

FLORIDA GATEWAY COLLEGE

Financial Audit

For the Fiscal Year Ended
June 30, 2011



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Harriet Wall to 9-14-10 (1)	Dixie

Dr. Charles W. Hall, President

Note: (1) Position remained vacant at June 30, 2011.

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

The audit team leader was Micah E. Rodgers, CPA, and the audit was supervised by Cathy L. Bandy, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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

FLORIDA GATEWAY COLLEGE
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

Our audit objectives were to determine whether Florida Gateway College and its officers with administrative and stewardship responsibilities for College operations had:

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

The scope of this audit included an examination of the College's basic financial statements as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the College's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the College is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the College are included in our report No. 2012-032.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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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 Gateway College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of College management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the discretely presented component unit columns. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Gateway College and of its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Florida Gateway College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Respectfully submitted,



David W. Martin, CPA

November 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the College for the fiscal year ended June 30, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of College management. The MD&A contains the financial activity of the College's component unit, The Foundation for Florida Gateway College, Inc., for the fiscal years ended March 31, 2011, and March 31, 2010.

FINANCIAL HIGHLIGHTS

The College's assets totaled \$53.8 million at June 30, 2011. This balance reflects a \$3.2 million, or 6 percent, increase from the 2009-10 fiscal year. While assets grew, liabilities increased by a lesser amount of \$322 thousand, or 6 percent, totaling \$5.3 million at June 30, 2011, compared to \$5 million at June 30, 2010. As a result, the College's net assets increased by \$2.9 million, reaching a year-end balance of \$48.5 million.

The College's operating revenues totaled \$7 million for the 2010-11 fiscal year, representing a 21 percent increase over the 2009-10 fiscal year. Operating revenues primarily consist of student tuition and fees and Federal grants. Operating expenses totaled \$26.3 million for the 2010-11 fiscal year, representing an increase of 5 percent over the 2009-10 fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

- Florida Gateway College (Primary Institution) – Most of the programs and services generally associated with a college fall into this category, including instruction, public service, and support services.
- The Foundation for Florida Gateway College, Inc. (Component Unit) – Although legally separate, this component unit is important because the College is financially accountable for it, as the College reports its financial activities to the State of Florida. The Foundation's fiscal year differs from the College and covers the period April through March.

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

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

These two statements report Florida Gateway College's net assets and changes in them. You can think of the College's net assets, the difference between assets and liabilities, as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indication of whether its financial health is improving or deteriorating. You will need to consider many other nonfinancial factors, such as

certain trends, student retention, condition of the buildings, and the safety of the campus, to assess the College's overall financial health.

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

A condensed statement of assets, liabilities, and net assets of the College and its component unit for the respective fiscal years ended is shown in the following table:

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Assets				
Current Assets	\$ 19,451	\$ 20,517	\$ 7,376	\$ 6,444
Capital Assets, Net	30,823	24,642	250	250
Other Noncurrent Assets	<u>3,563</u>	<u>5,479</u>	<u>2,990</u>	<u>2,853</u>
Total Assets	<u>53,837</u>	<u>50,638</u>	<u>10,616</u>	<u>9,547</u>
Liabilities				
Current Liabilities	3,436	2,935	68	173
Noncurrent Liabilities	<u>1,870</u>	<u>2,049</u>	<u> </u>	<u> </u>
Total Liabilities	<u>5,306</u>	<u>4,984</u>	<u>68</u>	<u>173</u>
Net Assets				
Invested in Capital Assets	30,823	24,642	250	250
Restricted	7,748	13,148	9,930	8,810
Unrestricted	<u>9,960</u>	<u>7,864</u>	<u>368</u>	<u>314</u>
Total Net Assets	<u>\$ 48,531</u>	<u>\$ 45,654</u>	<u>\$ 10,548</u>	<u>\$ 9,374</u>
Increase in Net Assets	<u>\$ 2,877</u>	6.3%	<u>\$ 1,174</u>	12.5%

Noncurrent Assets

Noncurrent assets decreased \$1.9 million due to the use of noncurrent cash and cash equivalents for various construction projects as discussed below.

Capital Assets

College capital assets increased \$6.2 million due to capitalized expenditures for the following projects: (1) construction of the library and media center; (2) college-wide learning lab; and (3) overhead to underground utilities project. These increases were partially offset by the depreciation and disposal of capital equipment. Depreciation expense totaled \$1.5 million for the 2010-11 fiscal year.

Net Assets

Net assets are presented in three major categories. The first category is invested in capital assets, which represents the College's equity in its property, plant, and equipment. This category increased \$6.2 million as discussed above.

The second category is restricted net assets, which are funds that are limited in terms of the purpose or time for which they may be expended. These restrictions are noted under the sub-classification of expendable restricted net assets.

Restricted net assets decreased \$5.4 million due primarily to the expenditure of Public Education Capital Outlay (PECO) funds that were appropriated in previous years for various construction projects.

The final category is unrestricted net assets, which represents those balances from operational activities that have not been restricted by parties external to the College, such as grant agencies. These include funds that have been designated by the Board of Trustees for specific purposes as well as amounts that have been contractually committed for goods and services that have not been received. Unrestricted net assets increased \$2.1 million during the fiscal year.

