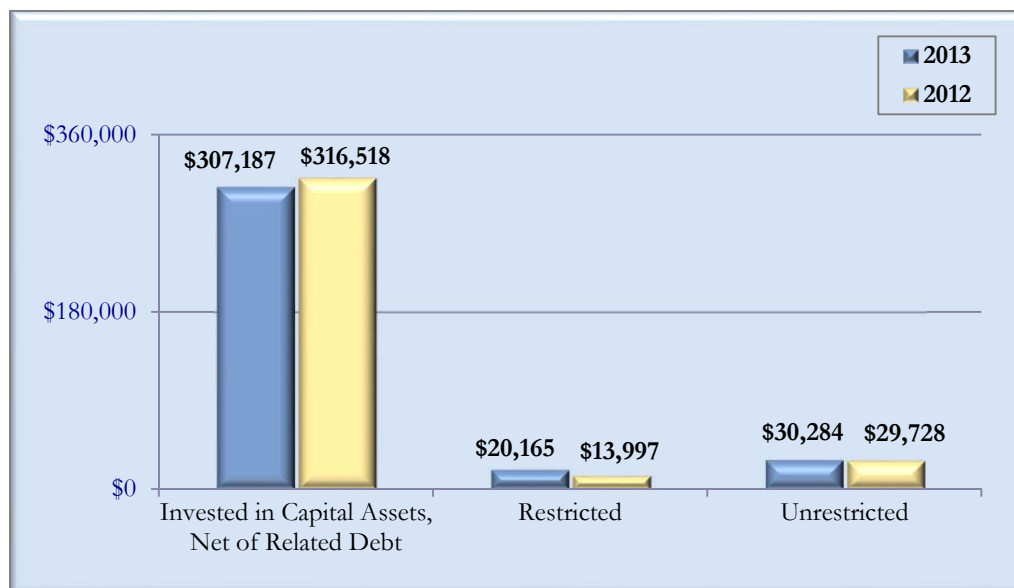
FINANCIAL HIGHLIGHTS

The University's assets totaled \$623.4 million at June 30, 2013. This balance reflects a \$28.2 million, or 4.7 percent, increase as compared to the 2011-12 fiscal year primarily resulting from the proceeds of a Financing Corporation bond issuance and incomes related to student growth. The growth in assets was accompanied with an increase in liabilities of \$30.8 million, or 13.1 percent, totaling \$265.8 million at June 30, 2013, compared to \$235 million at June 30, 2012, primarily from the issuance of the new debt by the Financing Corporation in the amount of \$30 million. As a result, the University's net position decreased by \$2.6 million, resulting in a year-end balance of \$357.6 million.

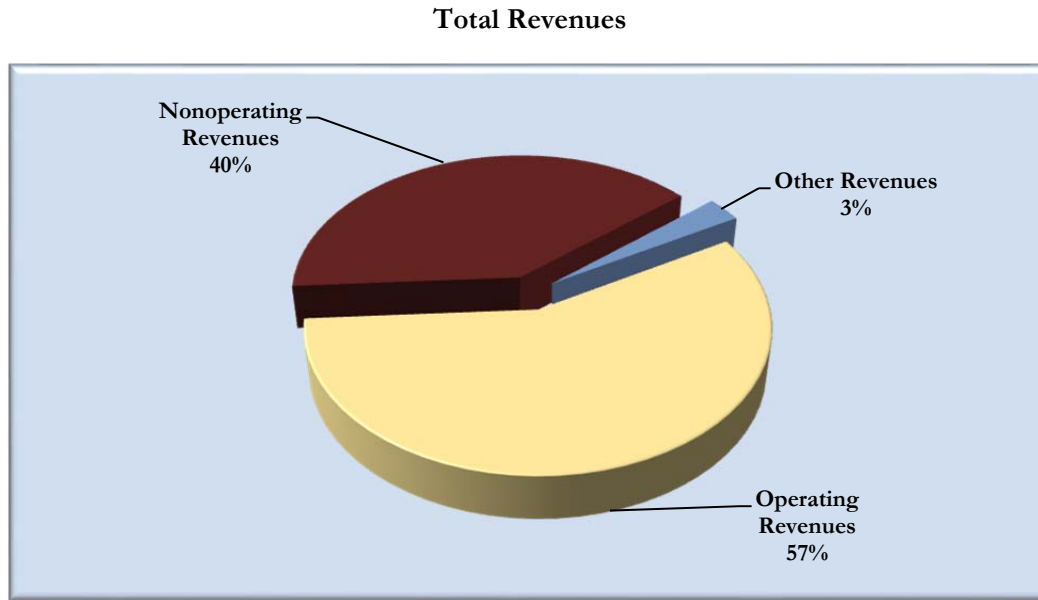
The University's revenues totaled \$181 million for the 2012-13 fiscal year, representing a 5.9 percent increase from the 2011-12 fiscal year primarily due to increases in sales and services of auxiliary enterprises and student tuition and fees. Operating expenses totaled \$176.6 million for the 2012-13 fiscal year, representing an increase of 3.9 percent over the 2011-12 fiscal year due mainly to increases in services and supplies associated with student growth.

Net position represents the residual interest in the University's assets after deducting liabilities. The University's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2012-13 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

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

THE STATEMENT OF NET POSITION

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

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

Condensed Statement of Net Position at June 30
(In Thousands)

	2013	2012
Assets		
Current Assets	\$ 67,714	\$ 57,791
Capital Assets, Net	515,582	515,434
Other Noncurrent Assets	40,134	21,968
Total Assets	623,430	595,193
Liabilities		
Current Liabilities	19,872	18,634
Noncurrent Liabilities	245,922	216,316
Total Liabilities	265,794	234,950
Net Position		
Net Investment in Capital Assets	307,187	316,518
Restricted	20,165	13,997
Unrestricted	30,284	29,728
Total Net Position	\$ 357,636	\$ 360,243

The University's financial position, as a whole, decreased slightly during the fiscal year ended June 30, 2013, with a reduction of net position in the amount of \$2.6 million, or 0.7 percent, from the 2011-12 fiscal year. The University continues to experience sound overall financial condition and health.

Total assets increased \$28.2 million, primarily in other noncurrent assets as a result of proceeds derived from the Capital Improvement Revenue Bonds, Series 2013A. The growth in student enrollment contributed to the growth in current assets primarily in invested funds. Increases in capital assets from continued student housing construction was offset with annual depreciation of University assets.

Total liabilities increased \$30.8 million, primarily the result of issuance of the Capital Improvement Revenue Bonds, Series 2013A. The change in the University's net position is determined by subtracting the increase in total liabilities from the increase in total assets. Net investment in capital assets decreased primarily from the annual depreciation of University assets. Restricted net position includes \$7.3 million in the required debt service reserve accounts for Capital Improvement Revenue Bonds, Series 2010A, 2010B, 2011A, and 2013A, and \$1 million restricted by the covenants of the Series 2008A bond reimbursement agreement.

