



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



FLORIDA GULF COAST UNIVERSITY

Financial Audit

For the Fiscal Year Ended June 30, 2006

During the audit period, the President of the University was Dr. William C. Merwin. 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
Andres Andrade to 4-30-06 (1)
Dr. Sharon Irish Bevins (2)
Brian Cobb
Kirt Gallatin from 5-1-06 (1)
Lindsay M. Harrington
Larry D. Hart
Dr. W. Bernard Lester
David Lucas
James Malone from 1-24-06 (3)
Dr. Harry K. Moon to 1-6-06 (3)
Jerry Starkey
Michael Villalobos
Jaynie M. Whitcomb

Notes: (1) Student body president.
(2) Faculty senate chair.
(3) Position was vacant from
January 7, 2006, through
January 23, 2006.

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, 2006, 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, administrative 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 financial statements of the University:

- 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- We noted no matters involving the University's internal control over financial reporting and its operation that we considered to be material weaknesses.
- The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by James A. Grattan, 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, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



WILLIAM O. MONROE, CPA
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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 aggregate discretely presented component unit as of and for the fiscal year ended June 30, 2006, as shown on pages 14 through 37. 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 aggregate discretely presented component unit, as described in note 1 to the financial statements, which comprises 100 percent of the transactions and account balances of the aggregate 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 this entity, is based solely upon the report of the other auditors.

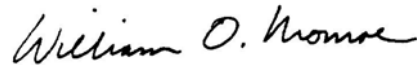
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Gulf Coast University and of its aggregate discretely presented component unit as of June 30, 2006, 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, administrative 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 13 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,



William O. Monroe, CPA
March 30, 2007



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

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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 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, 2006, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report on the financial statements included disclosures regarding our reference to the report of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

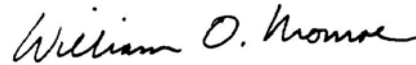
Compliance and Other Matters

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, administrative rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in our operational report No. 2007-044, dated November 2006.

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,



William O. Monroe, CPA
March 30, 2007

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, 2006, 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 \$299.5 million at June 30, 2006. This balance reflects a \$21.8 million, or approximately 7.9 percent, increase from the 2004-05 fiscal year, resulting primarily from an increase in capital assets. While assets grew, liabilities decreased in the amount of \$.9 million, or less than one percent, totaling \$90.3 million at June 30, 2006, compared to \$91.2 million at June 30, 2005. As a result, the University's net assets increased by \$22.7 million, reaching a year end balance of \$209.2 million. Net assets increased primarily due to (1) the recognition of deferred appropriations revenue, and (2) an increase in tuition and fees due to a 12.7 percent increase in student enrollment over the 2004-05 fiscal year.

The University's revenues totaled \$125.6 million for the 2005-06 fiscal year, representing approximately 34.9 percent increase over the 2004-05 fiscal year due mainly to an increase in general appropriations from the Legislature and an increase in operating revenue due to student enrollment growth. Operating expenses totaled \$100.9 million for the 2005-06 fiscal year, representing an increase of 13.1 percent over the 2004-05 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 components 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)		
	2006	2005
Assets		
Current Assets	\$ 63,276	\$ 56,814
Capital Assets, Net	228,746	200,803
Other Noncurrent Assets	7,475	20,070
Total Assets	299,497	277,687
Liabilities		
Current Liabilities	15,735	18,093
Noncurrent Liabilities	74,551	73,078
Total Liabilities	90,286	91,171
Net Assets		
Invested in Capital Assets Net of Related Debt	171,096	149,828
Restricted:		
Debt Service	1,000	1,000
Loans	293	235
Capital Projects	18,296	18,648
Other Restricted Net Assets	6,354	5,311
Unrestricted	12,172	11,494
Total Net Assets	\$ 209,211	\$ 186,516

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2006, with an increase of net assets in the amount of \$22.7 million, or 12.2 percent, over the 2004-05 fiscal year. This is an indicator of the sound overall financial condition and health of the University.

The total assets of the University increased \$21.8 million, primarily due to an increase in capital assets. The total liabilities of the University decreased \$.9 million. The decrease in liabilities is due to timing of capital projects and the recognition of deferred revenue. The University recognized \$8.4 million of revenues from Alec B. Courtelis capital appropriations during the 2005-06 fiscal year that had previously been recorded as deferred revenue at June 30, 2005. The increase in the University's net assets is determined by adding the decrease in total liabilities to 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 2005-06 and 2004-05 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Operating Revenues	\$ 49,463	\$ 42,364
Operating Expenses	<u>100,893</u>	<u>89,215</u>
Operating Loss	(51,430)	(46,851)
Net Nonoperating Revenues	<u>49,386</u>	<u>44,118</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(2,044)	(2,733)
Other Revenues, Expenses, Gains, or Losses	<u>24,739</u>	<u>5,359</u>
Net Increase in Net Assets	22,695	2,626
Net Assets, Beginning of Year	<u>186,516</u>	<u>183,890</u>
Net Assets, End of Year	<u><u>\$209,211</u></u>	<u><u>\$186,516</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 auxiliary services 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 2005-06 and 2004-05 fiscal years:

Operating Revenues (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Net Tuition and Fees	\$ 19,225	\$ 15,862
Federal Grants and Contracts	9,063	6,688
State and Local Grants and Contracts	2,695	2,955
Nongovernmental Grants and Contracts	3,640	4,768
Sales and Services of Auxiliary Enterprises	14,295	11,707
Other	545	384
Total Operating Revenues	<u>\$ 49,463</u>	<u>\$ 42,364</u>

Total operating revenues for the 2005-06 fiscal year were \$49.5 million, of which \$27.4 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 \$8.2 million. Its reduction of gross fees resulted in net student tuition and fees of \$19.2 million, which represents an increase of \$3.4 million, or 21.1 percent, over the 2004-05 fiscal year. Increased student enrollment and higher tuition and fee rates are the cause of the revenue increase.

Federal grants and contracts increased by \$2.4 million and non-Federal grants and contracts decreased by \$1.4 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 22.1 percent increase over the 2004-05 fiscal year due primarily to student housing 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 2005-06 and 2004-05 fiscal years:

Operating Expenses (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Compensation and Employee Benefits	\$ 62,244	\$ 55,299
Services and Supplies	19,932	17,808
Utilities	3,704	3,307
Scholarships and Fellowships	7,669	6,026
Depreciation	<u>7,344</u>	<u>6,775</u>
Total Operating Expenses	<u>\$ 100,893</u>	<u>\$ 89,215</u>

Total operating expenses, including depreciation of \$7.3 million, for the 2005-06 fiscal year were \$100.9 million, of which \$62.2 million, or 61.7 percent, was for compensation and employee benefits. Compensation and employee benefits increased 12.6 percent over the 2004-05 fiscal year as a result of annual salary increases and new hires. The increase in scholarships and fellowships was due to increased Federal and State student financial aid disbursements. An increase in financial aid disbursements is directly related to student enrollment growth. Other than the increase in utilities expense of 12 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 2005-06 and 2004-05 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
State Appropriations	\$ 42,461	\$ 37,209
Federal and State Student Financial Aid	8,436	7,177
Investment Income	546	1,039
Interest on Capital Asset-Related Debt	(1,924)	(1,151)
Other Nonoperating Expenses	<u>(133)</u>	<u>(156)</u>
Net Nonoperating Revenues	<u>\$ 49,386</u>	<u>\$ 44,118</u>

State appropriations are classified as nonoperating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues. Reporting State appropriations as nonoperating revenue will result in an operating loss. Federal and State student financial aid increased 17.5 percent over the 2004-05 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 decreased from the 2004-05 fiscal year, and the University also recorded an unrealized loss of \$.7 million as required by GASB Statement No. 31.

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 2005-06 and 2004-05 fiscal years:

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Capital Appropriations	\$ 24,541	\$ 5,158
Capital Grants, Contracts, and Donations	<u>198</u>	<u>200</u>
Total	<u><u>\$ 24,739</u></u>	<u><u>\$ 5,358</u></u>

Capital appropriations increased significantly from the 2004-05 fiscal year. The increase of \$19.4 million was due to a greater amount of State capital outlay moneys in the 2005-06 fiscal year and the recognition of previously deferred capital appropriations. Capital grants, contracts, and donations include 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 capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2005-06 and 2004-05 fiscal years:

Condensed Statement of Cash Flows (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Cash Received from Operating Activities	\$ 49,950	\$ 54,856
Cash Expended for Operating Activities	<u>(91,383)</u>	<u>(80,745)</u>
Net Cash Used by Operating Activities	(41,433)	(25,889)
Net Cash Provided by Noncapital Financing Activities	50,899	44,410
Net Cash Used by Capital and Related Financing Activities	<u>(13,261)</u>	<u>(10,250)</u>
Net Cash Used by Investing Activities	<u>(3,145)</u>	<u>(1,879)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,940)	6,392
Cash and Cash Equivalents, Beginning of Year	<u>12,340</u>	<u>5,948</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,400</u>	<u>\$ 12,340</u>