Component unit net assets increased \$1.2 million due to investment income being reinvested to provide for future scholarships.

Revenues and expenses of the College and its component unit for the respective fiscal years ended are shown in the following table:

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

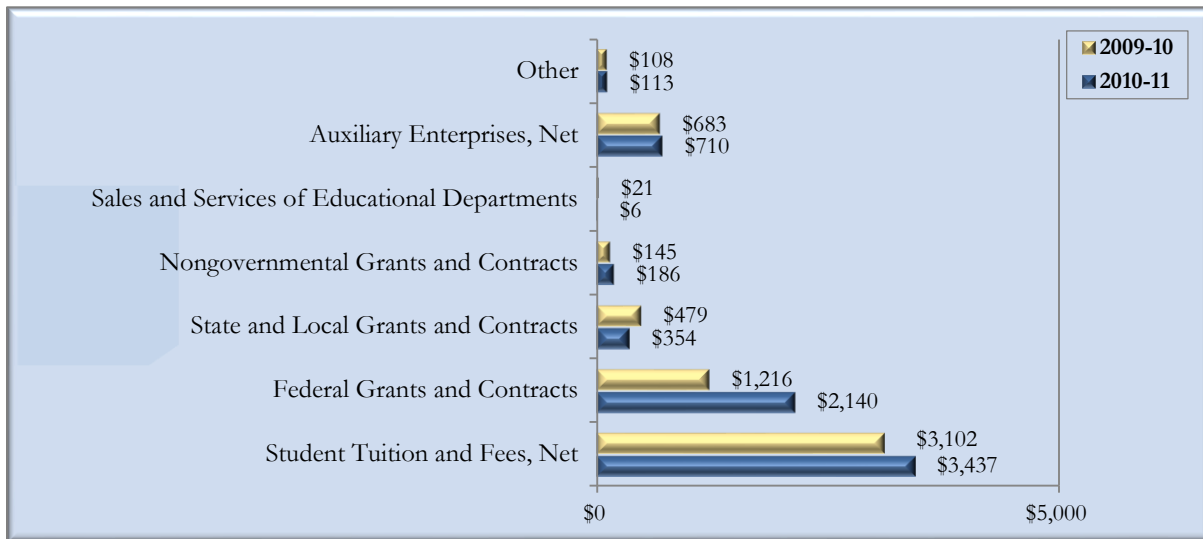
	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 3,437	\$ 3,102	\$	\$
Federal Grants and Contracts	2,140	1,216		
State and Local Grants and Contracts	354	479	58	20
Nongovernmental Grants and Contracts	186	145	409	405
Sales and Services of Educational Departments	6	21		
Auxiliary Enterprises, Net of Scholarship Allowances	710	683		
Other Operating Revenues	113	108	272	150
Total Operating Revenues	6,946	5,754	739	575
Less, Operating Expenses	26,313	24,958	806	762
Operating Loss	(19,367)	(19,204)	(67)	(187)
Nonoperating Revenues (Expenses)				
State Noncapital Appropriations	12,221	11,706		
Gifts and Grants	8,358	7,971		
Investment Income	111	146	1,031	2,150
Other Nonoperating Revenues	3			
Interest on Capital Asset-Related Debt	(16)	(20)		
Loss on Disposal of Capital Assets			(2)	
Other Nonoperating Expenses		(239)		
Net Nonoperating Revenues	20,677	19,564	1,029	2,150
Income Before Other Revenues, Expenses, Gains, or Losses	1,310	360	962	1,963
State Capital Appropriations	1,268	1,387		
Capital Grants, Gifts, and Fees	299	265	212	98
Increase in Net Assets	2,877	2,012	1,174	2,061
Net Assets, Beginning of Year	45,654	43,642	9,374	7,313
Net Assets, End of Year	\$ 48,531	\$ 45,654	\$ 10,548	\$ 9,374

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 gives or receives something of equal or similar value.

The following chart presents the College’s operating revenues for the 2010-11 and 2009-10 fiscal years:

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



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

- Gross student tuition and fee revenue decreased by \$109 thousand, or 2 percent. This decrease was offset by a decrease in scholarship allowances related to student tuition and fees of \$444 thousand, or 16 percent. The overall result was an increase in net student tuition and fees of \$335 thousand. The decrease in the scholarship allowances from the prior year is due to a change in the sources of data used for computing the scholarship allowances estimate. In the prior year the estimate was based on data from two terms and not the entire fiscal year.
- The increase in Federal grants and contracts of \$924 thousand was primarily due to the receipt of a Water Resource Banner Center contract and a Strengthening Institutions Grant for increasing the retention and course completion for students not “college ready” upon admission.