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

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

The following summarizes the University's activity for the 2012-13 and 2011-12 fiscal years:

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

	<u>2012-13</u>	<u>2011-12</u>
Operating Revenues	\$ 103,795	\$ 94,242
Less, Operating Expenses	<u>176,560</u>	<u>169,860</u>
Operating Loss	(72,765)	(75,618)
Net Nonoperating Revenues	<u>65,149</u>	<u>62,584</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(7,616)	(13,034)
Other Revenues	<u>5,009</u>	<u>2,045</u>
Net Decrease In Net Position	(2,607)	(10,989)
Net Position, Beginning of Year	<u>360,243</u>	<u>371,232</u>
Net Position, End of Year	<u>\$ 357,636</u>	<u>\$ 360,243</u>

Operating Revenues

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

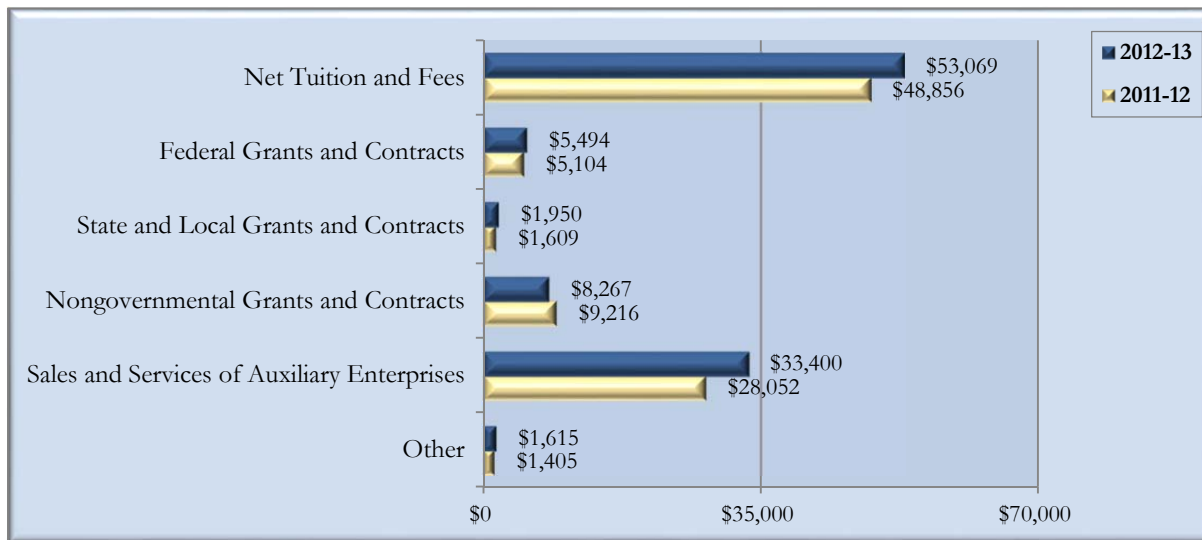
The following summarizes the operating revenues by source that were used to fund operating activities for the 2012-13 and 2011-12 fiscal years:

**Operating Revenues
(In Thousands)**

	<u>2012-13</u>	<u>2011-12</u>
Net Tuition and Fees	\$ 53,069	\$ 48,856
Federal Grants and Contracts	5,494	5,104
State and Local Grants and Contracts	1,950	1,609
Nongovernmental Grants and Contracts	8,267	9,216
Sales and Services of Auxiliary Enterprises	33,400	28,052
Other	<u>1,615</u>	<u>1,405</u>
Total Operating Revenues	<u>\$ 103,795</u>	<u>\$ 94,242</u>

The following chart presents the University's operating revenues for the 2012-13 and 2011-12 fiscal years:

**Operating Revenues
(In Thousands)**



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

- Total operating revenues for the 2012-13 fiscal year were \$103.8 million, of which \$53.1 million were from net student tuition and fees. A tuition allowance, which represents the difference between the stated charges for goods and services provided by the University and the amount that is actually paid by a student or third party making payment on behalf of a student, totaled \$26.8 million. Its reduction of gross fees of \$79.9 million resulted in net student tuition and fees of \$53.1 million, which represents an increase of \$4.2 million, or 8.6 percent, over the 2011-12 fiscal year. Increased student enrollment and higher tuition and fee rates are the cause of the revenue increase.
- Sales and services of auxiliary enterprises reflect a \$5.3 million, or 19.1 percent, increase over the 2011-12 fiscal year primarily due to the impact of the growth of student population on housing, health, and parking fees coupled with the expansion of student housing.

Operating Expenses

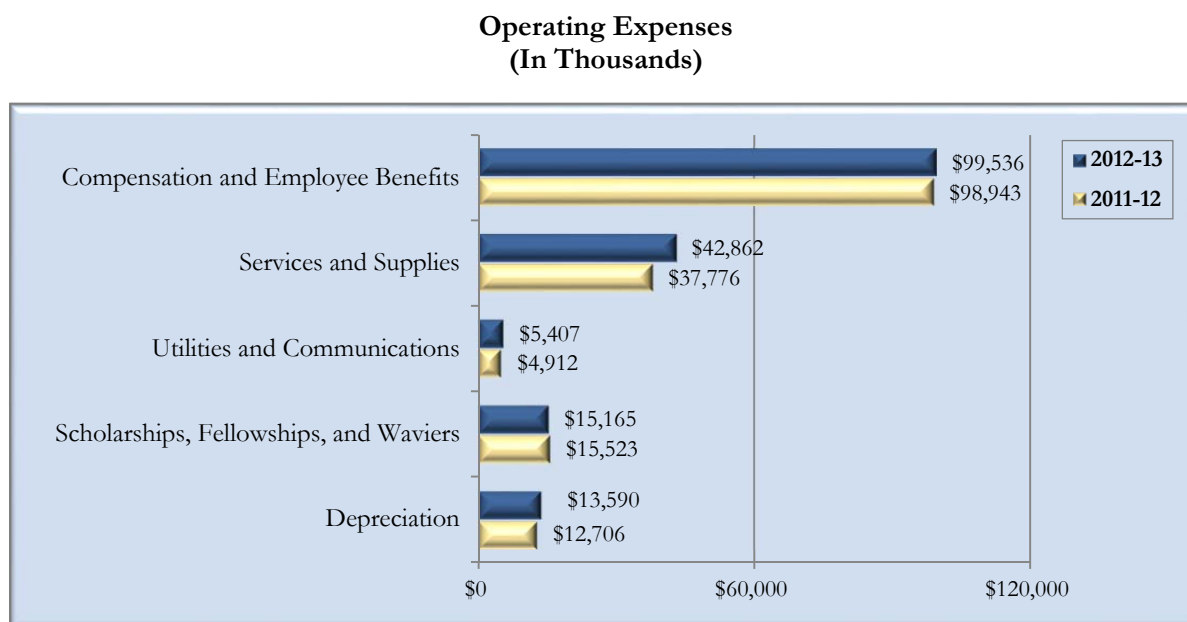
Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University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

