

2007

Annual financial report for the fiscal year 2005-2006

Florida International University

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AUDITOR GENERAL
WILLIAM O. MONROE, CPA



FLORIDA INTERNATIONAL UNIVERSITY

Financial Audit

For the Fiscal Year Ended June 30, 2006

During the audit period, the President of the University was Dr. Modesto A. Maidique. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

David R. Parker, Chair
Sergio Pino, Vice Chair
Betsy S. Atkins
Albert E. Dotson, Sr.
Patricia Frost
Armando J. Guerra from 8-30-05 (1)
Bruce Hauptli (2)
Robert Kirkwood Landon
Alfonso Leon from 5-1-06 (3)
Miriam Lopez
Alex Prado to 4-30-06 (3)
Claudia Puig
Rosa Sugrañes
Herbert A. Wertheim

- Notes: (1) Position remained vacant from July 1, 2005, through August 29, 2005.
(2) Faculty senate chair.
(3) Student body president.

FLORIDA INTERNATIONAL UNIVERSITY

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EXECUTIVE SUMMARY

The audit of the financial statements of Florida International 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 units 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was coordinated by Tamara T. Brooks, CPA, and supervised by Ramon A. Gonzalez, 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
AUDITOR GENERAL

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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 International University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2006, as shown on pages 15 through 42. 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 units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida International University and of its aggregate discretely presented component units 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 International 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 14 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



William O. Monroe, CPA
March 28, 2007



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
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The President of the Senate, the Speaker of the
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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 International University, a component unit of the State of Florida, and its aggregate discretely presented component units 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 reports 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 information technology audit report No. 2007-006, dated July 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 28, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 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 \$790.5 million at June 30, 2006. This balance reflects a \$34.8 million, or 4.6 percent, increase from the 2004-05 fiscal year, resulting from an increase in capital assets of \$51 million and cash and investments of \$40.2 million offset by a decrease in receivables and amounts due from State and component units of \$55 million. While assets grew, liabilities decreased by \$9.8 million, or 3.7 percent, totaling \$257.6 million at June 30, 2006, compared to \$267.4 million at June 30, 2005. As a result, the University's net assets increased by \$44.6 million, reaching a year end balance of \$532.9 million.

The University's operating revenues totaled \$253.7 million for the 2005-06 fiscal year, representing a 6.6 percent increase over the 2004-05 fiscal year due mainly to an increase in grants and contracts revenue and sales and services of auxiliary enterprises revenue. Operating expenses totaled \$497.1 million for the 2005-06 fiscal year, representing an increase of 9 percent over the 2004-05 fiscal year due mainly to an increase in compensation and employee benefits expense. In addition, a change in the estimated useful lives of certain building components resulted in \$18.4 million additional depreciation expense.

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. These component units include:

➤ ***Florida International University Foundation, Inc.***

The purpose of the Florida International University Foundation, Inc., is to encourage, solicit, receive and administer gifts and bequests of property and funds for the advancement of Florida International University and its objectives.

➤ ***Florida International University Research Foundation, Inc.***

The purpose of the Research Foundation includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of Florida International University through income from contracts, grants, and other sources, including, but not limited to,

income derived from or related to the development and commercialization of University work products.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in the notes to the financial statements. This MD&A focuses on the University, excluding the component units. MD&A information regarding component units is included in their separately issued audit reports.

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the University's assets and liabilities, using the accrual basis of accounting, and presents the University's financial position 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 Millions)		
	2006	2005
Assets		
Current Assets	\$209.8	\$234.5
Capital Assets, Net	536.1	485.1
Other Noncurrent Assets	44.6	36.1
Total Assets	790.5	755.7
Liabilities		
Current Liabilities	99.5	102.4
Noncurrent Liabilities	158.1	165.0
Total Liabilities	257.6	267.4
Net Assets		
Invested in Capital Assets, Net of Related Debt	443.0	389.7
Restricted	13.0	20.5
Unrestricted	76.9	78.1
Total Net Assets	\$532.9	\$488.3

The statement of net assets reflects the University's growth, primarily its continued physical expansion to meet student and faculty needs. Current assets mainly depict cash and investments, amounts due from the State to fund approved construction and renovation projects and receivables from students, granting agencies, and others. Amounts due from the State decreased from \$106.1 million to \$65.4 million. Accounts receivables, net of allowances, decreased by \$14.4 million due to lower contracts and grants receivables and receivables from

students. Based on these reductions in receivables and amounts due from the State, cash and investments reflected in current assets increased \$31.7 million.