The major sources of funds included in operating activities are net student tuition and fees in the amount \$19.4 million; Federal, State, and local grants and contracts in the amount \$15.9 million; and auxiliary enterprises in the amount of \$14.3 million. Major uses of funds were payments made to and on behalf of employees totaling \$61.1 million; payments to suppliers totaling \$22.6 million; and payments to and on behalf of students for scholarships totaling \$7.7 million. The largest source of inflow of cash for noncapital financing activities is general State appropriations in the amount of \$42.5 million for operations. Also included in noncapital financing revenues was Federal and State student financial aid in the amount of \$8.4 million. The largest source of inflow of cash for capital and related financing activities is \$16.1 million in State capital appropriations for purchasing capital assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2006, the University had \$266.8 million in capital assets, less accumulated depreciation of \$38 million, for net capital assets of \$228.7 million. Depreciation expense for the current fiscal year totaled \$7.3 million. The University's significant capital asset additions of \$21.8 million were primarily for new buildings and renovations reported as construction in progress including the Library Expansion and the Phase I Parking projects. The condition of University facilities is excellent. Since the University opened in August 1997, its oldest building is less than ten years old.

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

Capital Assets, Net (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Land	\$ 31,087	\$ 26,023
Buildings	150,889	132,948
Infrastructure and Other Improvements	11,638	10,770
Furniture and Equipment	8,891	9,424
Library Resources	2,248	3,022
Property Under Capital Lease	1,506	1,793
Works of Art and Historical Treasures	272	272
Other Capital Assets	375	444
Construction in Progress	<u>21,840</u>	<u>16,107</u>
Total Capital Assets, Net	<u><u>\$ 228,746</u></u>	<u><u>\$ 200,803</u></u>

The State has approved and appropriated funds to the University's capital budget for the 2006-07 fiscal year in the amount of \$53.3 million. Appropriations include the following Public Education Capital Outlay appropriations: (1) Academic VII building in the amount of \$16.9 million, (2) Fine Arts building in the amount of \$12.8 million, (3) Academic VI building in the amount of \$7.1 million, (4) Roads Infrastructure in the amount of \$5 million, (5) Library Addition in the amount of \$3.7 million, and (6) Maintenance, Repairs, & Renovations in the amount of \$1 million. Other important appropriation includes the Facility Enhancement Challenge Grant Program provided from lottery funds for (1) School of Engineering in the amount of \$2.5 million, and (2) College of Business in the amount of \$5 million. Both these appropriations will be matched with private money in like amounts. 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. Additional information about the University's capital commitments is presented in the notes to the financial statements.

DEBT ADMINISTRATION

As of June 30, 2006, the University had \$71.1 million in outstanding bonds and revenue certificates, loans, and capital leases payable, representing an increase of \$5.8 million, or 8.9 percent, from the 2004-05 fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30 (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Bonds and Revenue Certificates	\$ 65,220	\$ 63,752
Loans	5,000	50
Capital Leases	<u>889</u>	<u>1,489</u>
Total	<u><u>\$ 71,109</u></u>	<u><u>\$ 65,291</u></u>

The increase in long-term debt is due to (1) the Florida Gulf Coast University Financing Corporation entered into a loan and hold harmless agreement with the Florida Gulf Coast University Foundation, Inc., in the amount of \$5 million for the purpose of acquiring approximately two acres of land in the Grand Central Station Development in Naples, Florida, and (2) a revenue certificate was issued for the expansion of the Student Union Building in the amount of \$2.4 million.

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 2006-07 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.

The budget that the State adopted for the 2006-07 fiscal year provides approximately an 8 percent increase in the education portion of the budget. Regarding the University's legislative priorities, the Legislature provided a salary increase of 3 percent for State employees and the University Board of Trustees approved an additional 1.5 percent increase for University employees. The State budget also provides approximately \$2.2 million for enrollment growth. Financial and political support from State government is expected to remain fairly stable with moderate growth over the long-term.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2006 enrollment of 8,175 increased approximately 12.7 percent over the Fall 2005 enrollment of 7,254. First-time-in-college freshman admissions of 1,625 students represent a 20.6 percent increase over the 2004-05 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 2006-07, the University expects an increase in revenue from student tuition and fees because of increased enrollment and increased student tuition and fees.