The following summarizes the operating expenses by natural classifications for the 2012-13 and 2011-12 fiscal years:

**Operating Expenses
(In Thousands)**

	2012-13	2011-12
Compensation and Employee Benefits	\$ 99,536	\$ 98,943
Services and Supplies	42,862	37,776
Utilities and Communications	5,407	4,912
Scholarships, Fellowships, and Waivers	15,165	15,523
Depreciation	13,590	12,706
Total Operating Expenses	\$ 176,560	\$ 169,860

The following chart presents the University's operating expenses for the 2012-13 and 2011-12 fiscal years:



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

- Total operating expenses for the 2012-13 fiscal year were \$176.6 million, an increase of \$6.7 million, or 3.9 percent, over the 2011-12 fiscal year. Services and supplies increased \$5.1 million which is primarily associated with student growth. Depreciation and utility expense increased a total of \$1.4 million from the addition of new buildings during the fiscal year.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2012-13 and 2011-12 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2012-13</u>	<u>2011-12</u>
State Noncapital Appropriations	\$ 42,214	\$ 45,899
Federal and State Student Financial Aid	27,292	25,519
Investment Income	86	2,016
Other Nonoperating Revenues	2,555	1,227
Interest on Capital Asset-Related Debt	(6,804)	(5,955)
Other Nonoperating Expenses	<u>(194)</u>	<u>(6,122)</u>
Net Nonoperating Revenues	<u>\$ 65,149</u>	<u>\$ 62,584</u>

The increase of \$2.6 million or 4.1 percent in net nonoperating revenues is primarily due to the reduction of other nonoperating expenses offset with a decrease in both State noncapital appropriations and investment income. Other nonoperation expenses experienced a decrease from the 2011-12 fiscal year, which included a one-time removal of \$6.1 million net capital assets with a historical cost between \$1,000 and \$5,000. In response to the continued slow-moving economy during the 2012-13 fiscal year, the University received a \$3.7 million reduction in State

noncapital appropriations for strategic initiatives, such as, funding for enrollment growth. Investment income diminished \$1.9 million as a result of a decrease in the unrealized gain in the State Treasury Special Purpose Investment Account (SPIA) investment pool.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

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

	<u>2012-13</u>	<u>2011-12</u>
State Capital Appropriations	\$ 4,935	\$ 1,665
Capital Grants, Contracts, Donations, and Fees	<u>74</u>	<u>380</u>
Total	<u>\$ 5,009</u>	<u>\$ 2,045</u>

State capital appropriations increased \$3.3 million, or 196 percent, as compared to the 2011-12 fiscal year. State contributions (appropriations) for capital projects, depending upon the various stages of planning and completion, will fluctuate from year to year. Although, the University received an increase in funding from State capital appropriations in the 2012-13 fiscal year, funding overall continued to be adversely impacted by the economic condition of the State of Florida.

THE STATEMENT OF CASH FLOWS

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

The following summarizes cash flows for the 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows (In Thousands)

	<u>2012-13</u>	<u>2011-12</u>
Cash Provided (Used) by:		
Operating Activities	\$ (54,177)	\$ (58,160)
Noncapital Financing Activities	72,035	72,557
Capital and Related Financing Activities	7,075	(37,253)
Investing Activities	<u>(6,967)</u>	<u>(1,433)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,966	(24,289)
Cash and Cash Equivalents, Beginning of Year	<u>7,437</u>	<u>31,726</u>
Cash and Cash Equivalents, End of Year	<u>\$ 25,403</u>	<u>\$ 7,437</u>

Major sources of funds included in operating activities are net student tuition and fees of \$53.1 million; Federal, State and local grants and contracts of \$16.5 million; and sales and services of auxiliary enterprises of \$33.4 million. Major uses of operating funds were payments made to and on behalf of employees totaling \$96.2 million; payments to suppliers totaling \$47 million; and payments to and on behalf of students for scholarships and fellowships totaling \$15.2 million. The decrease in cash used from operating activities was due primarily to an increase in net student tuition and fees and a decrease in payments to suppliers offset by increased payments to employees and a decrease in sales and services of auxiliary enterprises.

The largest source of inflow of cash from noncapital financing activities was State noncapital appropriations in the amount of \$42.2 million. Also included in noncapital financing revenues was Federal and State student financial aid of \$27.3 million and \$48.1 million of Federal direct loan program receipts. The major use of funds was Federal direct loan program disbursements of \$48 million.

Cash provided by capital and related financing activities was \$7.1 million. Net cash provided was primarily due from \$31 million of proceeds from the issuance of Capital Improvement Revenue Bond, Series 2013A, offset with \$13.9 million in the purchase or construction of capital assets.

Cash used by investing activities was \$7 million from the net purchases of investments.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the University had \$612.8 million in capital assets, less accumulated depreciation of \$97.2 million, for net capital assets of \$515.6 million. Depreciation charges for the current fiscal year totaled \$13.6 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30 (In Thousands)		
	<u>2013</u>	<u>2012</u>
Land	\$ 56,142	\$ 56,057
Buildings	409,855	386,896
Construction in Progress	9,202	30,463
Infrastructure and Other Improvements	20,233	20,834
Furniture and Equipment	16,198	17,206
Library Resources	1,381	1,295
Property Under Capital Leases	169	224
Works of Art and Historical Treasures	2,242	2,238
Other Capital Assets	<u>160</u>	<u>221</u>
Capital Assets, Net	<u>\$ 515,582</u>	<u>\$ 515,434</u>

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

CAPITAL EXPENSES AND COMMITMENTS

The University's capital commitments at June 30, 2013, are as follows:

	Amount (In Thousands)
Total Committed	\$ 38,443
Completed to Date	<u>(9,202)</u>
Balance Committed	<u>\$ 29,241</u>

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

DEBT ADMINISTRATION

As of June 30, 2013, the University had \$230.6 million in outstanding bonds payable, loan payable, and capital leases payable, representing an increase of \$27 million, or 13.3 percent, from the prior fiscal year resulting primarily from the issuance of Capital Improvement Revenue Bond, Series 2013A. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30 (In Thousands)		
	<u>2013</u>	<u>2012</u>
Bonds Payable	\$ 225,174	\$ 198,003
Loan Payable	5,000	5,000
Capital Leases Payable	<u>439</u>	<u>571</u>
Total	<u>\$ 230,613</u>	<u>\$ 203,574</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on its financial position or operations during the 2013-14 fiscal year. The University's financial outlook for the future continues to be positive. The level of State support, compensation and benefit increases, and student tuition and fee increases impact the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. State noncapital appropriations, as a percentage of operating revenues and nonoperating revenues, represent 24 percent of the total of these combined revenues. The level of State support is, therefore, one of the key factors influencing the University's activities. Financial and political support from State government is expected to increase as economic conditions improve. While student enrollment increases, student tuition and fees will remain at the same level in the 2013-14 fiscal year, and resources will continue to be managed through expenditure analyses and efficiencies.