Operating Expenses

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

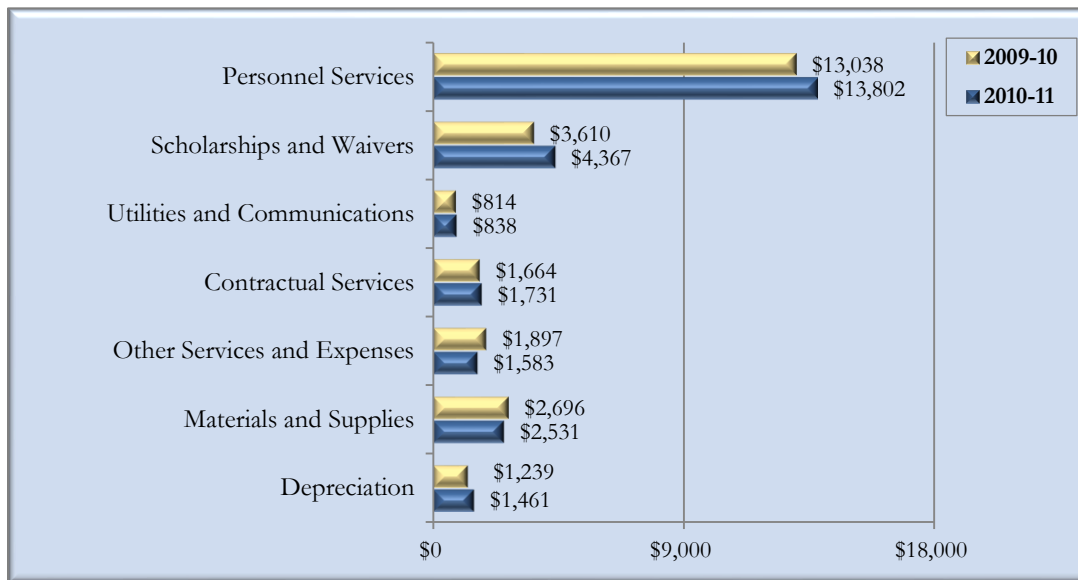
Operating expenses for the College and its component unit for the respective fiscal years ended are presented in the following table:

**Operating Expenses
For the Fiscal Years Ended
(In Thousands)**

	College		Component Unit	
	6-30-11	6-30-10	3-31-11	3-31-10
Operating Expenses				
Personnel Services	\$ 13,802	\$ 13,038	\$	\$
Scholarships and Waivers	4,367	3,610	484	450
Utilities and Communications	838	814		
Contractual Services	1,731	1,664	48	48
Other Services and Expenses	1,583	1,897	245	240
Materials and Supplies	2,531	2,696	23	18
Depreciation	1,461	1,239	6	6
Total Operating Expenses	\$ 26,313	\$ 24,958	\$ 806	\$ 762

The following chart presents the College’s operating expenses for the 2010-11 and 2009-10 fiscal years:

**Operating Expenses: College
(In Thousands)**



Total College 2010-11 fiscal year operating expenses increased by \$1.4 million, or 5 percent over the 2009-10 fiscal year. Personnel services expense increased by \$764 thousand due to a cost-of-living raise and a revised pay scale for the compensation of adjunct professors. There was also an increase in costs for employee healthcare benefits of 5 percent. Scholarships and waivers increased by \$757 thousand, or 21 percent. This number will fluctuate from year to year with the amount of the scholarship allowance.

Nonoperating Revenues and Expenses

Certain revenue sources that the College 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 College’s nonoperating revenues and expenses for the 2010-11 and 2009-10 fiscal years:

**Nonoperating Revenues (Expenses): College
(In Thousands)**

	2010-11	2009-10
State Noncapital Appropriations	\$ 12,221	\$ 11,706
Gifts and Grants	8,358	7,971
Investment Income	111	146
Other Nonoperating Revenues	3	
Interest on Capital Asset-Related Debt	(16)	(20)
Other Nonoperating Expenses		(239)
	\$ 20,677	\$ 19,564

Net nonoperating revenues increased by \$1.1 million, or 6 percent. Gifts and grants increased by \$387 thousand, or 5 percent, primarily due to increased funding for the College's Federal Pell Grants. In addition, the College was allocated American Recovery and Reinvestment Act – State Fiscal Stabilization funds of \$1 million during the 2010-11 fiscal year.

Other Revenues

This category is composed of State capital appropriations and capital fees. The following summarizes the College's other revenues for the 2010-11 and 2009-10 fiscal years:

**Other Revenues: College
(In Thousands)**

	2010-11	2009-10
State Capital Appropriations	\$ 1,268	\$ 1,387
Capital Grants, Contracts, Gifts, and Fees	299	265
	\$ 1,567	\$ 1,652

State capital appropriations decreased due to a decrease in PECO appropriations to the College in the 2010-11 fiscal year.

THE STATEMENT OF CASH FLOWS

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

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

A summary of the College's cash flows for the 2010-11 and 2009-10 fiscal years is presented in the following table:

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

	<u>2010-11</u>	<u>2009-10</u>
Cash Provided (Used) by:		
Operating Activities	\$ (17,830)	\$ (18,217)
Noncapital Financing Activities	20,580	19,678
Capital and Related Financing Activities	(1,394)	853
Investing Activities	115	(2,849)
Net Increase (Decrease) in Cash and Cash Equivalents	1,471	(535)
Cash and Cash Equivalents, Beginning of Year	<u>10,682</u>	<u>11,217</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,153</u>	<u>\$ 10,682</u>

Major sources of funds came from State noncapital appropriations (\$12.2 million), net student tuition and fees (\$3.5 million), gifts and grants (\$8.4 million), and grants and contracts (\$2.9 million). Major uses of funds were for payments to employees (\$10.7 million), employee benefits (\$3 million), payments to suppliers (\$5.8 million), purchases of capital assets (\$7 million) and scholarship payments (\$4.4 million).