FINANCIAL SECTION

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2006

	University	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 68,350.34	\$ 11,517,285.00
Investments	27,069,325.80	
Receivables, Net	2,141,048.06	1,674,968.00
Due from State	33,997,067.59	100,000.00
Total Current Assets	63,275,791.79	13,292,253.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	5,331,701.55	
Investments		409,736.00
Restricted Investments	2,113,755.21	38,894,407.00
Accounts and Pledges Receivable, Net		3,594,500.00
Loans and Notes Receivable, Net		5,000,000.00
Depreciable Capital Assets, Net	175,549,311.10	31,333.00
Nondepreciable Capital Assets	53,196,150.80	1,954,000.00
Other Noncurrent Assets	29,992.00	684,041.00
Total Noncurrent Assets	236,220,910.66	50,568,017.00
TOTAL ASSETS	\$ 299,496,702.45	\$ 63,860,270.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,592,075.39	\$ 110,872.00
Construction Contracts Payable	3,329,885.43	
Salaries and Wages Payable	2,243,697.99	
Deposits Payable	351,287.68	
Deferred Revenue	5,377,928.14	25,977.00
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	1,234,195.45	
Capital Leases Payable	283,688.20	
Compensated Absences Payable	322,201.19	
Gift Annuities Payable		28,240.00
Total Current Liabilities	15,734,959.47	165,089.00

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2006

	University	Component Unit
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	\$ 63,986,219.24	\$
Loans Payable	5,000,000.00	5,000,000.00
Capital Leases Payable	604,865.60	
Compensated Absences Payable	4,959,785.49	
Due to Others		232,640.00
Gift Annuities Payable		217,817.00
Total Noncurrent Liabilities	74,550,870.33	5,450,457.00
TOTAL LIABILITIES	90,285,829.80	5,615,546.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	171,096,088.41	31,333.00
Restricted for Nonexpendable:		
Endowment		28,851,469.00
Restricted for Expendable:		
Debt Service	1,000,000.00	
Loans	292,995.66	
Capital Projects	18,295,506.53	
Other	6,353,944.70	23,273,829.00
Unrestricted	12,172,337.35	6,088,093.00
TOTAL NET ASSETS	209,210,872.65	58,244,724.00
TOTAL LIABILITIES AND NET ASSETS	\$ 299,496,702.45	\$ 63,860,270.00

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, 2006

	University	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$8,173,306.91	\$ 19,224,526.68	\$
Federal Grants and Contracts	9,063,317.86	
State and Local Grants and Contracts	2,694,629.31	
Nongovernmental Grants and Contracts	3,639,907.79	
Sales and Services of Auxiliary Enterprises	14,295,524.68	
Gifts and Donations		18,149,252.00
Rental Income and Other		867,501.00
Other Operating Revenues	545,046.40	
Total Operating Revenues	49,462,952.72	19,016,753.00
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	62,243,839.22	
Services and Supplies	19,932,397.86	
Utilities	3,703,929.46	
Scholarships and Fellowships	7,668,958.59	577,313.00
Depreciation	7,343,690.63	7,289.00
General and Administrative		1,080,901.00
University Support		1,922,486.00
Program Services		4,028,648.00
Other Operating Expenses		9,200,884.00
Total Operating Expenses	100,892,815.76	16,817,521.00
Operating Income (Loss)	(51,429,863.04)	2,199,232.00
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	42,461,050.00	
Federal and State Student Financial Aid	8,436,208.01	
Investment Income	546,289.11	2,406,312.00
Interest on Capital Asset-Related Debt	(1,923,904.90)	(163,379.00)
Other Nonoperating Revenues (Expenses)	(133,484.26)	319,514.00
Net Nonoperating Revenues	49,386,157.96	2,562,447.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,043,705.08)	4,761,679.00
Capital Appropriations	24,540,916.57	
Capital Grants, Contracts, and Donations	197,511.16	2,061,893.00
Increase in Net Assets	22,694,722.65	6,823,572.00
Net Assets, Beginning of Year	186,516,150.00	51,421,152.00
Net Assets, End of Year	\$ 209,210,872.65	\$ 58,244,724.00

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, 2006

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 19,390,552.13
Grants and Contracts	15,898,849.00
Sales and Services of Auxiliary Enterprises	14,295,524.68
Other Operating Receipts	364,698.95
Payments to Employees	(61,132,569.78)
Payments to Suppliers for Goods and Services	(22,578,791.00)
Payments to Students for Scholarships and Fellowships	(7,668,958.59)
Net Loans Issued to Students	(2,190.33)
	<u>(41,432,884.94)</u>
Net Cash Used by Operating Activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	42,461,050.00
Federal and State Student Financial Aid	8,436,208.01
Net Change in Funds Held for Others	4,185.21
Other Nonoperating Expenses	(3,105.00)
	<u>50,898,338.22</u>
Net Cash Provided by Noncapital Financing Activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	2,427,353.00
Capital Appropriations	16,055,339.00
Capital Subsidies and Transfers	2,831,608.23
Capital Gifts and Grants	100,000.00
Purchases of Capital Assets	(31,249,679.39)
Principal Paid on Capital Debt and Leases	(1,503,153.64)
Interest Paid on Capital Debt and Leases	(1,922,331.60)
	<u>(13,260,864.40)</u>
Net Cash Used by Capital and Related Financing Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(4,348,889.28)
Investment Income	1,204,060.29
	<u>(3,144,828.99)</u>
Net Cash Used by Investing Activities	
Net Decrease in Cash and Cash Equivalents	
Cash and Cash Equivalents, Beginning of Year	(6,940,240.11)
	<u>12,340,292.00</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,400,051.89</u></u>