The budget the Florida Legislature adopted for the 2013-14 fiscal year provided \$55.9 million for the University's State noncapital appropriations, or an increase of 32.4 percent from the 2012-13 fiscal year. The legislative priorities for the University included the restoration of the prior fiscal year's budget cut of \$5.2 million; the provision for a \$1,400 base pay increase for employees who earned less than \$40,000, and a base pay increase of \$1,000 for those earning \$40,000 or above; and a University specific recurring special appropriation of \$6.5 million to support programs designed to enhance student success. In addition to the adopted budget, the University was awarded \$2.2 million in Performance-Based Funding for the 2013-14 fiscal year.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2013 enrollment of 14,251 students increased 4.7 percent over the Fall 2012 enrollment of 13,615 students. First time-in-college freshman admission of 2,773 students was relatively constant to the 2011-12 fiscal year. Efforts to improve retention, such as an aggressive marketing plan to recruit qualified students and enhanced intervention to assist academic success, will help ensure total enrollment continues in a positive trend. In the 2013-14 fiscal year, the University expects an increase in revenue from student tuition and fees due to increased enrollment. The State has approved and appropriated funds to the University's capital budget for the 2013-14 fiscal year in the amount of \$3.1 million. Public Education Capital Outlay appropriations for the 2013-14 fiscal year are for capital improvement projects in the amount of \$2.6 million, and repairs and maintenance in the amount of \$493 thousand.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

FLORIDA GULF COAST UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET POSITION June 30, 2013

	University	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,012,125	\$ 10,965,284
Investments	57,446,501	
Accounts Receivable, Net	2,352,221	159,936
Loans Receivable, Net	21,116	
Due from State	6,456,563	
Other Current Assets	425,738	
Total Current Assets	67,714,264	11,125,220
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	24,390,846	
Investments		609,831
Restricted Investments	9,144,554	62,990,298
Accounts and Pledges Receivable, Net		391,618
Note Receivable		5,000,000
Real Estate Held for Investment		4,551,500
Depreciable Capital Assets, Net	448,501,868	17,196
Nondepreciable Capital Assets	67,079,980	
Other Noncurrent Assets	6,598,938	
Total Noncurrent Assets	555,716,186	73,560,443
Total Assets	623,430,450	84,685,663
LIABILITIES		
Current Liabilities:		
Accounts Payable	7,678,633	93,675
Construction Contracts Payable	2,289,476	
Salaries and Wages Payable	1,641,291	
Deposits Payable	862,903	
Unearned Revenue	2,129,510	
Long-Term Liabilities - Current Portion:		
Bonds Payable	4,565,000	
Capital Leases Payable	145,327	
Compensated Absences Payable	560,169	
Gift Annuities Payable		24,547
Total Current Liabilities	19,872,309	118,222

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	<u>University</u>	<u>Component Unit</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 220,608,593	\$
Loan Payable	5,000,000	6,850,000
Capital Leases Payable	293,374	
Compensated Absences Payable	7,370,310	
Other Postemployment Benefits Payable	12,650,000	
Gift Annuities Payable		226,840
	<u>245,922,277</u>	<u>7,076,840</u>
Total Noncurrent Liabilities		
	<u>245,922,277</u>	<u>7,076,840</u>
Total Liabilities	<u>265,794,586</u>	<u>7,195,062</u>
NET POSITION		
Net Investment in Capital Assets	307,187,163	17,196
Restricted for Nonexpendable:		
Endowment		54,275,447
Restricted for Expendable:		
Debt Service	8,303,098	
Loans	432,497	
Capital Projects	7,247,891	
Other	4,181,589	17,134,648
Unrestricted	<u>30,283,626</u>	<u>6,063,310</u>
TOTAL NET POSITION	<u>\$ 357,635,864</u>	<u>\$ 77,490,601</u>

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	<u>University</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$26,765,669 (\$2,782,920 Pledged for Parking Facility Capital Improvement Debt)	\$ 53,068,466	\$
Federal Grants and Contracts	5,494,395	
State and Local Grants and Contracts	1,949,718	
Nongovernmental Grants and Contracts	8,266,863	
Sales and Services of Auxiliary Enterprises (\$276,986 Pledged for Parking facility Capital Improvement Debt, \$25,799,917 Pledged for Housing Facility Capital Improvement Debt, and \$1,749,040 Pledged for Student Services Capital Improvement Debt)	33,400,390	
Gifts and Donations		5,983,178
Rental Income Other		1,535,412
Other Operating Revenues	<u>1,615,259</u>	
Total Operating Revenues	<u>103,795,091</u>	<u>7,518,590</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	99,535,684	
Services and Supplies	42,862,322	
Utilities and Communications	5,406,745	
Scholarships, Fellowships, and Waivers	15,165,613	1,131,825
Depreciation	13,589,628	7,504
General and Administrative		1,112,219
University Support		1,478,889
Program Services		4,371,787
Other Operating Expenses		<u>28,114</u>
Total Operating Expenses	<u>176,559,992</u>	<u>8,130,338</u>
Operating Loss	<u>(72,764,901)</u>	<u>(611,748)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	42,214,031	
Federal and State Student Financial Aid	27,291,705	
Investment Income	85,707	7,053,282
Other Nonoperating Revenues	2,554,896	
Interest on Capital Asset-Related Debt	(6,803,554)	(142,317)
Other Nonoperating Expenses	<u>(194,314)</u>	
Net Nonoperating Revenues	<u>65,148,471</u>	<u>6,910,965</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(7,616,430)</u>	<u>6,299,217</u>
State Capital Appropriations	4,934,793	
Capital Grants, Contracts, Donations, and Fees	<u>74,647</u>	<u>2,343,393</u>
Increase (Decrease) in Net Position	<u>(2,606,990)</u>	<u>8,642,610</u>
Net Position, Beginning of Year	<u>360,242,854</u>	<u>68,847,991</u>
Net Position, End of Year	<u>\$ 357,635,864</u>	<u>\$ 77,490,601</u>

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 53,093,394
Grants and Contracts	16,526,664
Sales and Services of Auxiliary Enterprises	33,400,390
Other Operating Receipts	1,121,625
Payments to Employees	(96,182,515)
Payments to Suppliers for Goods and Services	(46,992,978)
Payments to Students for Scholarships and Fellowships	(15,165,613)
Net Loans Issued to Students	22,428
Net Cash Used by Operating Activities	<u>(54,176,605)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	42,214,031
Federal and State Student Financial Aid	27,291,705
Federal Direct Loan Program Receipts	48,146,403
Federal Direct Loan Program Disbursements	(48,009,476)
Net Change in Funds Held for Others	12,150
Other Receipts	2,554,896
Other Expenses	(175,000)
Net Cash Provided by Noncapital Financing Activities	<u>72,034,709</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	31,036,700
State Capital Appropriations	753,000
Purchase or Construction of Capital Assets	(13,912,555)
Principal Paid on Capital Debt and Leases	(3,991,817)
Interest Paid on Capital Debt and Leases	(6,810,152)
Net Cash Provided by Capital and Related Financing Activities	<u>7,075,176</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	130,311,080
Purchase of Investments	(138,499,640)
Investment Income	1,221,511
Net Cash Used by Investing Activities	<u>(6,967,049)</u>
Net Increase in Cash and Cash Equivalents	17,966,231
Cash and Cash Equivalents, Beginning of Year	<u>7,436,740</u>
Cash and Cash Equivalents, End of Year	<u>\$ 25,402,971</u>