Cash and cash equivalents increased \$1.5 million during the 2010-11 fiscal year, due primarily to an increase of cash provided by grants and contracts (\$1.3 million) and a decrease of cash used for investing activities (\$3 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2011, the College had \$55.6 million in capital assets, less accumulated depreciation of \$24.8 million, or net capital assets of \$30.8 million. Depreciation charges for the current fiscal year totaled \$1.5 million.

The following table summarizes the College's capital assets at June 30:

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

<u>Capital Assets</u>	<u>2011</u>	<u>2010</u>
Land	\$ 159	\$ 159
Buildings	35,521	33,720
Other Structures and Improvements	4,821	4,822
Furniture, Machinery, and Equipment	4,652	4,365
Construction in Progress	<u>10,461</u>	<u>5,206</u>
Total	<u>55,614</u>	<u>48,272</u>
Less, Accumulated Depreciation:		
Buildings	16,891	16,122
Other Structures and Improvements	4,590	4,523
Furniture, Machinery, and Equipment	<u>3,310</u>	<u>2,985</u>
Total Accumulated Depreciation	<u>24,791</u>	<u>23,630</u>
Capital Assets, Net	<u>\$ 30,823</u>	<u>\$ 24,642</u>

The majority of the increase in capital assets can be attributed to construction projects in progress at the end of the fiscal year. The College has \$762 thousand in major construction contract commitments at June 30, 2011. The contract commitments are for projects that include new construction of a library and media center, and overhead to

underground utilities. State appropriations together with local funds are expected to finance the new construction and renovations. More information about the College's capital assets is presented in the notes to financial statements.

DEBT ADMINISTRATION

At fiscal year-end, the College had \$381 thousand in long-term debt outstanding compared to \$485 thousand at the end of 2009-10 fiscal year, a decrease of 21 percent. Additional information about the College's long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Florida Gateway College's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, only a modest increase in State funding is anticipated in the coming year. In response to a decrease in State appropriations, the Board of Trustees increased the tuition rate by 8 percent beginning with the Fall 2011 term. The College's current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of services. The College's practice is to budget to a level to assure sufficient fund balance is available so that current operations will be adequately funded for the future. The College's Board of Trustees is prepared to take action by decreasing the College's current operating budget in the event that State appropriations are decreased.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Business Services, Florida Gateway College, 149 Southeast College Place, Lake City, Florida 32025-2007.

BASIC FINANCIAL STATEMENTS

**FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>College</u>	<u>Component Unit</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 9,744,186.79	\$ 367,974.00
Restricted Cash and Cash Equivalents	2,027,478.93	516,313.00
Restricted Investments		6,327,397.00
Accounts Receivable, Net	491,252.08	46,574.00
Notes Receivable, Net	9,080.72	
Due from Other Governmental Agencies	6,644,771.40	
Due from Component Unit	64,035.33	
Inventories	469,383.95	
Other Assets	1,200.00	117,902.00
Total Current Assets	<u>19,451,389.20</u>	<u>7,376,160.00</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	381,289.81	
Investments	3,181,442.41	
Restricted Investments		2,989,519.00
Depreciable Capital Assets, Net	20,203,170.17	150,164.00
Nondepreciable Capital Assets	10,619,713.23	100,214.00
Total Noncurrent Assets	<u>34,385,615.62</u>	<u>3,239,897.00</u>
TOTAL ASSETS	<u>\$ 53,837,004.82</u>	<u>\$ 10,616,057.00</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 255,609.94	\$ 68,200.00
Salary and Payroll Taxes Payable	1,042,675.03	
Retainage Payable	527,205.70	
Construction Contracts Payable	688,136.46	
Due to Other Governmental Agencies	10,934.10	
Deferred Revenue	433,758.51	
Deposits Held for Others	32,060.53	
Long-Term Liabilities - Current Portion:		
Note Payable	107,566.07	
Compensated Absences Payable	338,384.78	
Total Current Liabilities	<u>3,436,331.12</u>	<u>68,200.00</u>
Noncurrent Liabilities:		
Note Payable	273,644.42	
Compensated Absences Payable	1,506,234.30	
Other Postemployment Benefits Payable	89,996.00	
Total Noncurrent Liabilities	<u>1,869,874.72</u>	
TOTAL LIABILITIES	<u>5,306,205.84</u>	<u>68,200.00</u>

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

	College	Component Unit
NET ASSETS		
Invested in Capital Assets	\$ 30,822,883.40	\$ 250,378.00
Restricted:		
Nonexpendable:		
Endowment		2,996,019.00
Expendable:		
Grants and Loans	1,172,609.30	
Scholarships	78,846.67	6,933,776.00
Capital Projects	6,496,795.53	
Unrestricted	9,959,664.08	367,684.00
Total Net Assets	48,530,798.98	10,547,857.00
TOTAL LIABILITIES AND NET ASSETS	\$ 53,837,004.82	\$ 10,616,057.00

