



AUDITOR GENERAL
DAVID W. MARTIN, CPA



FLORIDA GULF COAST UNIVERSITY

Financial Audit

For the Fiscal Year Ended June 30, 2007

During the audit period, the President of the University was Dr. William C. Merwin to January 17, 2007. The position of President remained vacant through June 30, 2007. Dr. Richard Pegnetter was appointed Interim President effective January 17, 2007. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

Scott F. Lutgert, Chair
Edward A. Morton, Vice-Chair
Dr. Sharon Irish Bevins (1)
Brian Cobb
Kirt Gallatin to 4-30-07 (2)
Lindsay M. Harrington
Larry D. Hart
Dr. W. Bernard Lester
David Lucas
James Malone
Brad Piepenbrink from 5-01-07 (2)
Jerry Starkey
Michael Villalobos
Jaynie M. Whitcomb

Notes: (1) Faculty senate chair.
(2) Student body president.

FLORIDA GULF COAST UNIVERSITY

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EXECUTIVE SUMMARY

The audit of the financial statements of Florida Gulf Coast University for the fiscal year ended June 30, 2007, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the University, a component unit of the State of Florida, and a determination as to whether management has complied with applicable laws, rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the University is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the University's financial statements:

- We found that the University's financial statements presented fairly, in all material respects, the financial positions of the University and its aggregate discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- No significant deficiencies are noted in our report on the University's internal control over financial reporting.
- The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Jaime Hoelscher, CPA, and supervised by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2007, as shown on pages 15 through 41. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and discretely presented component units, as described in note 1 to the financial statements. The financial statements of the blended component unit represent 29 percent of the total assets, and 71 percent of the total liabilities, reported for Florida Gulf Coast University. The financial statements of the discretely presented component unit 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 reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports 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 aggregate discretely presented component unit as of June 30, 2007, and the respective changes in financial

position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our 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 the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 14 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
March 14, 2008



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

We have audited the financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its aggregate discretely presented component unit as of and for the fiscal year ended June 30, 2007, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the blended and aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of

the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

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

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

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*.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



David W. Martin, CPA
March 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Florida Gulf Coast University (University) for the fiscal year ended June 30, 2007, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$396.3 million at June 30, 2007. This balance reflects a \$96.8 million, or 32.3 percent, increase from the 2005-06 fiscal year, resulting primarily from an increase in moneys due from the State for authorized construction projects in the amount of \$49.8 million. While assets grew, liabilities increased by a lesser amount of \$53.4 million, or 59.1 percent, totaling \$143.7 million at June 30, 2007, compared to \$90.3 million at June 30, 2006. As a result, the University's net assets increased by \$43.4 million, reaching a year end balance of \$252.6 million.

The University's revenues totaled \$161 million for the 2006-07 fiscal year, representing a 28.2 percent increase over the 2005-06 fiscal year due mainly to an increase in general and capital appropriations from the Legislature and an increase in operating revenue due to student enrollment growth. Operating expenses totaled \$114.5 million for the 2006-07 fiscal year, representing an increase of 13.5 percent over the 2005-06 fiscal year due mainly to an increase in compensation, employee benefits, and new hires.

OVERVIEW OF FINANCIAL STATEMENTS

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

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. The difference between total

assets and total liabilities, net assets, is one indicator of the University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition.

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

| Condensed Statement of Net Assets | | |
|--|-------------------|-------------------|
| (In Thousands) | | |
| | 2007 | 2006 |
| Assets | | |
| Current Assets | \$ 114,500 | \$ 63,276 |
| Capital Assets, Net | 247,223 | 228,746 |
| Other Noncurrent Assets | 34,602 | 7,475 |
| Total Assets | 396,325 | 299,497 |
| Liabilities | | |
| Current Liabilities | 34,109 | 15,735 |
| Noncurrent Liabilities | 109,580 | 74,551 |
| Total Liabilities | 143,689 | 90,286 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 174,018 | 171,096 |
| Restricted: | | |
| Debt Service | 1,000 | 1,000 |
| Loans | 395 | 293 |
| Capital Projects | 59,367 | 18,296 |
| Other Restricted Net Assets | 4,727 | 6,354 |
| Unrestricted | 13,129 | 12,172 |
| Total Net Assets | \$ 252,636 | \$ 209,211 |

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2007, with an increase of net assets in the amount of \$43.4 million, or 20.8 percent, over the 2005-06 fiscal year. This is an indicator of the sound overall financial condition and health of the University.

The total assets of the University increased \$96.8 million, primarily due to an increase in moneys due from the State for authorized construction projects in the amount of \$49.8 million. The total liabilities of the University also increased \$53.4 million. The increase in liabilities is due primarily to the issuance of the Capital Improvement Revenue Bonds Series 2007A in the amount of \$25 million plus original issue premium of \$.6 million and Capital Improvement Bonds, Series 2007C in the amount of \$10 million plus original issue discount of \$.2 million. The increase in the University's net assets is determined by subtracting the increase in total liabilities from the increase in total assets.

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

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

The following summarizes the University's activity for the 2006-07 and 2005-06 fiscal years:

| Condensed Statement of Revenue, Expenses, and Changes in Net Assets (In Thousands) | | |
|---|--------------------------|--------------------------|
| | <u>2006-07</u> | <u>2005-06</u> |
| Operating Revenues | \$ 54,553 | \$ 49,463 |
| Operating Expenses | <u>114,517</u> | <u>100,893</u> |
| Operating Loss | (59,964) | (51,430) |
| Net Nonoperating Revenues | <u>57,498</u> | <u>49,386</u> |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | (2,466) | (2,044) |
| Other Revenues, Expenses, Gains, or Losses | <u>45,891</u> | <u>24,739</u> |
| Net Increase (Decrease) in Net Assets | 43,425 | 22,695 |
| Net Assets, Beginning of Year | <u>209,211</u> | <u>186,516</u> |
| Net Assets, End of Year | <u><u>\$ 252,636</u></u> | <u><u>\$ 209,211</u></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 during the 2006-07 and 2005-06 fiscal years:

| Operating Revenues (In Thousands) | | |
|--|------------------------|------------------------|
| | <u>2006-07</u> | <u>2005-06</u> |
| Net Tuition and Fees | \$21,120 | \$19,225 |
| Federal Grants and Contracts | 6,819 | 9,063 |
| State and Local Grants and Contracts | 3,033 | 2,695 |
| Nongovernmental Grants and Contracts | 6,080 | 3,640 |
| Sales and Services of Auxiliary Enterprises | 16,584 | 14,295 |
| Other | 917 | 545 |
| Total Operating Revenues | <u>\$54,553</u> | <u>\$49,463</u> |

Total operating revenues for the 2006-07 fiscal year were \$54.6 million, of which \$30.2 million was from gross 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 a third party making payment on behalf of a student, totaled \$9.1 million. Its reduction of gross fees resulted in net student tuition and fees of \$21.1 million, which represents an increase of \$1.9 million, or 9.9 percent, over the 2005-06 fiscal year. Increased student enrollment and higher tuition and fee rates are the cause of the revenue increase.