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2006

	University
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (51,429,863.04)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	7,343,690.63
Change in Assets and Liabilities:	
Receivables, Net	117,732.55
Accounts Payable	1,055,345.99
Salaries and Wages Payable	374,800.23
Deposits Payable	(8,988.65)
Compensated Absences Payable	736,469.21
Deferred Revenues	377,928.14
	\$ (41,432,884.94)

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, 2006

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 State's Board of Education is responsible for overseeing kindergarten through graduate school education in the State. The State's 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 for the University.

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 activity is 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.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Additional information on the Corporation, including copies of audit reports, is available by contacting the University Controller's office.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Foundation, Inc. (Foundation), as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 6C-9.011, is included within the University reporting entity as a discretely presented component unit. The Foundation was incorporated on April 29, 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 entity-wide 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

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component unit uses the accrual basis of accounting whereby revenues are earned and expenses are recognized when incurred, and follow 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 plant assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income, 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.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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*.

Capital Assets. University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital leases, library resources, works of art and historical treasures, construction in progress, 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 items 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 Leases – 8 to 10 years
- Furniture and Equipment:
 - Equipment (Other Than Movable) – 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 and revenue certificates payable, loans payable, capital leases payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds and revenue certificates payable are reported net of unamortized premium or discount. The University amortizes bond premiums and discounts over the life of the bonds and revenue certificates 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 and revenue certificates using the straight-line method.

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

2. CASH AND CASH EQUIVALENTS

The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and funds held by a trustee for the Florida Gulf Coast University Financing Corporation (Corporation). Cash deposits in demand accounts are held in banks qualified as public depositories in accordance with Chapter 280, Florida Statutes. 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 held in cash or mutual funds. Cash and cash equivalents of the Foundation (discretely presented component unit) consist of bank deposits of which \$165,502 is insured by the Federal depository insurance and the remainder is uninsured. Cash and cash equivalents and investments that are externally restricted to make debt service payments, maintain sinking funds, or reserve funds, and 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 awaiting clearing 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.

At June 30, 2006, the University reported investments at fair value totaling \$27,069,325.80 consisting of excess funds in a State Treasury Special Purpose Investment Account (SPIA). The University's investment in the SPIA investment pool represents ownership of a share of the pool, not the underlying securities. The University's investments in the pool are reported at fair value. 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 Standard and Poor's and had an effective duration of 2.72 years at June 30, 2006. The University has no policy for managing interest rate risk or credit risk for this investment pool, but

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

relies on policies developed by the State Treasury. Disclosures for the State Treasury investment pool are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

Investments held by the University's component unit (Foundation) at June 30, 2006, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
U.S. Government and Federal Agency Obligations	\$ 787,558
Bonds, Notes, and Other Debt Securities	5,316,649
Stocks and Other Equity Securities	20,745,819
Certificates of Deposit	11,000,000
Money Market and Mutual Funds	1,454,117
Total	\$ 39,304,143

The Foundation's investment policy allows for investments in equity securities traded on the three principal U.S. 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 U.S. Government, and agency of the U.S. 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 portfolio to be between 3 and 7 years. The Foundation's investments in debt securities at June 30, 2006, are reported at fair value as follows:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
U.S. Government and Federal Obligations	\$ 787,558	\$	\$ 335,320	\$ 206,826	\$ 245,412
Bonds, Notes, and Other Debt Securities	5,316,649	116,824	1,586,370	2,529,971	1,083,484
Total	\$6,104,207	\$116,824	\$1,921,690	\$2,736,797	\$1,328,896

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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 five long-term certificates of deposit with local financial institutions totaling \$11,000,000. 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 \$1,454,117 at June 30, 2006, 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 fee deferments, contract and grant reimbursements due from third parties, various services provided to students and third parties, student tuition and fees, and interest accrued on investments.

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 \$394,685.65 at June 30, 2006.