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

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

	College	Component Unit
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$2,376,105.32	\$ 3,436,966.54	\$
Federal Grants and Contracts	2,140,396.34	
State and Local Grants and Contracts	353,556.55	57,565.00
Nongovernmental Grants and Contracts	186,377.82	409,031.00
Sales and Services of Educational Departments	5,614.10	
Auxiliary Enterprises, Net of Scholarship Allowances of \$987,403.40	709,905.02	
Other Operating Revenues	112,618.98	272,358.00
Total Operating Revenues	6,945,435.35	738,954.00
EXPENSES		
Operating Expenses:		
Personnel Services	13,801,576.43	
Scholarships and Waivers	4,367,553.84	483,792.00
Utilities and Communications	837,953.72	
Contractual Services	1,731,263.69	48,174.00
Other Services and Expenses	1,582,868.18	245,152.00
Materials and Supplies	2,530,610.41	23,328.00
Depreciation	1,460,905.47	5,873.00
Total Operating Expenses	26,312,731.74	806,319.00
Operating Loss	(19,367,296.39)	(67,365.00)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	12,221,493.00	
Gifts and Grants	8,358,372.81	
Investment Income	111,225.39	1,030,945.00
Other Nonoperating Revenues	2,632.39	
Loss on Disposal of Capital Assets		(1,599.00)
Interest on Capital Asset-Related Debt	(16,374.33)	
Net Nonoperating Revenues	20,677,349.26	1,029,346.00
Income Before Other Revenues, Expenses, Gains, or Losses	1,310,052.87	961,981.00
State Capital Appropriations	1,267,760.58	
Capital Grants, Contracts, Gifts, and Fees	298,971.45	212,266.00
Total Other Revenues	1,566,732.03	212,266.00
Increase in Net Assets	2,876,784.90	1,174,247.00
Net Assets, Beginning of Year	45,654,014.08	9,373,610.00
Net Assets, End of Year	\$ 48,530,798.98	\$ 10,547,857.00

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

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	College
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 3,531,424.29
Grants and Contracts	2,883,432.26
Payments to Suppliers	(5,789,000.64)
Payments for Utilities and Communications	(837,953.72)
Payments to Employees	(10,711,014.52)
Payments for Employee Benefits	(2,982,316.59)
Payments for Scholarships	(4,367,553.84)
Loans Issued to Students	(234,622.99)
Collection on Loans to Students	232,894.54
Auxiliary Enterprises, Net	692,111.17
Sales and Service of Educational Departments	5,614.10
Other Payments	(253,103.26)
	(17,830,089.20)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	12,221,493.00
Gifts and Grants Received for Other Than Capital or Endowment Purposes	8,358,372.81
Student Direct Lending Receipts	1,673,804.00
Student Direct Lending Disbursements	(1,673,804.00)
	20,579,865.81
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	5,413,995.44
Capital Fees	298,971.45
Proceeds from Sale of Capital Assets	2,632.39
Purchases of Capital Assets	(6,989,766.98)
Principal Paid on Capital Debt	(103,652.55)
Interest Paid on Capital Debt	(16,374.33)
	(1,394,194.58)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales of Investments	55,851.47
Investment Income	59,311.45
	115,162.92
Net Increase in Cash and Cash Equivalents	1,470,744.95
Cash and Cash Equivalents, Beginning of Year	10,682,210.58
Cash and Cash Equivalents, End of Year	\$ 12,152,955.53

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011

	College
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (19,367,296.39)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,460,905.47
Changes in Assets and Liabilities:	
Receivables, Net	(13,045.06)
Inventories	55,780.64
Due from Other Governmental Agencies	274,048.81
Due from Component Unit	(12,922.55)
Accounts Payable	(197,409.80)
Salary and Payroll Taxes Payable	50,058.85
Deferred Revenue	31,684.25
Loans to Students	(1,728.45)
Deposits Held for Others	(4,021.28)
Due to Other Governmental Agencies	(164,330.16)
Compensated Absences Payable	44,377.47
Other Postemployment Benefits Payable	13,809.00
	<u>13,809.00</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (17,830,089.20)</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$51,913.94

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

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Foundation is audited by other auditors pursuant to Section 1004.70(6), Florida Statutes. The Foundation's audited financial statements are available to the public at the College. The financial data reported on the accompanying financial statements was derived from the Foundation's audited financial statements for the fiscal year ended March 31, 2011.