Federal grants and contracts decreased by \$2.2 million and non-Federal grants and contracts increased by \$2.8 million because of the timing of the number and size of grants received through the Office of Sponsored Research and Programs. Sales and services from auxiliary enterprises reflect a 16 percent increase over the 2005-06 fiscal year due primarily to new student housing and parking facilities.

Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2006-07 and 2005-06 fiscal years:

| Operating Expenses (In Thousands) | | |
|--|--------------------------|--------------------------|
| | <u>2006-07</u> | <u>2005-06</u> |
| Compensation and Employee Benefits | \$ 71,012 | \$ 62,244 |
| Services and Supplies | 21,649 | 19,932 |
| Utilities and Communications | 4,695 | 3,704 |
| Scholarships, Fellowships, and Waivers | 9,233 | 7,669 |
| Depreciation | 7,928 | 7,344 |
| Total Operating Expenses | <u>\$ 114,517</u> | <u>\$ 100,893</u> |

Total operating expenses, including depreciation of \$7.9 million, for the 2006-07 fiscal year were \$114.5 million, of which \$71 million, or 62 percent, was for compensation and employee benefits. Compensation and employee benefits increased approximately 14.1 percent over the 2005-06 fiscal year as a result of an annual salary increase of 4.5 percent and new hires. The increase in scholarships, fellowships, and waivers was due to increased Federal and State student financial aid disbursements and increased University waivers. An increase in financial aid disbursements is directly related to student enrollment growth of 14.5 percent over the 2005-06 fiscal year. Other than the increase in utilities expense of 26.8 percent, there were no other significant or unexpected changes in operating expenses.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, 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 2006-07 and 2005-06 fiscal years:

| Nonoperating Revenues (Expenses) (In Thousands) | | |
|--|-------------------------|-------------------------|
| | <u>2006-07</u> | <u>2005-06</u> |
| State Appropriations | \$ 48,065 | \$ 42,461 |
| Federal and State Student Financial Aid | 10,307 | 8,436 |
| Investment Income | 2,102 | 546 |
| Interest on Capital Asset-Related Debt | (2,521) | (1,924) |
| Other Nonoperating Expenses | (455) | (133) |
| Net Nonoperating Revenues | <u>\$ 57,498</u> | <u>\$ 49,386</u> |

Nonoperating revenue changes were the result of several factors. State appropriations increased by \$5.6 million as a result of increase in general revenue appropriations. Federal and State student financial aid increased by 22.2 percent over the 2005-06 fiscal year due to an increase from certain Federal and State student financial assistance programs directly associated with student enrollment growth. Interest income from investments increased

dramatically over 2005-06 fiscal year by 285 percent due to an unrealized loss recorded in fiscal year 2005-06 in the amount of \$.7 million, as compared to an unrealized gain in the amount of \$.3 million recorded in fiscal year 2006-07 and improved investment interest rates.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University’s other revenues, expenses, gains, or losses for the 2006-07 and 2005-06 fiscal years:

| Other Revenues, Expenses, Gains, or Losses (In Thousands) | | |
|--|------------------|------------------|
| | <u>2006-07</u> | <u>2005-06</u> |
| Capital Appropriations | \$ 45,891 | \$ 24,541 |
| Capital Grants, Contracts, Donations | | 198 |
| Total | <u>\$ 45,891</u> | <u>\$ 24,739</u> |

Capital appropriations increased significantly from the 2005-06 fiscal year. The increase of \$21.4 million was due to a greater amount of State capital outlay moneys in the 2006-07 fiscal year and the recognition of previously deferred capital appropriations. Capital, grants, contracts, and donations from the 2005-06 fiscal year included property donations, primarily from the foundation.

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 the capital financing activities include all plant funds and related long-term debt activities. Cash flows from the 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 the noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2006-07 and 2005-06 fiscal years:

| Condensed Statement of Cash Flows (In Thousands) | | |
|---|------------------|-----------------|
| | <u>2006-07</u> | <u>2005-06</u> |
| Cash Provided (Used) by: | | |
| Operating Activities | \$ (49,467) | \$ (41,433) |
| Noncapital Financing Activities | 58,381 | 50,899 |
| Capital and Related Financing Activities | 17,368 | (13,261) |
| Investing Activities | 820 | (3,145) |
| | <u>27,102</u> | <u>(6,940)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 27,102 | (6,940) |
| Cash and Cash Equivalents, Beginning of Year | 5,400 | 12,340 |
| | <u>\$ 32,502</u> | <u>\$ 5,400</u> |
| Cash and Cash Equivalents, End of Year | \$ 32,502 | \$ 5,400 |

The major sources of funds included in operating activities are net student tuition and fees of \$21.2 million; Federal, State, and local grants and contracts of \$15.6 million; and sales and services of auxiliary enterprises of \$16.6 million. Major uses of funds were payments made to and on behalf of employees totaling \$70.1 million; payments to suppliers totaling \$26.2 million; and payments to and on behalf of students for scholarships totaling \$9.2 million. The \$8 million increase in cash used from operating activities was due to an increase in tuition and fee revenues offset by increased employee salaries and benefit payments.

The largest source of inflow of cash for noncapital financing activities is general State appropriations in the amount of \$48.1 million. Also included in noncapital financing revenues was Federal and State financial aid of \$10.3 million. The overall increase of \$7.5 million in cash provided by noncapital financing activities was primarily due to an increase in State capital appropriations for purchasing capital assets of \$5.6 million and an increase in Federal and State student financial aid of \$1.9 million.

Cash provided by capital and related financing activities increased by \$30.6 million. This increase was primarily due from net proceeds received from the issuance of Capital Improvement Revenue Bonds 2007 in the amount of \$35.4 million, an increase in capital appropriations in the amount of \$44.8 million, a decrease in capital subsidies and transfers in the amount of \$52.7 million and a decrease of payments made for the purchase or construction of capital assets in the amount of \$6.4 million.