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

5. DUE FROM STATE

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

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, is shown below:

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 26,023,068.00	\$ 5,064,067.44	\$	\$ 31,087,135.44
Construction in Progress	16,106,677.00	25,665,012.10	19,931,629.74	21,840,059.36
Works of Art and Historical Treasures	268,956.00			268,956.00
Total Nondepreciable Capital Assets	\$ 42,398,701.00	\$ 30,729,079.54	\$ 19,931,629.74	\$ 53,196,150.80
Depreciable Capital Assets:				
Buildings	\$ 144,063,646.00	\$ 21,172,401.61	\$ 6,500.00	\$ 165,229,547.61
Infrastructure and Other Improvements	13,326,845.00	1,378,387.02		14,705,232.02
Furniture and Equipment	21,754,831.00	2,034,849.52	1,271,862.69	22,517,817.83
Property Under Capital Leases	1,934,915.00		81,174.26	1,853,740.74
Library Resources	8,148,378.00	50,480.46	351.00	8,198,507.46
Works of Art and Historical Treasures	3,038.00		.50	3,037.50
Other Capital Assets	1,048,094.00	65,686.90	31,044.15	1,082,736.75
Total Depreciable Capital Assets	190,279,747.00	24,701,805.51	1,390,932.60	213,590,619.91
Less, Accumulated Depreciation:				
Buildings	11,115,970.00	3,227,263.42	2,130.49	14,341,102.93
Infrastructure and Other Improvements	2,556,887.00	510,683.60		3,067,570.60
Furniture and Equipment	12,330,909.00	2,444,752.00	1,148,836.00	13,626,825.00
Property Under Capital Leases	141,957.00	205,769.16		347,726.16
Library Resources	5,125,838.00	824,235.89		5,950,073.89
Works of Art and Historical Treasures	355.00	151.92		506.92
Other Capital Assets	603,898.00	130,834.64	27,229.33	707,503.31
Total Accumulated Depreciation	31,875,814.00	7,343,690.63	1,178,195.82	38,041,308.81
Total Depreciable Capital Assets, Net	\$ 158,403,933.00	\$ 17,358,114.88	\$ 212,736.78	\$ 175,549,311.10

7. DEFERRED REVENUE

Deferred revenue represents appropriations from the Alec P. Courtelis Capital Facilities Matching Trust Fund for which approval has not been received from the Florida Department of Education to encumber or spend the funds.

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2006, include bonds and revenue certificates, loans, capital leases, and compensated absences. Long-term liabilities activity for the fiscal year ended June 30, 2006, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates Payable	\$ 63,752,470.00	\$ 2,450,180.86	\$ 982,236.17	\$ 65,220,414.69	\$ 1,234,195.45
Loans Payable	50,001.00	5,000,000.00	50,001.00	5,000,000.00	
Capital Leases Payable	1,489,072.00		600,518.20	888,553.80	283,688.20
Compensated Absences Payable	4,545,517.00	1,135,795.23	399,325.55	5,281,986.68	322,201.19
Total Long-Term Liabilities	\$ 69,837,060.00	\$ 8,585,976.09	\$ 2,032,080.92	\$ 76,390,955.17	\$ 1,840,084.84

FLORIDA GULF COAST UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Bonds and Revenue Certificates Payable. Bonds and revenue certificates payable consists of outstanding revenue certificates and capital improvement revenue bonds. Revenue certificates were issued to construct a Child Care Center, North Lake Recreation Center and Athletic Playfields, and expansion of the Student Union Building. These certificates, which include both term and serial bonds, are secured by a pledge of various student fee assessments. The building and capital improvement fees collected as a part of tuition are used to retire these certificates. Revenue certificates payable at June 30, 2006, are shown in the following table:

Certificate Series	Amount of Original Issue	Total Retired Including Unamortized Discount	Amount Outstanding		Interest Rates (Percent)	Maturity Date To
			Principal	Interest		
1997	\$ 431,327.75	\$ (109,956.42)	\$ 321,371.33	\$ 169,126.14	5.00 - 6.00	2022
1998	1,853,631.84	(413,057.26)	1,440,574.58	684,882.96	4.00 - 5.00	2023
2001	466,935.10	(58,647.18)	408,287.92	231,522.21	4.00 - 5.00	2026
2006	2,427,353.00	22,827.86	2,450,180.86	1,721,430.50	4.58	2030
Total	\$ 5,179,247.69	\$ (558,833.00)	\$ 4,620,414.69	\$ 2,806,961.81		

Principal and interest requirements on the revenue certificates as of June 30, 2006, are presented in the following table:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 134,195.45	\$ 235,232.92	\$ 369,428.37
2008	150,299.66	211,028.58	361,328.24
2009	155,827.16	204,785.89	360,613.05
2010	161,793.71	197,722.34	359,516.05
2011	169,113.91	190,372.78	359,486.69
2012-2016	964,395.40	832,039.68	1,796,435.08
2017-2021	1,220,081.28	577,748.28	1,797,829.56
2022-2026	1,016,161.11	280,591.30	1,296,752.41
2027-2031	604,710.20	77,440.04	682,150.24
Subtotal	4,576,577.88	2,806,961.81	7,383,539.69
Add, Bond Discounts and Premium	43,836.81		43,836.81
Total	\$ 4,620,414.69	\$ 2,806,961.81	\$ 7,427,376.50

On December 10, 2003, Florida Gulf Coast University Financing Corporation (Financing Corporation) issued Capital Improvement Revenue Bonds, Series 2003 (Revenue Bonds) in the amount of \$47,500,000.