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

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

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

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

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

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

The College's principal operating activity is instruction. Operating revenues and expenses generally include all fiscal transactions directly related to instruction as well as administration, academic support, student services, physical plant operations, and depreciation of capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

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

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

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

At June 30, 2011, the College reported as cash equivalents at fair value \$20,838.14 in the State Treasury SPIA investment pool representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 2.13 years at June 30, 2011. The College 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 SPIA investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Capital Assets. College capital assets consist of land; construction in progress; buildings; other structures and improvements; and furniture, machinery, and equipment. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The College has a capitalization threshold of \$5,000 for tangible personal property and \$25,000 for buildings

**FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

and other structures and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of a note payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. INVESTMENTS

The College’s Board of Trustees has adopted a written investment policy providing that surplus funds of the College shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Section 218.415(16), Florida Statutes, authorizes the College to invest in the Florida PRIME investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined by Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the College’s Board of Trustees as authorized by law. State Board of Education Rule 6A-14.0765(3), Florida Administrative Code, provides that College loan, endowment, annuity, and life income funds may also be invested pursuant to Section 215.47, Florida Statutes. Investments authorized by Section 215.47, Florida Statutes, include bonds, notes, commercial paper, and various other types of investments. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The College’s investments at June 30, 2011, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
State Board of Administration Fund B	
Surplus Funds Trust Fund	\$ 181,442.41
Certificates of Deposit	3,000,000.00
Total College Investments	\$ 3,181,442.41

**FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2011, the College reported investments at fair value of \$181,442.41 in Fund B. The College's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. The weighted-average life (WAL) of Fund B at June 30, 2011, is estimated at 7.16 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2011. WAL measures the sensitivity of Fund B to interest rate changes. The College's investment in Fund B is unrated.

Certificates of Deposit

The College invested in certificates of deposit from a financial institution. The certificates have original maturity dates of 12 months with annual percentage rates ranging from 0.65 to 0.70 percent. The College's investments in certificates of deposit are in a qualified public depository.

Component Unit Investments

The Foundation for Florida Gateway College, Inc. (Foundation), investments are managed by investment brokerage houses. There are no legal restrictions on the types of investments that can be made. The Foundation's investment policy provides that investments are to be limited to premium investment grade mutual funds, equity securities, and debt securities from companies located throughout the United States. The policy also provides that debt securities should be maintained as near as possible to 20 percent of the total investment portfolio. Foundation investments at March 31, 2011, are recorded at fair value based on quoted market prices as follows:

<u>Investment Type</u>	<u>Amount</u>
Commonfund:	
Multi-Strategy Bond Mutual Funds	\$ 2,479,931
Multi-Strategy Equity Mutual Funds	6,788,339
Realty Investors, LLC	1,998
Corporate Common Stocks	1,648
Special Purpose Investment Account	<u>45,000</u>
Total Component Unit Investments	<u>\$ 9,316,916</u>

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Foundation has no formal investment policy that limits investment maturities.

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

However, the Foundation manages its exposure to fair value losses arising from increasing interest rates through the weighted average maturity method. As of March 31, 2011, the weighted average maturity for the Commonfund bond mutual funds was 6.9 years.

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Foundation has no formal investment policy on credit risk. As of March 31, 2011, the credit quality for the Commonfund bond mutual funds was AA.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investments in a single issuer. The Foundation's investment policy does not limit the amount that may be invested in any type of investment.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts for student fee deferments, various student services provided by the College, unused credit memos, and contract and grant reimbursements due from third parties. These receivables are reported net of a \$106,781.57 allowance for doubtful accounts.

4. NOTES RECEIVABLE

Notes receivable represent student loans made under the College's short-term loan program. Notes receivable are reported net of an \$8,748.01 allowance for doubtful notes.

5. DUE FROM OTHER GOVERNMENTAL AGENCIES

This amount primarily consists of \$6,388,150.14 of Public Education Capital Outlay allocations due from the State for construction of College facilities.

6. DUE FROM COMPONENT UNIT

The \$64,035.33 reported as due from component unit consists of amounts owed to the College by the Foundation for scholarships, program support, and student aid. The College's financial statements are reported for the fiscal year ended June 30, 2011. The Foundation's financial statements are reported for the fiscal year ended March 31, 2011. Accordingly, although the College reported an amount as due from the component unit on the statement of net assets, no amount is reported by the component unit as due to the College.

7. INVENTORIES

Inventories consist of items for resale by the campus bookstore, and are valued using the first-in, first-out, method of inventory valuation. In addition, inventories consist of various types of centrally stored consumable materials and supplies, which are valued using the average cost or last invoice price, which approximates the first-in, first-out, method of inventory valuation.

8. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 159,029.23	\$	\$	\$ 159,029.23
Construction in Progress	5,206,010.07	7,055,483.82	1,800,809.89	10,460,684.00
Total Nondepreciable Capital Assets	\$ 5,365,039.30	\$ 7,055,483.82	\$ 1,800,809.89	\$ 10,619,713.23
Depreciable Capital Assets:				
Buildings	\$ 33,720,201.04	\$ 1,800,809.89	\$	\$ 35,521,010.93
Other Structures and Improvements	4,821,699.77		719.82	4,820,979.95
Furniture, Machinery, and Equipment	4,365,321.55	557,970.77	271,179.82	4,652,112.50
Total Depreciable Capital Assets	42,907,222.36	2,358,780.66	271,899.64	44,994,103.38
Less, Accumulated Depreciation:				
Buildings	16,122,432.92	768,379.91		16,890,812.83
Other Structures and Improvements	4,523,183.19	79,481.73	13,027.38	4,589,637.54
Furniture, Machinery, and Equipment	2,984,741.06	613,043.83	287,302.05	3,310,482.84
Total Accumulated Depreciation	23,630,357.17	1,460,905.47	300,329.43	24,790,933.21
Total Depreciable Capital Assets, Net	\$ 19,276,865.19	\$ 897,875.19	\$ (28,429.79)	\$ 20,203,170.17

9. DEFERRED REVENUE

Deferred revenue includes student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2011, the College reported \$433,758.51 as deferred revenue.