Cash provided by investing activities was \$.82 million, an increase of \$4 million. The increase was due to a \$3.4 million decrease in investment purchases and a \$.6 million increase in investment income.

CAPITAL ASSETS, CAPITAL COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2007, the University had \$292.2 million in capital assets, less accumulated depreciation of \$44.9 million, for net capital assets of \$247.2 million. Depreciation charges for the current fiscal year totaled \$7.9 million. The University's significant capital asset additions of \$22 million were primarily for new buildings and

renovations reported as construction in progress including the Library Expansion, Central Energy Plant Expansion, Student Housing Phase VIII, and Parking Garage Phase II projects. The condition of the University facilities is excellent. Since the University opened in August 1997, its oldest building is just ten years old.

The following table summarizes the University’s capital assets, net of accumulated depreciation, at June 30:

| Capital Assets, Net at June 30 | | |
|---------------------------------------|------------------|------------------|
| (In Thousands) | | |
| | 2007 | 2006 |
| Land | \$ 31,206 | \$ 31,087 |
| Buildings | 155,799 | 150,889 |
| Construction in Progress | 35,369 | 21,840 |
| Infrastructure and Other Improvements | 11,106 | 11,638 |
| Furniture and Equipment | 10,420 | 8,891 |
| Library Resources | 1,541 | 2,248 |
| Property Under Capital Lease | 1,235 | 1,506 |
| Works of Art and Historical Treasures | 274 | 272 |
| Other Capital Assets | 273 | 375 |
| Total Capital Assets, Net | \$247,223 | \$228,746 |

The State has approved and appropriated funds to the University’s capital budget for the 2007-08 fiscal year in the amount of \$24.2 million. Appropriations include the following Public Education Capital Outlay appropriations: (1) School of Engineering building in the amount of \$9.3 million, (2) Roads Infrastructure in the amount of \$5 million, (3) Central Energy Plant Expansion in the amount of \$4.8 million, (4) Academic VII building in the amount of \$3.4 million, and (5) Academic VI building in the amount of \$1.7 million. In addition, the University expects to recognize as revenue a deferred Alec P. Courtelis Capital Facilities Match appropriation of \$5 million for construction of a Botanical Garden research building, \$10 million for the College of Business, and \$5 million for the School of Engineering.

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

CAPITAL COMMITMENTS

University’s major capital commitments at June 30, 2007, are as follows:

| | Amount (In Thousands) |
|--------------------------|--------------------------|
| Total Commitment | \$ 141,700 |
| Completed to Date | 35,369 |
| Balance Committed | \$ 106,331 |

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

DEBT ADMINISTRATION

As of June 30, 2007, the University had \$105.7 million in outstanding bonds, loans, and capital leases payable, representing an increase of \$34.6 million, or 48.7 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

| | 2007 | 2006 |
|----------------|------------------|------------------|
| Bonds | \$ 99,435 | \$ 65,220 |
| Loans | 5,000 | 5,000 |
| Capital Leases | 1,275 | 889 |
| Total | \$105,710 | \$ 71,109 |

The increase in long-term debt is due to the Florida Gulf Coast University Financing Corporation's issue of Capital Improvement Bonds, Series 2007A in the amount of \$25 million plus original issue premium of \$.6 million and Capital Improvement Bonds, Series 2007C in the amount of \$10 million plus original issue discount of \$.2 million. The proceeds derived from the sale of Series 2007A Revenue Bonds were used to begin construction of South Lake Village Student Residence Phase VIII and the proceeds derived from the sale of the Series 2007C Revenue Bonds were used to begin construction of a multi-level Parking Garage Phase II. Both are currently under construction with a planned completion date of Fall 2008.

Additional information about the University's long-term debt is presented in the notes to the 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 2007-08 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. General State appropriations as a percentage of operating revenues and nonoperating revenues represent approximately 42 percent of the total of these combined revenues. The level of State support is, therefore, one of the key factors influencing the University's activities. Financial and political support from State government is expected to remain fairly stable with moderate growth over the long-term.

The budget that the Florida Legislature adopted for the 2007-08 fiscal year provided a 7 percent increase for State universities. Regarding the University's legislative priorities, the Legislature did not provide a salary increase, however, did provide for a \$1,000 lump-sum payment for State university employees; and provided \$40 million for enrollment growth at State universities (the University's share is 18.8 percent).

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2007 enrollment of 9,510 increased approximately 16.3 percent over the Fall 2006 enrollment of 8,175. First-time-in-college freshman admissions of 1,908 students represent a 17.4 percent increase over the 2005-06 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 assure this positive trend. In 2007-08, the University expects an increase in revenue from student tuition and fees because of increased enrollment and increased student tuition and fees.

REQUESTS FOR INFORMATION

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

FINANCIAL SECTION

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2007

| | University | Component Unit |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 313,868 | \$ 16,306,186 |
| Investments | 28,134,019 | |
| Accounts Receivable, Net | 2,165,371 | 1,132,262 |
| Due from State | 83,887,022 | 5,324,868 |
| | 114,500,280 | 22,763,316 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | 32,187,953 | |
| Investments | | 1,387,495 |
| Restricted Investments | 2,382,888 | 40,640,251 |
| Accounts and Pledges Receivable, Net | | 3,476,100 |
| Loans and Notes Receivable, Net | | 5,000,000 |
| Depreciable Capital Assets, Net | 180,378,907 | 24,505 |
| Nondepreciable Capital Assets | 66,844,190 | 1,954,000 |
| Other Noncurrent Assets | 30,938 | 1,950 |
| | 281,824,876 | 52,484,301 |
| TOTAL ASSETS | \$ 396,325,156 | \$ 75,247,617 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 2,778,812 | \$ 326,669 |
| Construction Contracts Payable | 4,478,677 | |
| Salaries and Wages Payable | 2,456,237 | |
| Deposits Payable | 896,523 | |
| Deferred Revenue | 21,432,413 | |
| Long-Term Liabilities - Current Portion: | | |
| Bonds Payable | 1,452,644 | |
| Capital Leases Payable | 174,384 | |
| Compensated Absences Payable | 439,739 | |
| Due to Others | | 152,898 |
| Gift Annuities Payable | | 5,167 |
| | 34,109,429 | 484,734 |