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (72,764,901)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	13,589,628
Change in Assets and Liabilities:	
Receivables, Net	690,411
Other Noncurrent Assets	425,738
Accounts Payable	849,375
Salaries and Wages Payable	58,194
Deposits Payable	(400,978)
Compensated Absences Payable	(215,025)
Unearned Revenue	80,953
Other Postemployment Benefits Payable	<u>3,510,000</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (54,176,605)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING ACTIVITIES	
Unrealized losses on investments were recognized as an decrease to investment	
income on the statement of revenues, expenses, and changes in net position, but	
are not cash transactions for the statement of cash flows.	\$ (1,057,913)

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

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

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

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

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 University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

revenues include State noncapital appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

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

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

The amount reported as restricted cash and cash equivalents for the University at June 30, 2013, includes at fair value \$23,997,278 of Corporation moneys held in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. The Corporation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Cash and Cash Equivalent – Component Unit. The amount reported as cash and cash equivalents for the Foundation (discretely presented component unit) at June 30, 2013, includes \$5,159,460 of bank deposits of which \$492,814 is insured by the Federal deposit insurance with the remainder of \$4,666,646 collateralized under

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

the Florida Public Deposits Program. The Foundation also had cash held on deposit with investment managers at June 30, 2013, totaling \$431,345, all of which was covered by the Securities Investor Protection Corporation.

Cash and cash equivalents reported for the Foundation at June 30, 2013, also includes at fair value \$5,374,479 of Foundation moneys held in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. The Foundation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Capital Assets. University capital assets consist of land; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; property under capital lease; works of art and historical treasures; and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 35 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment:
 - Equipment (Other than Moveable) – 10 to 25 years
 - Computer Equipment – 3 to 6 years
 - Moveable Equipment – 5 to 20 years
- Library Resources – 10 years
- Property Under Capital Lease – 5 to 8 years
- Works of Art and Historical Treasures – 20 years
- Other Capital Assets – 4 to 10 years

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

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Of the reported investments, \$1 million is restricted by the covenants of the bond reimbursement agreement for the Capital Improvement Revenue Bonds, Series 2008A and \$7,303,098 for debt service reserve accounts for the Series 2010A, 2010B, 2011A, and 2013A bonds. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

External Investment Pools

The University reported investments at fair value totaling \$66,591,055 at June 30, 2013, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the University's discretely presented component unit (Foundation) at June 30, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Government and Federal Agency Obligations	\$ 2,935,045
Bonds, Notes, and Other Debt Securities	4,416,222
Stocks and Other Equity Securities	12,940,813
Mutual Funds	37,844,503
Other Investments	5,463,546
Total Component Unit Investments	<u>\$ 63,600,129</u>

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit debt obligation maturities. The Foundation's investments in debt securities at June 30, 2013, are reported at fair value as follows:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1 Year	1 - 5 Years	5 - 10 Years	Over 10 Years
United States Government and Federal Agency Obligations	\$ 2,935,045	\$ 681	\$ 1,273,588	\$ 1,048,825	\$ 611,951
Bonds, Notes, and Other Debt Securities	4,416,222	377,853	1,733,188	1,754,127	551,054
Total	\$ 7,351,267	\$ 378,534	\$ 3,006,776	\$ 2,802,952	\$ 1,163,005

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the component unit and not registered in their names. The Foundation utilizes the services of an investment advisor and several investment managers. All investments, except for certificates of deposit and debt securities, are held by the investment managers and are uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Foundation's name. The Foundation has \$7,351,267 in debt securities, of which \$2,269,844 is held by the investment managers and is uninsured and unregistered, with securities held by the counter-party's trust department or agent in the Foundation's name. The Foundation's mutual fund investments totaling \$37,844,503 at June 30, 2013, are not exposed to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form. There were no losses during the period due to default by counter-parties to investment transactions.

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

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2013, the University reported the following amounts as accounts receivable:

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 1,130,990
Student Tuition and Fees	1,179,123
Other	<u>42,108</u>
Total Accounts Receivable	<u>\$ 2,352,221</u>

Loans Receivable. Loans receivable consist of short-term loans made to students pending the receipt of student financial aid.

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans receivable, are reported net of allowances of \$873,035 and \$17,445, respectively, at June 30, 2013.

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

4. DUE FROM STATE

This amount consists of \$6,456,563 due from the State from Public Education Capital Outlay funds for construction of University facilities.

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 56,056,617	\$ 85,674	\$	\$ 56,142,291
Works of Art and Historical Treasures	1,735,358			1,735,358
Construction in Progress	30,462,713	13,592,772	34,853,154	9,202,331
Total Nondepreciable Capital Assets	\$ 88,254,688	\$ 13,678,446	\$ 34,853,154	\$ 67,079,980
Depreciable Capital Assets:				
Buildings	\$ 437,285,365	\$ 32,489,579	\$	469,774,944
Infrastructure and Other Improvements	28,336,852	383,932		28,720,784
Furniture and Equipment	32,920,706	1,734,147	1,312,638	33,342,215
Library Resources	9,880,228	287,118		10,167,346
Property Under Capital Leases	1,946,259			1,946,259
Works of Art and Historical Treasures	519,321	30,000		549,321
Other Capital Assets	1,193,381	7,240		1,200,621
Total Depreciable Capital Assets	512,082,112	34,932,016	1,312,638	545,701,490
Less, Accumulated Depreciation:				
Buildings	50,389,300	9,530,730		59,920,030
Infrastructure and Other Improvements	7,502,360	985,416		8,487,776
Furniture and Equipment	15,715,112	2,722,628	1,293,324	17,144,416
Library Resources	8,585,643	200,872		8,786,515
Property Under Capital Leases	1,721,743	54,984		1,776,727
Works of Art and Historical Treasures	16,642	26,469		43,111
Other Capital Assets	972,518	68,529		1,041,047
Total Accumulated Depreciation	84,903,318	13,589,628	1,293,324	97,199,622
Total Depreciable Capital Assets, Net	\$ 427,178,794	\$ 21,342,388	\$ 19,314	\$ 448,501,868

6. UNEARNED REVENUE

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

7. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2013, include bonds payable, loan payable, capital leases payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 198,003,490	\$ 31,036,701	\$ 3,866,598	\$ 225,173,593	\$ 4,565,000
Loan Payable	5,000,000			5,000,000	
Capital Leases Payable	570,519		131,818	438,701	145,327
Compensated Absences Payable	8,145,504	313,284	528,309	7,930,479	560,169
Other Postemployment Benefits Payable	9,140,000	3,672,000	162,000	12,650,000	
Total Long-Term Liabilities	\$ 220,859,513	\$ 35,021,985	\$ 4,688,725	\$ 251,192,773	\$ 5,270,496

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

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

On June 11, 2013, the Corporation issued Capital Improvement Revenue Bonds, Series 2013A, in the amount of \$30,000,000 plus original issue premium of \$1,036,701. The proceeds from the sale of Series 2013A were issued to begin construction and equipping of a new 520 bed student residence facility located on the Florida Gulf Coast campus in the South Lake Village Student Residence (Phase XIII).