The University's net capital assets increased from \$485.1 million to \$536.1 million due mainly to an increase in construction in progress of \$52.6 million; completed buildings of \$24.4 million; and purchases of furniture, equipment, software, and library resources of \$14.7 million, offset by the change in accumulated depreciation of \$41.4 million. The increase in buildings of \$24.4 million is primarily comprised of the addition of the Marine Biology and Recreation Center buildings of \$11.4 million and \$7.8 million, respectively. In addition, construction was completed on several other buildings totaling \$5.2 million. The increase in construction in progress is primarily attributable to the Law School, Lakeview Housing, and the Patricia and Phillip Frost Art Museum buildings.

At June 30, 2006, total assets increased 4.6 percent, while total liabilities decreased by 3.7 percent to \$257.6 million. As a result, the Net Assets increased by \$44.6 million to \$532.9 million at June 30, 2006. The Net Assets ending balance included \$443 million invested in Capital Assets, net of related debt, \$76.9 million in unrestricted funds, and \$13 million in restricted funds.

For more detailed information see the Statement of Net 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 Millions)		
	<u>2005-06</u>	<u>2004-05</u>
Operating Revenues	\$ 253.7	\$ 238.2
Operating Expenses	<u>497.1</u>	<u>455.9</u>
Operating Loss	(243.4)	(217.7)
Net Nonoperating Revenues	<u>232.4</u>	<u>215.9</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(11.0)	(1.8)
Other Revenues, Expenses, Gains, or Losses	<u>55.6</u>	<u>52.5</u>
Increase in Net Assets	<u>44.6</u>	<u>50.7</u>
Net Assets, Beginning of Year	488.3	456.9
Adjustment to Beginning Net Assets		<u>(19.3)</u>
Net Assets, Beginning of Year, as Restated	<u>488.3</u>	<u>437.6</u>
Net Assets, End of Year	<u><u>\$ 532.9</u></u>	<u><u>\$ 488.3</u></u>

Revenues from both operating and nonoperating sources totaled \$551.3 million for the 2005-06 fiscal year. This represents a 6.8 percent increase over the 2004-05 fiscal year, due mainly to increases in State appropriations, auxiliary operations, and grants and contracts revenue. Total revenues by source are shown below:

Revenues by Source (In Millions)			
	<u>2005-06</u>	<u>2004-05</u>	<u>Change</u>
State Appropriations	\$ 191.5	\$ 176.5	\$ 15.0
Net Tuition and Fees	103.2	101.9	1.3
Sales and Services	61.9	53.9	8.0
Federal Grants and Contracts	61.8	50.8	11.0
Capital Appropriations	52.7	50.0	2.7
Nonoperating Revenues	50.5	49.0	1.5
Other Operating Revenues	10.6	20.6	(10.0)
State and Local Grants and Contracts	9.3	7.7	1.6
Nongovernmental Grants and Contracts	6.9	3.3	3.6
Capital Grants, Contracts, and Donations	<u>2.9</u>	<u>2.5</u>	<u>0.4</u>
Total	<u><u>\$ 551.3</u></u>	<u><u>\$ 516.2</u></u>	<u><u>\$ 35.1</u></u>

State appropriations, consisting of General Revenue distributed by the Legislature and the State lottery system, constituted the largest component of revenue at \$191.5 million. The \$15 million increase was allocated to fund University strategic initiatives, annualized salary increases, the Health and Life Sciences program, utilities increase,

plant operations and maintenance, and the nursing program. Also, demonstrating noticeable growth was a \$16.2 million increase in revenue from Federal, State and Local, and Nongovernmental grants and contracts.