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2007

| | University | Component Unit |
|---|-----------------------|----------------------|
| LIABILITIES (Continued) | | |
| Noncurrent Liabilities: | | |
| Bonds Payable | \$ 97,982,187 | \$ |
| Loans Payable | 5,000,000 | 2,000,000 |
| Capital Leases Payable | 1,100,378 | |
| Compensated Absences Payable | 5,496,988 | |
| Due to Others | | 137,224 |
| Gift Annuities Payable | | 71,231 |
| | 109,579,553 | 2,208,455 |
| Total Noncurrent Liabilities | | |
| | 143,688,982 | 2,693,189 |
| TOTAL LIABILITIES | | |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 174,017,688 | 24,505 |
| Restricted for Nonexpendable: | | |
| Endowment | | 34,706,550 |
| Restricted for Expendable: | | |
| Debt Service | 1,000,000 | |
| Loans | 394,565 | |
| Capital Projects | 59,366,965 | |
| Other | 4,727,451 | 31,648,958 |
| Unrestricted | 13,129,505 | 6,174,415 |
| | 252,636,174 | 72,554,428 |
| TOTAL NET ASSETS | | |
| | \$ 396,325,156 | \$ 75,247,617 |

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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

| | University | Component Unit |
|--|----------------|-------------------|
| REVENUES | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net of Scholarship Allowances of \$9,114,581 | \$ 21,120,511 | \$ |
| Federal Grants and Contracts | 6,818,547 | |
| State and Local Grants and Contracts | 3,033,300 | |
| Nongovernmental Grants and Contracts | 6,079,644 | |
| Sales and Services of Auxiliary Enterprises | 16,584,179 | |
| Gifts and Donations | | 6,388,833 |
| Rental Income and Other | | 1,115,028 |
| Other Operating Revenues | 917,265 | |
| Total Operating Revenues | 54,553,446 | 7,503,861 |
| EXPENSES | | |
| Operating Expenses: | | |
| Compensation and Employee Benefits | 71,012,011 | |
| Services and Supplies | 21,648,666 | |
| Utilities and Communications | 4,695,553 | |
| Scholarships, Fellowships, and Waivers | 9,233,356 | 846,550 |
| Depreciation | 7,927,613 | 6,828 |
| General and Administrative | | 1,315,200 |
| University Support | | 2,244,213 |
| Program Services | | 4,386,804 |
| Other Operating Expenses | | 2,500,000 |
| Total Operating Expenses | 114,517,199 | 11,299,595 |
| Operating Loss | (59,963,753) | (3,795,734) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State Appropriations | 48,065,010 | |
| Federal and State Student Financial Aid | 10,307,061 | |
| Investment Income | 2,102,134 | 6,659,579 |
| Other Nonoperating Revenues | | 5,324,868 |
| Interest on Capital Asset-Related Debt | (2,521,316) | (171,344) |
| Other Nonoperating Expenses | (455,280) | |
| Net Nonoperating Revenues | 57,497,609 | 11,813,103 |
| Income (Loss) Before Other Revenues, Expenses, Gains, or Losses | (2,466,144) | 8,017,369 |
| Capital Appropriations | 45,891,445 | |
| Capital Grants, Contracts, and Donations | | 6,292,335 |
| Increase in Net Assets | 43,425,301 | 14,309,704 |
| Net Assets, Beginning of Year | 209,210,873 | 58,244,724 |
| Net Assets, End of Year | \$ 252,636,174 | \$ 72,554,428 |

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, 2007

| | University |
|---|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Tuition and Fees, Net | \$ 21,215,499 |
| Grants and Contracts | 15,589,914 |
| Sales and Services of Auxiliary Enterprises | 16,584,179 |
| Other Operating Receipts | 2,679,373 |
| Payments to Employees | (70,144,732) |
| Payments to Suppliers for Goods and Services | (26,157,587) |
| Payments to Students for Scholarships and Fellowships | (9,233,356) |
| Net Loans Issued to Students | 109 |
| | (49,466,601) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State Appropriations | 48,065,010 |
| Federal and State Student Financial Aid | 10,307,061 |
| Net Change in Funds Held for Others | 8,803 |
| | 58,380,874 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from Capital Debt | 35,416,870 |
| Capital Appropriations | 60,891,445 |
| Capital Subsidies and Transfers | (49,889,955) |
| Purchase of Capital Assets | (24,859,782) |
| Principal Paid on Capital Debt and Leases | (1,666,223) |
| Interest Paid on Capital Debt and Leases | (2,524,241) |
| | 17,368,114 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of Investments, Net | (991,936) |
| Investment Income | 1,811,318 |
| | 819,382 |
| Net Increase in Cash and Cash Equivalents | 27,101,769 |
| Cash and Cash Equivalents, Beginning of Year | 5,400,052 |
| | \$ 32,501,821 |

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2007**

| | University |
|--|-------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | |
| Operating Loss | \$ (59,963,753) |
| Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 7,927,613 |
| Change in Assets and Liabilities: | |
| Receivables, Net | (74,986) |
| Accounts Payable | 186,741 |
| Salaries and Wages Payable | 212,539 |
| Deposits Payable | 536,020 |
| Compensated Absences Payable | 654,740 |
| Deferred Revenue | 1,054,485 |
| | \$ (49,466,601) |

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, 2007

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, and is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the State's 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 Florida law, State Board of Education rules, and Board of Governors regulations. The Trustees select the University President and the State Board of Education ratifies the candidate selected. 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 *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast Financing Corporation (Corporation) is included within the University 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's Controller's office.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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 6C-9.011, is included within the University reporting entity as discretely presented component unit. The Foundation was incorporated on April 19, 1993, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is a direct-support organization of the University. Its purpose is to encourage, solicit, collect, receive, and administer gifts and bequests of property and funds for scientific, educational, and charitable purposes, all for the advancement of the University and its 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 the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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,

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component unit uses the accrual basis of accounting whereby revenues are earned and expenses are recognized when incurred, and follows GASB standards of accounting and financial reporting.

The University follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

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

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

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

Capital Assets. University capital assets consist of land, buildings, construction in progress, infrastructure and other improvements, furniture and equipment, property under capital lease, library resources, 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 \$1,000 for tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 35 to 50 years
- Infrastructure and Other Improvements – 15 to 50 years
- Property Under Capital Lease – 8 to 10 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
- Works of Art – 20 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds payable, loans payable, capital leases payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, cash in demand accounts, and funds 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. Funds held by the trustee for the Corporation are

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

held in cash or in a State Treasury Special Purpose Investment Account (SPIA). Cash and cash equivalents of the Foundation (discretely presented component unit) consist of bank deposits of which \$103,115 is insured by the Federal depository insurance with the remainder collateralized under the Florida Public Deposits Program. 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.

3. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University’s Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; 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 \$47,500,000 bond issue. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University’s investments at June 30, 2007, are reported at fair value, as follows:

| <u>Investment Type</u> | <u>Amount</u> |
|--|----------------------|
| External Investment Pools: | |
| State Treasury Special Purpose Investment Account | \$ 14,937,836 |
| State Board of Administration Local Government Surplus Funds Trust Fund | 15,579,071 |
| Total University Investments | \$ 30,516,907 |

External Investment Pools

The University reported investments at fair value totaling \$14,937,836 at June 30, 2007, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by

**FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007**

Standard and Poor’s and had an effective duration of 3.21 years at June 30, 2007. 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 the financial statements of the State’s Comprehensive Annual Financial Report.

The University reported investments at fair value totaling \$15,579,071 at June 30, 2007, in the Local Government Surplus Funds Trust Fund administered by State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The University’s investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a-7 like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the actual underlying investments. The SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign currency risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2007.

Component Unit Investments

Investments held by the University’s component unit (Foundation) at June 30, 2007, are reported at fair value, as follows:

| <u>Investment Type</u> | <u>Amount</u> |
|--|------------------------------------|
| U.S. Government and Federal Agency Obligations | \$ 982,381 |
| Bonds, Notes, and Other Debt Securities | 5,606,528 |
| Stocks and Other Equity Securities | 31,322,061 |
| Certificates of Deposit | 2,784,624 |
| Money Market and Mutual Funds | <u>1,332,152</u> |
| Total Component Unit Investments | <u><u>\$ 42,027,746</u></u> |

The Foundation’s investment policy allows for investments in equity securities traded on the three principal United States Stock Exchanges (NYSE, AMSE, 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 investment policy allows investments in bonds issued by the United States Government, and agency of the United States Government, publicly traded corporations or their affiliates, taxable municipal bonds, preferred stocks, and real estate investment trusts.

Interest Rate Risk: The Foundation’s investment policy, as a means of managing its exposure to fair-value losses arising from increasing interest rates, has established a target for the duration of its fixed income

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

portfolio to be between 3 and 7 years. The Foundation's investments in debt securities at June 30, 2007, are reported at fair value as follows:

| Investment Type | Investment Maturities (In Years) | | | | |
|---|----------------------------------|-------------------|---------------------|---------------------|-------------------|
| | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 |
| U.S. Government and Federal Obligations | \$ 982,381 | \$ | \$ 358,646 | \$ 366,961 | \$ 256,774 |
| Bonds, Notes, and Other Debt Securities | 5,606,528 | 371,366 | 2,767,095 | 1,867,920 | 600,147 |
| Total | \$ 6,588,909 | \$ 371,366 | \$ 3,125,741 | \$ 2,234,881 | \$ 856,921 |

Credit Risk: 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.

Custodial Credit Risk: The Foundation utilizes the services of seven investment managers. All investments, except for certificates of deposit, 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 three long-term certificates of deposit with local financial institutions totaling \$2,784,624. Each long-term certificate of deposit is insured by the FDIC up to \$100,000 with the remainder uninsured and uncollateralized. The Foundation's money market mutual funds totaling \$1,332,152 at June 30, 2007, 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: 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 portfolios, 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 portfolios.

4. 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. As of June 30, 2007, 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, 2007

| <u>Description</u> | <u>Amount</u> |
|----------------------------------|---------------------|
| Contracts and Grants | \$ 1,640,624 |
| Student Tuition and Fees | 469,929 |
| Other | 54,818 |
| Total Accounts Receivable | \$ 2,165,371 |

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts are reported based upon management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable are reported net of allowances of \$490,063 at June 30, 2007.

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

5. DUE FROM STATE

This amount consists of Public Education Capital Outlay, Alec P. Courtelis Capital Facility Matching Trust Fund, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction of University facilities.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

| Description | Beginning Balance | Additions | Reductions | Ending Balance |
|--|-----------------------|----------------------|---------------------|-----------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 31,087,135 | \$ 119,368 | \$ | \$ 31,206,503 |
| Works of Art and Historical Treasures | 268,956 | | | 268,956 |
| Construction in Progress | 21,840,059 | 21,984,760 | 8,456,088 | 35,368,731 |
| Total Nondepreciable Capital Assets | \$ 53,196,150 | \$ 22,104,128 | \$ 8,456,088 | \$ 66,844,190 |
| Depreciable Capital Assets: | | | | |
| Buildings | \$ 165,229,548 | \$ 8,438,773 | \$ | \$ 173,668,321 |
| Infrastructure and Other Improvements | 14,705,232 | 67,775 | 85,758 | 14,687,249 |
| Furniture and Equipment | 22,517,818 | 4,810,355 | 1,329,111 | 25,999,062 |
| Library Resources | 8,198,507 | 30,755 | | 8,229,262 |
| Property Under Capital Lease | 1,853,741 | 797,452 | 1,011,826 | 1,639,367 |
| Works of Art and Historical Treasures | 3,037 | 2,451 | | 5,488 |
| Other Capital Assets | 1,082,737 | 37,900 | 23,697 | 1,096,940 |
| Total Depreciable Capital Assets | 213,590,620 | 14,185,461 | 2,450,392 | 225,325,689 |
| Less, Accumulated Depreciation: | | | | |
| Buildings (1) | 14,341,103 | 3,528,308 | | 17,869,411 |
| Infrastructure and Other Improvements | 3,067,571 | 544,404 | 30,487 | 3,581,488 |
| Furniture and Equipment (1) | 13,626,825 | 2,699,923 | 747,219 | 15,579,529 |
| Library Resources | 5,950,074 | 737,738 | | 6,687,812 |
| Property Under Capital Lease | 347,726 | 284,028 | 227,708 | 404,046 |
| Works of Art and Historical Treasures | 507 | 223 | | 730 |
| Other Capital Assets | 707,503 | 135,184 | 18,921 | 823,766 |
| Total Accumulated Depreciation | 38,041,309 | 7,929,808 | 1,024,335 | 44,946,782 |
| Total Depreciable Capital Assets, Net | \$ 175,549,311 | \$ 6,255,653 | \$ 1,426,057 | \$ 180,378,907 |

Note: (1) Additions to accumulated depreciation for buildings and furniture and equipment include adjustments (increases) of \$2,153 and \$42, respectively.

7. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay and Alec P. Courtelis Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2007, to spend the funds, and grants and contracts received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2007, the University reported the following amounts as deferred revenue:

| <u>Description</u> | <u>Amount</u> |
|-------------------------------|----------------------|
| Capital Appropriations | \$ 20,000,000 |
| Grants and Contracts | 1,432,413 |
| Total Deferred Revenue | \$ 21,432,413 |

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8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2007, include bonds, loans, capital leases, and compensated absences. Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|------------------------------------|----------------------|----------------------|---------------------|-----------------------|---------------------|
| Bonds Payable | \$ 65,220,415 | \$ 35,762,955 | \$ 1,548,539 | \$ 99,434,831 | \$ 1,452,644 |
| Loans Payable | 5,000,000 | | | 5,000,000 | |
| Capital Leases Payable | 888,554 | 829,427 | 443,219 | 1,274,762 | 174,384 |
| Compensated Absences Payable | 5,281,986 | 1,154,241 | 499,500 | 5,936,727 | 439,739 |
| Total Long-Term Liabilities | \$ 76,390,955 | \$ 37,746,623 | \$ 2,491,258 | \$ 111,646,320 | \$ 2,066,767 |

Revenue Bonds Payable. State University revenue bonds were issued to acquire and construct various University facilities. These bonds are secured and payable from capital improvement and building fees, which are remitted to the State Board of Education, to be used to retire the bonds. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

In prior fiscal years, the Financing Corporation issued Capital Improvement Revenue Bonds, Series 2003 and 2005A, to construct student parking garages and student housing facilities. Also, on May 10, 2007, the Financing Corporation issued Capital Improvement Revenue Bonds, Series 2007A, in the amount of \$25,000,000, and Capital Improvement Revenue Bonds, Series 2007C, in the amount of \$10,000,000. The proceeds derived from the sales of the Series 2007A Revenue Bonds were used to finance the construction and equipping of a new 400-bed suite style residence (Phase VIII) including a new food service facility, and the proceeds of the Series 2007C Revenue Bonds were used to finance the construction of a new 900-space parking garage (Phase II).

In connection with the various Capital Improvement Revenue Bonds, the University has entered into a Master Ground and Operating Lease Agreement with the Financing Corporation. The University leases land to the Financing 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 later of December 1, 2033, or 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 Financing Corporation or its assignees equal to the debt service on the Revenue Bonds.

To protect against the potential of rising interest rates, three separate pay-fixed, receive-variable interest rate swap agreements were previously entered into by the Florida Gulf Coast University Foundation and were

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assumed by the Financing Corporation with the issuance of the revenue bonds. The swap agreements are not associated with specific identifiable bonds but instead are associated with all of the Financing Corporation’s outstanding revenue bonds. The Financing Corporation pays monthly the variable-rate interest on the revenue bonds, and pays a counter party the swap interest (fixed-rate less variable rate) on a quarterly basis. Information regarding the one remaining swap agreement is shown below:

| <u>Amount</u> | <u>Effective Date</u> | <u>Termination Date</u> | <u>Fixed Rate</u> |
|---------------|-----------------------|-------------------------|-------------------|
| \$ 10,000,000 | 11-01-02 | 11-01-09 | 3.485% |

The variable rate is determined monthly by the remarketing agent. As of June 30, 2007, the variable rate was 3.68 percent.

The required swap payment obligations transferred to the Financing Corporation is secured solely by the student residence facilities and parking facilities revenues. Based on the interest rate as of June 30, 2007, the amount of the outstanding swap obligation as of June 30, 2007, is shown on the following table:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u> |
|-----------------------------------|--------------------------------|
| 2008 | \$ 19,500 |
| 2009 | 19,500 |
| 2010 | <u>6,500</u> |
| Total | <u><u>\$ 45,500</u></u> |

Because interest rates increased, the swap had a positive fair value of \$42,363 as of June 30, 2007. The fair value was obtained from a financial institution known to be an active participant in this market. The swap will continue to have a positive fair value as long as the fixed rates are less than the variable rates. The positive fair values may be countered by increases in total interest payments required under the variable-rate bonds, creating higher synthetic interest rates. Because the coupons on the variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value decreases.

As of June 30, 2007, the University was exposed to credit risk on its outstanding swap because the swap had a positive fair value. The Financing Corporation does not intend to and has not considered the swap as part of its investment portfolio. However, should interest rates change and the fair value of the swap become negative, the University would not be exposed to credit risk in the amount of the derivative’s fair value.

The Financing Corporation or the counter party may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the

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Financing Corporation would be liable to the counter party for a payment equal to the swap's fair value. Termination of a swap agreement may also result in the University making or receiving a termination payment.

The University had the following bonds payable outstanding at June 30, 2007:

| Bond Type and Series | Amount of Original Issue | Amount Outstanding (1) | Interest Rates (Percent) | Maturity Date To |
|--|--------------------------------|------------------------------|--------------------------------|------------------------|
| State University System Revenue Bonds: | | | | |
| 1998 Series (North Lakes Rec Center) | \$ 1,853,632 | \$ 1,381,452 | 4.00 - 5.00 | 2023 |
| 2001 Series (Athletic Playfields) | 466,935 | 395,123 | 4.00 - 5.00 | 2026 |
| 2005A Series (Child Care Center) | 331,538 | 341,382 | 3.62 - 4.12 | 2022 |
| 2006A Series (Student Union Addition) | <u>2,427,353</u> | <u>2,400,004</u> | 4.00 - 5.00 | 2030 |
| Total State University System Revenue Bonds | <u>5,079,458</u> | <u>4,517,961</u> | | |
| Capital Improvement Revenue Bonds: | | | | |
| 2003 Student Residence (Phase VI) | 47,500,000 | 45,700,000 | 3.49 - 3.68 (2) | 2034 |
| 2005A Student Residence (Phase VII) | 8,000,000 | 7,900,000 | 3.68 (2) | 2035 |
| 2005B Student Parking (Phase I) | 6,000,000 | 5,900,000 | 3.68 (2) | 2035 |
| 2007A Student Residence (Phase VIII) | 25,000,000 | 25,604,702 | 4.00 - 5.00 | 2037 |
| 2007C Student Parking (Phase II) | <u>10,000,000</u> | <u>9,812,168</u> | 4.00 - 5.00 | 2037 |
| Total Capital Improvement Revenue Bonds | <u>96,500,000</u> | <u>94,916,870</u> | | |
| Total | <u>\$ 101,579,458</u> | <u>\$ 99,434,831</u> | | |

Notes: (1) Amount outstanding includes unamortized bond discounts and premiums, and deferred losses on refunding issues.