The University has entered into a Master Ground and Operating Lease Agreement with the Corporation. The University leases land to the Corporation for a rental fee of \$1 per year. The land covered by the ground lease together with the improvements thereon is leased back to the University to manage and operate. The master lease will terminate on the date on which the revenue bonds and any related obligations are paid in full. Revenue from the student residence facilities and parking facilities is pledged to pay rent to the Corporation or its assignees equal to the debt service on the revenue bonds. During the 2012-13 fiscal year, parking facilities rental and fee income, student residence rental income, and student union facilities sales and services totaled \$3,059,906, \$25,799,917, and \$1,749,040, respectively.

The University had the following bonds payable outstanding at June 30, 2013:

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Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Revenue Bonds:				
2003 Student Residences (Phase VI)	\$ 47,500,000	\$ 40,200,000	4.00 - 5.00	2034
2005A Student Residences (Phase VII)	8,000,000	6,800,000	.06 (2)	2035
2005B Student Parking (Phase I)	6,000,000	5,100,000	.06 (2)	2035
2007A Student Residences Phase VIII	25,000,000	23,027,056	4.00 - 5.00	2037
2007B Student Union (Facility)	6,000,000	5,500,000	.06 (2)	2037
2007C Student Parking (Phase II)	10,000,000	8,855,262	4.00 - 5.00	2037
2008A Student Residences (Phase IX)	22,000,000	20,265,000	.05 (2)	2038
2009A Student Parking (Phase III)	8,000,000	7,490,000	.06 (2)	2039
2010A Student Housing (Phase X)	32,000,000	30,640,589	3.00 - 5.50	2040
2010B Student Housing (Phase XI)	17,000,000	16,292,527	2.00 - 5.00	2040
2011A Student Housing (Phase XII)	30,000,000	29,966,458	4.00 - 5.50	2041
2013A Student Housing (Phase XIII)	30,000,000	31,036,701	2.25 - 5.00	2043
Total Capital Improvement Revenue Bonds:	\$ 241,500,000	\$ 225,173,593		

Notes: (1) Amount outstanding includes unamortized bond discounts and premiums.
(2) Variable interest rate at June 30, 2013.

Annual requirements to amortize all capital improvement bonds outstanding as of June 30, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,565,000	\$ 7,736,572	\$ 12,301,572
2015	4,820,000	8,066,125	12,886,125
2016	5,750,000	7,928,132	13,678,132
2017	5,825,000	7,762,380	13,587,380
2018	6,215,000	7,584,308	13,799,308
2019-2023	34,485,000	34,672,513	69,157,513
2024-2028	42,135,000	28,233,079	70,368,079
2029-2033	52,980,000	19,492,207	72,472,207
2034-2038	47,575,000	9,827,036	57,402,036
2039-2043	19,655,000	2,272,936	21,927,936
Subtotal	224,005,000	133,575,288	357,580,288
Net Discounts and Premiums	1,168,593		1,168,593
Total	\$ 225,173,593	\$ 133,575,288	\$ 358,748,881

Loan Payable. On March 27, 2006, the Corporation entered into a Tax Exempt Note, Series 2005, in the amount of \$5 million. The Corporation drew the entire \$5 million to purchase land for the purpose of establishing a Naples Center which reflects the outstanding balance of the loan at June 30, 2013. Principal payments are equal to all funds collected by the Foundation pursuant to a capital campaign of the Florida Gulf Coast University Naples Center Project. The obligations under the loan are secured solely by the assignment of the capital campaign. As of June 30, 2013, the Foundation had raised \$1 million of the \$5 million capital

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campaign toward this project. Interest is assessed on the difference between the \$5 million borrowed and the donations collected reduced by the amount of interest income earned during the year on the donations. Net capitalized interest expense for the year ended June 30, 2013, was \$85,674. A schedule of future minimum payments remaining under the loan agreement cannot be amortized due to the unknown timing of capital campaign pledges and receipt of such pledges. The maturity date of the loan and all indebtedness outstanding was amended on April 1, 2010, and becomes due on or before March 31, 2014.

Effective June 30, 2013, the Corporation amended the non-interest bearing loan and hold harmless agreement with the University dated February 1, 2011, in the amount of \$3,800,000 and the non-interest bearing loan and hold harmless agreement with the University dated May 3, 2011, in the amount of \$7,760,000 to release, hold harmless and forever discharge the loans from any and all liability, claims, demands, actions of whatever kind or nature by cancellation of the debt in a contribution of capital to the University. The Corporation no longer reports these two loans as loans receivable on its separately issued financial statements. Because the financial activity of the Corporation is blended with the financial activity of the University for University reporting purposes, these transactions offset each other and do not appear in the University's financial statements.

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

On July 27, 2007, the Foundation secured a \$3,000,000 five year loan from Northern Trust Bank at a fixed rate of 4.28 percent to purchase the Marine Science and Environmental Education Center property. On December 5, 2012, the Foundation entered into a five year variable interest rate loan which includes an annual principal payment of \$150,000. This loan bears interest at 65 percent of prime rate (2.11% at June 30, 2013) which is payable quarterly:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Loans Payable	\$ 7,000,000	\$	\$ 150,000	\$ 6,850,000	\$

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Debt service requirements of the loans are as follows:

Year Ending June 30	Mortgage Note		Line of Credit		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$	\$ 60,206	\$	\$ 71,500	\$	\$ 131,706
2015	150,000	57,038		71,500	150,000	128,538
2016	150,000	53,869	4,000,000	17,875	4,150,000	71,744
2017	150,000	50,700			150,000	50,700
2018	2,400,000	23,766			2,400,000	23,766
Total	\$ 2,850,000	\$ 245,579	\$ 4,000,000	\$ 160,875	\$ 6,850,000	\$ 406,454

Capital Leases Payable. The University entered into an energy savings contract in July 2003 and acquired equipment under a capital lease. The stated interest rate is 4.3 percent. In August 2011 the University entered into a capital lease for network storage equipment. The stated interest rate is 1.8 percent. Principal and interest requirements on the capital leases outstanding as of June 30, 2013, are presented in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2014	\$ 157,709
2015	152,853
2016	<u>150,916</u>
Total Minimum Payments	461,478
Less, Amount Representing Interest	<u>22,777</u>
Present Value of Minimum Payments	<u>\$ 438,701</u>