Operating expenses totaled \$497.1 million for the 2005-06 fiscal year, representing an increase of 9 percent over the 2004-05 fiscal year. Compensation, employee benefits, and depreciation were the primary causes of higher operating costs.

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.

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 Millions)		
	<u>2005-06</u>	<u>2004-05</u>
Net Tuition and Fees	\$ 103.2	\$ 101.9
Grants and Contracts	78.0	61.8
Sales and Services of Auxiliary Operations	58.7	50.6
Sales and Services of Educational Departments	3.2	3.3
Other	<u>10.6</u>	<u>20.6</u>
Total Operating Revenues	<u>\$ 253.7</u>	<u>\$ 238.2</u>

Operating revenues totaled \$253.7 million for the 2005-06 fiscal year, representing a 6.6 percent increase over the 2004-05 fiscal year. This was primarily due to an increase in Sponsored Research activity and an increase in sales and services of auxiliary operations offset by a reduction in other operating revenues.

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 Millions)		
	<u>2005-06</u>	<u>2004-05</u>
Compensation and Employee Benefits	\$ 298.7	\$ 282.8
Services and Supplies	89.7	90.6
Utilities	15.9	16.7
Scholarships and Fellowships	45.4	40.9
Depreciation	<u>47.4</u>	<u>24.9</u>
Total Operating Expenses	<u>\$ 497.1</u>	<u>\$ 455.9</u>

Operating expenses totaled \$497.1 million for the 2005-06 fiscal year. This represents a 9 percent increase over the 2004-05 fiscal year and was primarily the result of Board of Trustees approved increases in salary and retirement and employee benefits. In addition, a change in the estimated useful lives of certain building components resulted in \$18.4 million additional depreciation expense.

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 Millions)		
	<u>2005-06</u>	<u>2004-05</u>
State Appropriations	\$ 191.5	\$ 176.5
Federal and State Student Financial Aid	47.8	44.2
Investment Income	2.6	4.5
Interest on Capital Asset-Related Debt	(6.8)	(7.4)
Other Nonoperating Expenses	<u>(2.7)</u>	<u>(1.9)</u>
Net Nonoperating Revenues	<u>\$ 232.4</u>	<u>\$ 215.9</u>

During the 2005-06 fiscal year, the University was appropriated additional legislative funding to assist in the completion of strategic initiatives, give salary increases, provide funding for the Health and Life Sciences program, fund utilities increase, plant operations and maintenance spacing, and to assist in funding the nursing program. This contributed to the increase of \$15 million in State appropriations.

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 Millions)		
	<u>2005-06</u>	<u>2004-05</u>
Capital Appropriations	\$ 52.7	\$ 50.0
Capital Grants, Contracts, and Donations	2.9	2.5
Total	<u>\$ 55.6</u>	<u>\$ 52.5</u>

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

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

Condensed Statement of Cash Flows (In Millions)		
	<u>2005-06</u>	<u>2004-05</u>
Cash Provided (Used) by:		
Operating Activities	\$(182.7)	\$(208.5)
Noncapital Financing Activities	236.1	226.1
Capital and Related Financing Activities	(16.0)	(31.3)
Investing Activities	(34.9)	4.6
Net Increase (Decrease) in Cash and Cash Equivalents	2.5	(9.1)
Cash and Cash Equivalents, Beginning of Year	3.9	13.0
Cash and Cash Equivalents, End of Year	<u>\$ 6.4</u>	<u>\$ 3.9</u>

Major sources of funds came from State appropriations (\$191.5 million), net student tuition and fees (\$106.3 million), grants and contracts (\$85.5 million), and sales and services of auxiliary enterprises (\$59.2 million). Major

uses of funds included payments to employees (\$297 million), payments to suppliers (\$102.6 million), and purchases of capital assets (\$93.4 million).