(2) Interest based on variable rate at June 30, 2007, of 3.68 percent.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

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| <u>Fiscal Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|----------------------|-----------------------|-----------------------|
| 2008 | \$ 1,452,644 | \$ 3,932,177 | \$ 5,384,821 |
| 2009 | 2,098,054 | 3,867,543 | 5,965,597 |
| 2010 | 2,123,844 | 3,786,852 | 5,910,696 |
| 2011 | 2,260,989 | 3,701,590 | 5,962,579 |
| 2012 | 2,492,681 | 3,610,058 | 6,102,739 |
| 2013-2017 | 13,148,810 | 22,982,366 | 36,131,176 |
| 2018-2022 | 16,235,223 | 22,702,653 | 38,937,876 |
| 2023-2027 | 19,065,737 | 21,204,799 | 40,270,536 |
| 2028-2032 | 22,964,480 | 19,380,894 | 42,345,374 |
| 2033-2037 | 17,110,000 | 8,090,650 | 25,200,650 |
| Subtotal | 98,952,462 | 113,259,582 | 212,212,044 |
| Less: Net Bond Discounts, Premiums, and Losses on Bond Refundings | 482,369 | | 482,369 |
| Total | \$ 99,434,831 | \$ 113,259,582 | \$ 212,694,413 |

Loans Payable. On March 27, 2006, the Financing Corporation entered into a Tax Exempt Note, Series 2005, in the amount of \$5 million. The Financing Corporation drew the entire \$5 million which reflects the outstanding balance of the loan at June 30, 2007. The following is a schedule of future minimum payments of the loan payable at June 30, 2007:

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------------|---------------------|-------------------|---------------------|
| 2008 | \$ | \$ 268,125 | \$ 268,125 |
| 2009 | | 268,125 | 268,125 |
| 2010 | 5,000,000 | 268,125 | 5,268,125 |
| Total | \$ 5,000,000 | \$ 804,375 | \$ 5,804,375 |

Interest accrues based on the variable-rate of 5.3625 percent at June 30, 2007.

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. The University also entered into a capital lease for science equipment in December 2004. The imputed interest rate is 7 percent. Final payment on this capital lease was made in December 2006. In addition, the University entered into a capital lease for the Voice over Internet Protocol (VOIP) system in September 2006. The stated interest rate is 4.08 percent. Principal and interest requirements on the capital leases outstanding as of June 30, 2007, are presented in the following table:

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| Fiscal Year Ending June 30 | Amount |
|--|----------------------------------|
| 2008 | \$ 224,880 |
| 2009 | 246,181 |
| 2010 | 268,309 |
| 2011 | 270,185 |
| 2012 | 89,720 |
| 2013-2017 | 374,264 |
| Total Minimum Payments | 1,473,539 |
| Less, Amount Representing Interest | 198,777 |
| Present Value of Minimum Payments | <u><u>\$1,274,762</u></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 Regulation 6C-5.920 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 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, 2007, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$5,936,727. The current portion of the compensated absences liability 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 percentage of those years' total compensated absences liability.

9. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions 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. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The

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Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (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 a FRS employer. An employee may participate in the 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.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

| Class or Plan | Percent of Gross Salary | |
|---|-------------------------|-----------------|
| | Employee | Employer (A) |
| Florida Retirement System, Regular | 0.00 | 9.85 |
| Florida Retirement System, Senior Management Service | 0.00 | 13.12 |
| Florida Retirement System, Special Risk | 0.00 | 20.92 |
| Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan | 0.00 | 10.91 |
| Florida Retirement System, Reemployed Retiree | (B) | (B) |

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan 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 for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$1,073,348, \$1,264,320, and \$1,700,874, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class,

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Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 113 University participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$357,262.

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

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 458 University participants during the 2006-07 fiscal year. Required employer contributions made to the Program totaled \$3,000,434 and employee contributions totaled \$1,392,349.

10. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2006-07 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered

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retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 9.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2006-07 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

11. CONSTRUCTION COMMITMENTS

The University's major construction commitments at June 30, 2007, are as follows:

| Project Description | Total Commitment | Completed to Date | Balance Committed |
|------------------------------|-----------------------|----------------------|-----------------------|
| Sugden Hospitality | \$ 8,421,471 | \$ 559,211 | \$ 7,862,260 |
| Botanical Gardens | 5,000,000 | 21,839 | 4,978,161 |
| FY 06 Infrastructure | 4,998,625 | 3,703,911 | 1,294,714 |
| Academic 6 | 17,834,381 | 611,832 | 17,222,549 |
| Engineering Building | 15,008,047 | 800,868 | 14,207,179 |
| Student Union Addition | 2,677,353 | 66 | 2,677,287 |
| FY 07 Infrastructure | 5,010,995 | 1,054,471 | 3,956,524 |
| Fine Arts Phase II | 12,762,582 | 716,077 | 12,046,505 |
| Academic 7 | 16,925,996 | 72 | 16,925,924 |
| Parking Facilities Phase II | 9,503,200 | 2,762,592 | 6,740,608 |
| Student Residence Phase VIII | 19,489,817 | 1,553,116 | 17,936,701 |
| Subtotal | 117,632,467 | 11,784,055 | 105,848,412 |
| Projects Under \$1 Million | 24,067,627 | 23,584,676 | 482,951 |
| Total | \$ 141,700,094 | \$ 35,368,731 | \$ 106,331,363 |

12. 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(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2006-07 fiscal year, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for wind and flood and \$5 million for perils other than wind and flood. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to

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\$50 million for wind, \$50 million for flood, and \$200 million for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, 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 years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain health care 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.

13. LITIGATION

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University's legal counsel and management, should not materially affect the University's financial position.