10. LONG-TERM LIABILITIES

Long-term liabilities of the College at June 30, 2011, include a note payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note Payable	\$ 484,863.04	\$	\$ 103,652.55	\$ 381,210.49	\$ 107,566.07
Compensated Absences Payable	1,800,241.61	116,884.93	72,507.46	1,844,619.08	338,384.78
Other Postemployment Benefits Payable	76,187.00	33,465.00	19,656.00	89,996.00	
Total Long-Term Liabilities	\$ 2,361,291.65	\$ 150,349.93	\$ 195,816.01	\$ 2,315,825.57	\$ 445,950.85

Note Payable. On May 20, 2004, the College entered into an energy savings installment note with a bank in the aggregate principal amount of \$1 million, under the provisions of Section 1013.23, Florida Statutes, at an interest rate of 3.74 percent. Proceeds were used to fund an energy performance-based contract for energy management facilities upgrade projects. The note matures on November 20, 2014, and principal and interest payments of \$10,002.24 are made monthly. Annual requirements for planned repayment of the note payable at June 30, 2011, are as follows:

FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Fiscal Year Ending June 30	Principal	Interest	Total
2012	\$ 107,566.07	\$ 12,460.81	\$ 120,026.88
2013	111,690.78	8,336.10	120,026.88
2014	115,940.35	4,086.53	120,026.88
2015	46,013.29	410.22	46,423.51
Total	\$ 381,210.49	\$ 25,293.66	\$ 406,504.15

Compensated Absences Payable. College employees may accrue annual and sick leave based on length of service, subject to certain limitations regarding the amount that will be paid upon termination. The College reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the College expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2011, the estimated liability for compensated absences, which includes the College's share of the Florida Retirement System and FICA contributions, totaled \$1,844,619.08. The current portion of the compensated absences liability was determined based on the anticipated payout in the next fiscal year.

Other Postemployment Benefits Payable. The College follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain other postemployment healthcare and life insurance benefits provided by the Florida College System Risk Management Consortium (Consortium).

Plan Description. The College contributes to an agent, multiple-employer, defined-benefit plan administered by the Consortium (Plan). Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees who retire from the College are eligible to participate in the College's healthcare and life insurance benefits. The College subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. The College does not offer any explicit subsidies for retiree coverage. Retirees are required to enroll in the Federal Medicare program for their primary health coverage as soon as they are eligible. Neither the College nor the Consortium issue a stand-alone annual report for the Plan, and the Plan is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. The Board of Trustees can amend plan benefits and contribution rates. The College has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 31 retirees received postemployment healthcare benefits, and 68 retirees received postemployment life insurance benefits. The College provided required contributions of \$17,116 toward the

**FLORIDA GATEWAY COLLEGE
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

annual OPEB cost, comprised of benefit payments made on behalf of retirees for claim expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$177,725.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 20,738
Amortization of Unfunded Actuarial Accrued Liability	<u>10,441</u>
Annual Required Contribution	31,179
Interest on Net OPEB Obligation	2,286
Adjustment to Annual Required Contribution	<u>(2,540)</u>
Annual OPEB Cost (Expense)	30,925
Contribution Toward the OPEB Cost	<u>(17,116)</u>
Increase in Net OPEB Obligation	13,809
Net OPEB Obligation, Beginning of Year	<u>76,187</u>
Net OPEB Obligation, End of Year	<u><u>\$ 89,996</u></u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2011, and for the two preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008-09	\$ 23,387	6.2%	\$ 47,629
2009-10	30,948	7.7%	76,187
2010-11	30,925	55.3%	89,996

Funded Status and Funding Progress. As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$304,109 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$304,109 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$9,126,324.35 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about

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

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

The College's OPEB actuarial valuation as of July 1, 2009, used the projected unit credit actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the College's 2010-11 fiscal year ARC. This method was selected because it is the same method used in the private sector for determination of retiree medical liabilities. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the College's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 8 percent initially for the 2009-10 fiscal year, reduced by 0.1 to 0.3 percent per year to an ultimate rate of 4.5 percent after 18 years. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll amortized over 30 years. The remaining amortization period at June 30, 2011, was 26 years.

11. RETIREMENT PROGRAMS

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

Employees in the Plan vest at six years of service. All vested 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 Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
Florida Retirement System, Reemployed Retiree	(B)	(B)

- Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.03 percent for administrative costs of the PEORP.
(B) Contribution rates are dependent upon retirement class in which reemployed.

The College’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the College. The College’s contributions for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$670,653, \$647,664, and \$746,566, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. College employees already participating in the State College 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, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 52 College participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$222,022.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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

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

There were ten College participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$75,291.