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2013, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$7,930,479. The current portion of the compensated absences liability, \$560,169, is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a historical percentage of leave used applied to total accrued leave liability.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 34 retirees received postemployment healthcare benefits. The University provided required contributions of \$162,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$305,000, which represents 0.45 percent of covered payroll.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 2,556,000
Amortization of Unfunded Actuarial Accrued Liability	928,000
Interest on Normal Cost and Amortization	<u>139,000</u>
Annual Required Contribution	3,623,000
Interest on Net OPEB Obligation	366,000
Adjustment to Annual Required Contribution	<u>(317,000)</u>
Annual OPEB Cost (Expense)	3,672,000
Contribution Toward the OPEB Cost	<u>(162,000)</u>
Increase in Net OPEB Obligation	3,510,000
Net OPEB Obligation, Beginning of Year	<u>9,140,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 12,650,000</u></u>

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The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2010-11	\$ 1,980,000	6.7%	5,619,000
2011-12	3,647,000	3.5%	9,140,000
2012-13	3,672,000	4.4%	12,650,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$26,010,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$26,010,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$68,269,168 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 38.1 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 benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the University's 2012-13 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 8.29 percent, 9.16 percent, and 8.13 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 10.43 percent, 4.92 percent, and 8.80 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.5 percent in the fourth year grading identically to 5 percent

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over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was 24 years.

8. RETIREMENT PROGRAMS

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

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

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

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

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The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Florida Retirement System, Special Risk	3.00	14.90
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled \$2,480,885, \$1,753,861, and \$1,952,483, respectively, which were equal to the required contributions for each fiscal year.

There were 182 University participants in the Investment Plan during the 2012-13 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled \$648,089, which was equal to the required contribution for the 2012-13 fiscal year.

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

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

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

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behalf of the participant, 5.64 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 541 University participants during the 2012-13 fiscal year. The University's contributions to the Program totaled \$2,007,344 and employee contributions totaled \$1,836,686 for the 2012-13 fiscal year.

9. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2013, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
FY12 Infrastructure	\$ 1,729,587	\$ 4,337	\$ 1,725,250
FY13 Infrastructure	4,866,193	105,851	4,760,342
Phase XIII - South Housing Residence	29,614,769	7,397,159	22,217,610
Subtotal	36,210,549	7,507,347	28,703,202
Project Balances Under \$1 Million	2,232,103	1,694,984	537,119
Total	\$ 38,442,652	\$ 9,202,331	\$ 29,240,321

10. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2012-13 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for named windstorm and flood losses. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

11. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position 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	\$ 61,179,783
Research	2,993,136
Public Services	4,624,734
Academic Support	11,335,703
Student Services	10,420,343
Institutional Support	17,977,094
Operation and Maintenance of Plant	9,830,552
Scholarships, Fellowships, and Waivers	15,165,613
Depreciation	13,589,628
Auxiliary Enterprises	29,443,406
Total Operating Expenses	<u>\$ 176,559,992</u>

12. SEGMENT INFORMATION

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

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Condensed Statement of Net Position

	Housing Facility	Parking Facility	Student Services
Assets			
Current Assets	\$ 42,704,528	\$ 2,543,146	\$ 2,965,627
Capital Assets, Net	165,812,470	22,603,484	5,743,982
Other Noncurrent Assets	7,303,099		
Total Assets	<u>215,820,097</u>	<u>25,146,630</u>	<u>8,709,609</u>
Liabilities			
Current Liabilities	9,388,837	760,441	293,152
Noncurrent Liabilities	194,273,331	20,935,262	5,400,000
Total Liabilities	<u>203,662,168</u>	<u>21,695,703</u>	<u>5,693,152</u>
Net Position			
Net Investment in Capital Assets	(3,219,582)	(186,630)	243,982
Restricted - Expendable	8,303,098		
Unrestricted	7,074,413	3,637,557	2,772,475
Total Net Position	<u>\$ 12,157,929</u>	<u>\$ 3,450,927</u>	<u>\$ 3,016,457</u>

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

	Housing Facility	Parking Facility	Student Services
Operating Revenues	\$ 25,799,917	\$ 3,059,906	\$ 1,749,040
Depreciation Expense	(3,472,482)	(503,902)	(126,018)
Other Operating Expenses	(14,406,447)	(1,379,342)	(678,725)
Operating Income	<u>7,920,988</u>	<u>1,176,662</u>	<u>944,297</u>
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	321,832	32,049	15,146
Other Nonoperating Expense	(5,447,540)	(606,920)	(340,130)
Net Nonoperating Expenses	<u>(5,125,708)</u>	<u>(574,871)</u>	<u>(324,984)</u>
Increase in Net Position	2,795,280	601,791	619,313
Net Position, Beginning of Year	9,362,649	2,849,136	2,397,144
Net Position, End of Year	<u>\$ 12,157,929</u>	<u>\$ 3,450,927</u>	<u>\$ 3,016,457</u>

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Condensed Statement of Cash Flows

	Housing Facility	Parking Facility	Student Services
Net Cash Provided (Used) by:			
Operating Activities	\$ 12,147,216	\$ 1,543,160	\$ 1,058,951
Noncapital Financing Activities	(5,447,741)	(420,390)	(349,943)
Capital and Related Financing Activities	16,130,208	(490,000)	(100,000)
Investing Activities	(5,381,187)	(632,770)	(609,008)
Net Increase in Cash and Cash Equivalents	17,448,496		
Cash and Cash Equivalents, Beginning of Year	6,548,982		
Cash and Cash Equivalents, End of Year	\$ 23,997,478	\$	\$

13. BLENDED COMPONENT UNIT

The University has one blended component unit as discussed in note 1. The following financial information is presented for the University's blended component unit:

Condensed Statement of Net Position

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Assets:				
Current Assets	\$ 48,479,777	\$ 43,806,027	\$ (24,571,540)	\$ 67,714,264
Capital Assets, Net	13,022,413	502,559,435		515,581,848
Other Noncurrent Assets	204,252,782	1,235,024	(165,353,468)	40,134,338
Total Assets	265,754,972	547,600,486	(189,925,008)	623,430,450
Liabilities:				
Current Liabilities	9,428,821	10,443,488		19,872,309
Noncurrent Liabilities	225,608,593	210,238,692	(189,925,008)	245,922,277
Total Liabilities	235,037,414	220,682,180	(189,925,008)	265,794,586
Net Position:				
Net Investment in Capital Assets		307,187,163		307,187,163
Restricted - Expendable	8,303,098	11,861,977		20,165,075
Unrestricted	22,414,460	7,869,166		30,283,626
Total Net Position	\$ 30,717,558	\$ 326,918,306	\$	\$ 357,635,864