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The proceeds derived from the sale of the revenue bonds were used to (1) finance the acquisition, construction, and equipping of a new 288-bed apartment style residence (Phase VI) and (2) redeem the outstanding principal for the Certificates of Participation, Series 2000, 2002, and 2002A totaling \$38,500,000. On August 1, 2005, a principal bond payment in the amount of \$900,000 was paid leaving the outstanding Capital Improvement Bonds, Series 2003, in the amount of \$46,600,000.

On February 16, 2005, the Financing Corporation issued Capital Improvement Revenue Bonds, Series 2005A, in the amount of \$8,000,000, and Capital Improvement Revenue Bonds, Series 2005B, in the amount of \$6,000,000. The proceeds derived from the sales of the Series 2005A Revenue Bonds were used to finance the construction and equipping of a new 288-bed apartment style residence (Phase VII), and the proceeds of the Series 2005B Revenue Bonds were used to finance the construction and equipping of a 500 space parking garage (Phase I).

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 is pledged to pay rent to the Financing Corporation or its assignees equal to the debt service on the Revenue Bonds.

Principal and interest payments requirements on the Capital Improvement Revenue Bonds outstanding as of June 30, 2006, are presented in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,100,000.00	\$ 2,294,825.00	\$ 3,394,825.00
2008	1,300,000.00	2,247,087.00	3,547,087.00
2009	1,300,000.00	2,197,087.00	3,497,087.00
2010	1,300,000.00	2,147,087.00	3,447,087.00
2011	1,400,000.00	2,093,411.00	3,493,411.00
2012-2016	8,000,000.00	9,566,438.00	17,566,438.00
2017-2021	9,500,000.00	7,876,683.00	17,376,683.00
2022-2026	11,700,000.00	5,802,178.00	17,502,178.00
2027-2031	14,300,000.00	3,292,683.00	17,592,683.00
2032-2036	10,700,000.00	551,190.00	11,251,190.00
Total	<u>\$ 60,600,000.00</u>	<u>\$ 38,068,669.00</u>	<u>\$ 98,668,669.00</u>

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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 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 two remaining swap agreements is shown below:

<u>Amount</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Fixed Rate</u>
\$ 5,000,000.00	7-01-02	7-01-07	3.364%
<u>10,000,000.00</u>	11-01-02	11-01-09	3.485%
<u>\$ 15,000,000.00</u>			

The variable rate is determined monthly by the remarketing agent. As of June 30, 2006, the variable rate was 4.01 percent.

The required swap payment obligations transferred to the Financing Corporation are secured solely by the student residence facilities revenues. Based on the interest rates as of June 30, 2006, the amount of the outstanding swaps obligations as of June 30, 2006, are shown on the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 84,800.00
2008	52,500.00
2009	52,500.00
2010	<u>17,500.00</u>
Total	<u>\$207,300.00</u>

The interest expense incurred during the fiscal year ended June 30, 2006, was \$3,015,055.00, of which \$261,730.00 was capitalized as part of the construction in progress.

Because interest rates increased, the swaps had a cumulative positive fair value of \$140,437 as of June 30, 2006. The fair value was obtained from a financial institution known to be an active participant in this market. The swaps 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.

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As of June 30, 2006, the University was exposed to credit risk on its outstanding swaps because the swaps had positive fair values. The Financing Corporation does not intend to and has not considered the swaps as part of its investment portfolio. However, should interest rates change and the fair value of the swaps 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 any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swaps have a negative fair value, the 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.

Loans Payable. On March 27, 2006, the Financing Corporation entered into a Tax Exempt Note, Series 2005, in the amount of \$5,000,000. The Financing Corporation drew the entire \$5,000,000 which reflects the outstanding balance of the loan at June 30, 2006. The following is a schedule of future minimum payments of the loans payable at June 30, 2006:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$	\$ 260,000.00	\$ 260,000.00
2008		260,000.00	260,000.00
2009		260,000.00	260,000.00
2010	5,000,000.00	260,000.00	5,260,000.00
Total	\$ 5,000,000.00	\$ 1,040,000.00	\$ 6,040,000.00

Interest accrues based on the variable-rate of 5.20 percent at June 30, 2006.