Senior Management Service Class Local Annuity Program. Section 121.055, Florida Statutes, and Florida Retirement System Rule 60S-1.0057, Florida Administrative Code, provide that local agency employees eligible for the FRS, Senior Management Service Class may elect to withdraw from the FRS altogether and participate in a lifetime monthly annuity program offered by the local agency. Pursuant thereto, the College established a Senior Management Service Class Local Annuity Program (Program). Employees in eligible positions are allowed to make an irrevocable election to participate in the Program, rather than the FRS. Under the Program, the College contributes the same percentage of the participant's salary as would have been contributed to the FRS, Senior Management Service Class toward an annuity provided by approved fund sponsors. The participant does not make any contributions to the Program. As of June 30, 2011, two College employees had opted to participate in the Program. Contributions made by the College to the Program totaled \$18,820 during the 2010-11 fiscal year.

12. CONSTRUCTION COMMITMENTS

The College's construction commitments at June 30, 2011, are as follows:

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JUNE 30, 2011

Project Description	Total Commitment	Completed to Date	Balance Committed
Various Overhead to Underground Utilities Projects:			
Engineer	\$ 101,880.00	\$ 66,283.12	\$ 35,596.88
General Contractors	491,413.87	228,859.90	262,553.97
Library and Media Center Construction:			
Architect	866,200.00	859,200.00	7,000.00
General Contractor	5,561,011.26	5,104,117.45	456,893.81
Total	\$ 7,020,505.13	\$ 6,258,460.47	\$ 762,044.66

13. RISK MANAGEMENT PROGRAMS

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College provided coverage for these risks primarily through the Florida College System Risk Management Consortium (Consortium), which was created under authority of Section 1001.64(27), Florida Statutes, by the boards of trustees of the Florida public colleges for the purpose of joining a cooperative effort to develop, implement, and participate in a coordinated Statewide College risk management program. The Consortium is self-sustaining through member assessments (premiums) and is reinsured through commercial companies for claims in excess of specified amounts. Reinsurance from commercial companies provided excess coverage of up to \$150 million. Insurance coverage obtained through the Consortium included health and hospitalization, life, dental, fire and extended property, general and automobile liability, workers' compensation, and other liability coverage. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

14. SCHEDULE OF STATE REVENUE SOURCES

Revenue from State sources for current operations is primarily from the College Program Fund administered by the Florida Department of Education under the provisions of Section 1011.81, Florida Statutes. In accordance with Section 1011.84, Florida Statutes, the Legislature determines each college's apportionment considering the following components: base budget, which includes the State appropriation to the College Program Fund in the current year plus the related student tuition and fees assigned in the current General Appropriations Act; the cost-to-continue allocation, which consists of incremental changes to the base budget, including salaries, price levels, and other related costs; enrollment workload adjustments; operation costs of new facilities adjustments; and new and improved program enhancements, which are determined by the Legislature. Student fees in the base budget plus student fee revenues generated by increases in fee rates are deducted from the sum of these components to determine the net annual State apportionment to each college.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the College on an annual basis. The College is authorized to receive and expend these resources only upon applying for and receiving an encumbrance authorization from the Florida Department of Education.

**FLORIDA GATEWAY COLLEGE
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The following is a summary of State revenue sources and amounts:

<u>Source</u>	<u>Amount</u>
College Program Fund	\$ 10,675,272.00
Education Enhancement Trust Fund (Lottery)	1,546,221.00
Gross Receipts Tax (Public Education Capital Outlay)	1,149,789.00
Bright Futures Scholarship Program	581,689.72
Florida Student Assistance Grants	397,316.00
Restricted Contracts and Grants	349,525.64
Motor Vehicle License Tax (Capital Outlay and Debt Service)	117,971.58
First Generation Scholarship	11,312.50
Total	\$ 14,829,097.44

15. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 8,806,559.37
Scholarships and Fellowships	4,372,474.22
Institutional Support	4,088,467.86
Academic Support	2,251,690.50
Operation and Maintenance of Plant	2,151,011.91
Student Services	1,792,425.63
Depreciation	1,460,905.47
Auxiliary Enterprises	1,389,196.78
Total Operating Expenses	\$ 26,312,731.74

**FLORIDA GATEWAY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 239,406	\$ 239,406	0%	\$ 9,702,323	2.5%
7/1/2009	\$	\$ 304,109	\$ 304,109	0%	\$ 8,624,979	3.5%

Note: (1) The College's OPEB actuarial valuation used the projected unit credit actuarial method to estimate actuarial accrued liability.

**FLORIDA GATEWAY COLLEGE
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial accrued liability (UAAL) of \$304,109 was significantly higher than the July 1, 2007, liability of \$239,406. This was a result of increases due to the expected growth of liabilities over time and demographic changes of \$44,000 as well as updated claim costs and contributions and a revised medical trend assumption, which increased the UAAL by \$40,000. These increases were partially offset by a decrease in UAAL of approximately \$19,000 resulting from revised participation and mortality rates.



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

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

We have audited the financial statements of Florida Gateway College, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2011, which collectively comprise the College's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to College management in our operational audit report No. 2012-032.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
November 28, 2011