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Operating Revenues	\$ 18,135,167	\$ 85,659,924	\$	\$ 103,795,091
Depreciation Expense		(13,589,628)		(13,589,628)
Other Operating Expenses	(11,514,882)	(158,241,988)	6,786,506	(162,970,364)
Operating Income (Loss)	6,620,285	(86,171,692)	6,786,506	(72,764,901)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	393,985	71,752,354		72,146,339
Interest Expense		(17,048)	(6,786,506)	(6,803,554)
Other Nonoperating Revenue (Expenses)	(14,029,454)	13,835,140		(194,314)
Net Nonoperating Revenues (Expenses)	(13,635,469)	85,570,446	(6,786,506)	65,148,471
Other Revenues		5,009,440		5,009,440
Increase (Decrease) in Net Position	(7,015,184)	4,408,194		(2,606,990)
Net Position, Beginning of Year	37,732,742	322,510,112		360,242,854
Net Position, End of Year	\$ 30,717,558	\$ 326,918,306	\$	\$ 357,635,864

Condensed Statement of Cash Flows

	FGCU Financing Corporation Component	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ 11,567,480	\$ (71,872,546)	\$ 6,128,461	\$ (54,176,605)
Noncapital Financing Activities	(2,469,454)	74,504,163		72,034,709
Capital and Related Financing Activities	15,454,535	(2,250,898)	(6,128,461)	7,075,176
Investing Activities	(6,622,966)	(344,083)		(6,967,049)
Net Increase in Cash and Cash Equivalents	17,929,595	36,636		17,966,231
Cash and Cash Equivalents, Beginning of Year	6,612,662	824,078		7,436,740
Cash and Cash Equivalents, End of Year	\$ 24,542,257	\$ 860,714	\$	\$ 25,402,971

14. CURRENT UNRESTRICTED FUNDS

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Statement of Current Unrestricted Funds Net Position

Assets

Current Assets:

Cash and Cash Equivalents	\$ 9,500
Investments	52,538,924
Receivables, Net	1,167,014
Other Current Assets	<u>425,738</u>

Total Current Assets 54,141,176

Noncurrent Assets:

Other Noncurrent Assets	<u>6,598,938</u>
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Total Assets 60,740,114

Liabilities

Current Liabilities:

Accounts Payable	7,429,169
Construction Contracts Payable	476,049
Salary and Wages Payable	1,439,763
Deposits Payable	531,028
Compensated Absences Payable	<u>560,169</u>

Total Current Liabilities 10,436,178

Noncurrent Liabilities:

Compensated Absences Payable	7,370,310
Other Postemployment Benefits Payable	<u>12,650,000</u>

Total Noncurrent Liabilities 20,020,310

Total Liabilities 30,456,488

Total Net Position \$ 30,283,626

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Position**

Revenues

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$26,765,669	\$ 48,566,314
Nongovernmental Grants and Contracts	31,241
Sales and Services of Auxiliary Enterprises (\$276,986 Pledged for Parking Facility Capital Improvement Debt, \$25,799,917 Pledged for the Housing Facility Capital Improvement Debt, and \$1,749,040 Pledged for Student Services Capital Improvement Debt)	33,400,390
Other Operating Revenues	433,368
Total Operating Revenues	82,431,313

Expenses

Operating Expenses:

Compensation and Employee Benefits	92,416,846
Services and Supplies	31,584,565
Utilities and Communications	5,406,642
Scholarships and Fellowships	732,614
Total Operating Expenses	130,140,667
Operating Loss	(47,709,354)

Nonoperating Revenues (Expenses)

State Noncapital Appropriations	42,214,031
Investment Loss	(52,291)
Other Nonoperating Revenues	671,280
Other Nonoperating Expenses	(175,000)
Net Nonoperating Revenues	42,658,020

**Income Before Other Revenues,
Expenses, Gains, or Losses**

Transfers to/from Other Funds	5,606,750
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Increase in Net Position

Net Position, Beginning of Year	555,416
	29,728,210
Net Position, End of Year	\$ 30,283,626

15. RELATED PARTY TRANSACTIONS

University and Blended Component Unit. As part of a Master Ground and Operating Lease Agreement (see note 7), the University operates and pays all operating costs of the facilities leased from the Florida Gulf Coast University Financing Corporation (Corporation) from the gross rental income from the respective student residences and parking facilities. The net rental income is then paid to the Corporation by the University in

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

arrears based on collections. The University provides office space and related occupancy costs such as utilities and use of other office machines as well as accounting and record keeping services at no cost to the Corporation.

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

The Foundation maintains a portion of its investments and had two outstanding loans with a financial institution of which a Foundation board member was an officer during the fiscal year ended June 30, 2013. The Foundation investments managed by the financial institution at June 30, 2013, totaled \$25,457,650. The Foundation had outstanding loans totaling \$6,850,000 with the financial institution at June 30, 2013, and paid \$292,317 in interest during the fiscal year ended June 30, 2013.

The Foundation maintains a portion of its fixed-income investments with an investment firm of which a Foundation board member was an officer during the fiscal year ended June 30, 2013. The Foundation investments managed by the investment firm at June 30, 2013, totaled \$5,221,418.

The Foundation's operating bank account is at Fifth Third Bank. A foundation board member was an officer of Fifth Third Bank during the fiscal year ending June 30, 2013. On June 30, 2013 the Foundation had \$5,046,246 on deposit at Fifth Third Bank.

On July 2, 2012, the University renewed the lease agreement with the Foundation for the use of waterfront property for the University's Vester Marine Science and Environmental Education Center. The monthly lease payment of \$32,000 covers the general operating and maintenance expenses incurred by the Foundation.

16. SUBSEQUENT EVENTS

On July 1, 2013, the Corporation entered into Loan Agreement (2005A), dated July 1, 2013, in the amount of \$6,800,000, and a Loan Agreement (2005B), dated July 1, 2013, in the amount of \$5,100,000, collectively hereafter referred to as the Loan, authorizing the purchase and refunding of Capital Revenue Bonds, Series 2005A (Housing Phase VII), and Capital Revenue Bonds, Series 2005B (Parking Phase I), which resulted in defeasance of the variable rate capital revenue bond debt and securing a fixed rate tax-exempt Loan. The proceeds from the fixed rate tax-exempt loan were used to refund the outstanding principal debt of Capital Revenue Bonds, Series 2005A, in the par amount of \$6,800,000, and Capital Revenue Bonds, Series 2005B, in the par amount of \$5,100,000. The maturity dates or principal payment schedules were not modified.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (2) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 10,557,000	\$ 10,557,000	0%	\$ 55,932,003	18.9%
7/1/2009		17,315,000	17,315,000	0%	57,220,579	30.3%
7/1/2011		26,010,000	26,010,000	0%	66,215,314	39.3%

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



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

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

Report on the Financial Statements

We have audited, in accordance with the 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, the financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 10, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in

internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, 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*.

We noted certain matters that we reported to University management in our operational audit report No. 2014-027.

Purpose of this Report

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
January 10, 2014