14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

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| <u>Functional Classification</u> | <u>Amount</u> |
|------------------------------------|-------------------------------------|
| Instruction | \$ 34,538,224 |
| Research | 4,650,605 |
| Public Service | 3,941,640 |
| Academic Support | 11,085,950 |
| Student Services | 7,272,241 |
| Institutional Support | 14,063,861 |
| Operation and Maintenance of Plant | 6,139,425 |
| Scholarships and Fellowships | 9,233,356 |
| Depreciation | 7,927,613 |
| Auxiliary Enterprises | 15,664,393 |
| Loan Operations | (109) |
| Total Operating Expenses | <u><u>\$ 114,517,199</u></u> |

15. 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 and Parking facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Assets

| | <u>Housing Revenue Bonds</u> | <u>Parking Revenue Bonds</u> |
|---|--------------------------------------|--------------------------------------|
| Assets | | |
| Current Assets | \$ 35,433,087 | \$ 9,619,201 |
| Capital Assets, Net | 50,972,981 | 6,938,209 |
| Other Noncurrent Assets | 1,553,116 | 2,762,592 |
| Total Assets | <u>87,959,184</u> | <u>19,320,002</u> |
| Liabilities | | |
| Current Liabilities | 2,388,390 | 1,870,676 |
| Noncurrent Liabilities | 78,004,702 | 15,612,168 |
| Total Liabilities | <u>80,393,092</u> | <u>17,482,844</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | (2,767,029) | 29,916 |
| Restricted - Expendable | 1,000,000 | |
| Unrestricted | 9,333,121 | 1,807,242 |
| Total Net Assets | <u><u>\$ 7,566,092</u></u> | <u><u>\$ 1,837,158</u></u> |

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

| | Housing Revenue Bonds | Parking Revenue Bonds |
|-----------------------------------|-----------------------------|-----------------------------|
| Operating Revenues | \$ 9,103,654 | \$ 1,593,601 |
| Depreciation Expense | (1,111,580) | (70,084) |
| Other Operating Expenses | (7,156,879) | (1,182,844) |
| Operating Income | 835,195 | 340,673 |
| Nonoperating Revenues (Expenses): | | |
| Nonoperating Revenue | 4,794,718 | 271,918 |
| Interest Expense | (2,146,987) | (174,360) |
| Other Nonoperating Expense | (3,105,574) | |
| Net Nonoperating Expenses | (457,843) | 97,558 |
| Increase in Net Assets | 377,352 | 438,231 |
| Net Assets, Beginning of Year | 7,188,740 | 1,398,927 |
| Net Assets, End of Year | \$ 7,566,092 | \$ 1,837,158 |

Condensed Statement of Cash Flows

| | Housing Revenue Bonds | Parking Revenue Bonds |
|--|-----------------------------|-----------------------------|
| Net Cash Provided (Used) by: | | |
| Operating Activities | \$ 1,414,618 | \$ 173,771 |
| Noncapital Financing Activities | (346,538) | 252,938 |
| Capital and Related Financing Activities | 23,251,373 | 4,316,492 |
| Investing Activities | (29,698) | (326,644) |
| Net Increase in Cash and Cash Equivalents | 24,289,755 | 4,416,557 |
| Cash and Cash Equivalents, Beginning of Year | 486,661 | 3,352,259 |
| Cash and Cash Equivalents, End of Year | \$ 24,776,416 | \$ 7,768,816 |

16. RELATED PARTY TRANSACTIONS

University and Blended Component Unit

Effective February 1, 2005, several University employees became employees of the Florida Gulf Coast University Financing Corporation, Inc. (Financing Corporation). As part of the Master Ground and Operating Lease Agreement (see note 8), the University operates and pays all operating costs of the facilities

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leased from the Financing Corporation from the gross rental income from the respective student residences and parking facilities. The net rental income is then paid to the Financing Corporation by the University in arrears based on collections. The University provides office space and related occupancy costs such as utilities and use of other office machines as well as accounting and record keeping services at no cost to the Financing Corporation.

As part of the Capital Improvement Revenue Bonds, Series 2007A and 2007C issue, the Financing Corporation received from the University a nonoperating capital contribution of \$1,417,192, which represented prior year bookstore facilities net commissions.

Discretely Presented Component Unit

The Florida Gulf Coast University Foundation, Inc. (Foundation), transferred \$2,500,000 to the University for the purpose of obtaining matching funds from the State of Florida through the Alec P. Courtelis Capital Facility Matching Trust Fund program. The transferred funds represent contributions from donors restricted for the University's Naples Botanical Garden building capital project.

On March 15, 2006, the Foundation loaned \$5 million to the Financing 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 Financing Corporation is responsible for the interest due on the balance not raised by donations. Repayment to the Foundation will be from certain matching funds received by the Financing Corporation from the State of Florida.

The Foundation maintains a portion of its investments and had one outstanding line of credit with a financial institution. A Foundation board member was an officer of a financial institution during the fiscal year ending June 30, 2007. The Foundation investments managed by the financial institution at June 30, 2007, totaled \$19,696,064. The Foundation paid \$23,792 in fees to the financial institution during the year. The Foundation had an outstanding line of credit of \$2 million, with the financial institution at June 30, 2007, and paid \$150,125 in interest during the fiscal year ended June 30, 2007.

17. SUBSEQUENT EVENTS

University and Blended Component Unit

On December 6, 2006, the Financing Corporation received approval to begin a 23,478 gross square foot addition to the existing Student Union building on the campus of the University which will include certain renovations and improvements to the existing Student Union. In October 2007, the Financing Corporation

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issued additional Capital Improvement Bonds (Series 2007B) in the amount of \$6 million to accommodate the new Student Union addition. The Bonds will be collateralized by the net commission revenues received from the bookstore and foodservice operations.

On August 1, 2007, the Financing Corporation converted and reissued the Capital Improvement Revenue Bonds, Series 2003 from variable rate to fixed rate bonds. A principal bond payment in the amount of \$360,000 was made at this time leaving an outstanding balance in the amount of \$45,340,000. The bonds were issued at par with additional contributions made by the Financing Corporation in the amount \$900,090 to fund closing costs. Interest is payable based upon fixed rates ranging from 4.25 percent to 5 percent paid semi-annually with principal payable in varying amounts paid annually on August 1, 2008, through 2034. The outstanding swap agreement in the amount of \$10 million associated with the Capital Improvement Revenue Bonds, Series 2003 will become associated with the Capital Improvement Revenue Bonds, Series 2005A in the amount of \$8 million and Capital Improvement Revenue Bonds, Series 2005B in the amount of \$6 million.

As discussed in note 3, at June 30, 2007, the University had \$15,579,071 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 28, 2007, the University withdrew all funds invested at that date from the Pool.

Discretely Presented Component Unit

On July 5, 2007, the Foundation executed a bargain purchase of a waterfront property in Bonita Springs. The property was appraised at \$3,887,500, and was purchased for \$2,870,000. This resulted in a donation of \$1,017,500. The Foundation executed a five-year \$3 million interest only loan with a financial institution at a fixed rate of 4.28 percent. The property will be leased by the Foundation to the University to be used as the University's Marine Science and Environmental Field Station.