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. Principal and interest requirements on the capital leases outstanding as of June 30, 2006, are presented in the following table:

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Fiscal Year Ending June 30	Amount
2007	\$ 319,050.19
2008	42,517.50
2009	63,818.46
2010	85,947.39
2011	87,823.17
2012 - 2016	463,983.84
Total Minimum Payments	1,063,140.55
Less, Amount Representing Interest	(174,586.75)
Present Value of Minimum Payments	\$ 888,553.80

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 pursuant to bargaining agreements with the United Faculty of Florida. 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, 2006, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$5,281,986.68. 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 an 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 2005-06 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.83
Florida Retirement System, Senior Management Services	0.00	10.45
Florida Retirement System, Special Risk	0.00	18.53
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	9.33
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 (none from employees) for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, totaled \$940,752.00, \$1,073,348.00, and \$1,264,319.65, 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

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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, 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 31 University participants during the 2005-06 fiscal year. Required contributions made to the PEORP totaled \$233,546.22.

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. A small amount remains in the Optional Retirement Program Trust Fund for 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 427 University participants during the 2005-06 fiscal year. Required employer contributions made to the Program totaled \$3,771,372.31, and employee contributions totaled \$1,186,098.97.

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 2005-06 fiscal year, the HIS program was funded by required contributions

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consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered 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 2005-06 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, 2006, are as follows:

<u>Project Name</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Parking Facilities - Phase I	\$ 6,687,021.00	\$ 1,617,556.30	\$ 5,069,464.70
Library Expansion	17,231,720.21	15,427,292.46	1,804,427.75
Total	\$ 23,918,741.21	\$ 17,044,848.76	\$ 6,873,892.45

12. RISK MANAGEMENT PROGRAMS

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 2005-06 fiscal year, the State retained the first \$2,000,000 of losses for each occurrence with an annual aggregate retention of \$40,000,000 for wind and flood and \$5,000,000 for perils other than wind and flood. After the annual aggregate retention, losses in excess of \$2,000,000 per occurrence were commercially insured up to \$50,000,000 for wind, \$50,000,000 for flood, and \$200,000,000 per 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. The \$50,000,000 of wind coverage is \$35,000,000 less than the coverage provided for the 2004-05 fiscal year. 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

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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. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 32,978,638.34
Research	2,198,045.00
Public Service	3,858,825.42
Academic Support	10,465,586.43
Student Services	6,191,513.00
Institutional Support	12,857,605.00
Operation and Maintenance of Plant	5,345,410.75
Scholarships and Fellowships	7,668,958.13
Auxiliary Operations	11,982,353.06
Depreciation	7,343,690.63
Loan Operations	2,190.00
Total Operating Expenses	<u><u>\$ 100,892,815.76</u></u>

14. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instrument 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

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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

	Student Housing Facilities	Parking Facilities
Assets		
Current Assets	\$ 10,643,749.35	\$ 4,796,176.75
Other Noncurrent Assets	52,084,561.11	3,911,523.67
Total Assets	<u>62,728,310.46</u>	<u>8,707,700.42</u>
Liabilities		
Current Liabilities	1,941,820.67	1,406,523.86
Noncurrent Liabilities	53,597,750.00	5,902,250.00
Total Liabilities	<u>55,539,570.67</u>	<u>7,308,773.86</u>
Total Net Assets	<u>\$ 7,188,739.79</u>	<u>\$ 1,398,926.56</u>

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

	Student Housing Facilities	Parking Facilities
Operating Revenues	\$ 8,580,003.00	\$ 975,775.76
Operating Expenses	(7,121,637.38)	(617,028.02)
Operating Income	<u>1,458,365.62</u>	<u>358,747.74</u>
Nonoperating Revenues	286,439.33	36,820.03
Nonoperating Expenses	(205,818.16)	(9,262.21)
Net Nonoperating Revenues	<u>80,621.17</u>	<u>27,557.82</u>
Increase in Net Assets	1,538,986.79	386,305.56
Net Assets, Beginning of Year	5,649,753.00	1,012,621.00
Net Assets, End of Year	<u>\$ 7,188,739.79</u>	<u>\$ 1,398,926.56</u>

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Condensed Statement of Cash Flows

	Student Housing Facilities	Parking Facilities
Net Cash Provided (Used) by:		
Operating Activities	\$ 4,282,381.57	\$ 818,717.77
Noncapital Financing Activities	(2,457,114.67)	(441,215.54)
Capital and Related Financing Activities	(4,290,912.00)	(2,574,347.03)
Investing Activities	(1,910,589.36)	(377,088.22)
Net Decrease in Cash and Cash Equivalents	(4,376,234.46)	(2,573,933.02)
Cash and Cash Equivalents, Beginning of Year	4,862,895.00	5,926,192.00
Cash and Cash Equivalents, End of Year	\$ 486,660.54	\$ 3,352,258.98