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,
AND DEBT ADMINISTRATION**

CAPITAL ASSETS

At June 30, 2006, the University had \$805.8 million in capital assets, less accumulated depreciation of \$269.7 million, for net capital assets of \$536.1 million. Depreciation charges for the current fiscal year totaled \$47.4 million. The following table summarizes the University’s capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net (In Millions)		
	<u>2006</u>	<u>2005</u>
Land	\$ 28.4	\$ 28.4
Buildings	323.0	325.9
Infrastructure and Other Improvements	1.2	1.5
Furniture, Equipment, and Software	32.7	30.5
Library Resources	49.3	48.4
Property Under Capital Leases	3.7	5.4
Works of Art and Historical Treasures	2.9	2.7
Construction in Progress	94.9	42.3
Total Capital Assets, Net	<u><u>\$ 536.1</u></u>	<u><u>\$ 485.1</u></u>

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2006, were incurred on the Law School, Lakeview Housing, and the Patricia and Phillip Frost Art Museum buildings. The following table summarizes the University’s major capital commitments (\$3 million or more) as of June 30, 2006:

Capital Assets, Net (In Millions)			
<u>Project Name</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Graduate School of Business	\$ 24.1	\$ 3.8	\$ 20.3
Social Science - International Studies	18.5	0.1	18.4
Molecular Biology	17.6		17.6
Lakeview Housing	42.0	34.6	7.4
Law School Building	32.7	27.8	4.9
Wolfe University Center	5.3	1.3	4.0
Art Museum	13.9	10.5	3.4
Total	\$ 154.1	\$ 78.1	\$ 76.0

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 \$166.4 million in outstanding bonds and revenue certificates, compensated absence liability, and capital leases, representing a decrease of \$7 million, or 4 percent, from the 2004-05 fiscal year. The following table summarizes the outstanding long-term debt by type of debt for the fiscal years ended June 30:

Long-Term Debt, at June 30 (In Millions)		
	<u>2006</u>	<u>2005</u>
Bonds and Revenue Certificates	\$ 138.2	\$ 143.0
Compensated Absence Liability	25.3	25.5
Capital Leases	2.9	4.9
Total	\$ 166.4	\$ 173.4

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University will continue strengthening its position as a top public urban research institution. The University expects higher revenue from student tuition and fees due to increasing enrollment. In addition, the Board of Trustees approved an increase in tuition rates for resident undergraduate and graduate students which will further generate revenues. The budget that the Florida Legislature adopted for the 2006-07 fiscal year provided an 8.2 percent increase in the education portion of the budget. Overall, the Legislature provided a salary increase of 3 percent for State university employees and \$6 million to fund enrollment growth. The University is grateful for the State's support and strong commitment to higher education. However, taking into account projected

increases in operating costs and our mission to provide access to the highest quality education, the University's funding requirements continue to outpace allocated state funds. As a result, the University remains dedicated to increasing its self sufficiency and continues to explore ways to increase revenue-generating capability, specifically through auxiliary operations and fundraising. Gifts and donations for the Florida International University Foundation, Inc., increased 38 percent from the 2004-05 fiscal year.

To accommodate our growth and strengthen our research and academic excellence, the University is continuing its plan to improve and enhance the infrastructure by expanding research capabilities and adding student support services such as housing, parking, dining and advising. Capital improvements and new construction is the centerpiece of this strategy. The University expects to strengthen its collaboration with business leaders and leverage the region's growing economic resources to further develop its research programs.

FINANCIAL SECTION

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

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,293,898	\$ 14,174,608
Restricted Cash and Cash Equivalents	3,135,848	
Investments	112,217,443	26,652,125
Receivables, Net	23,830,612	19,442,376
Loans and Notes Receivable, Net	1,103,782	
Due from State	65,363,989	
Due from Component Units/University	41,934	7,820,000
Inventories	236,925	
Other Current Assets	605,545	348,968
Total Current Assets	209,829,976	68,438,077
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		6,091,727
Restricted Investments	41,648,695	65,126,596
Loans and Notes Receivable, Net	1,954,932	
Depreciable Capital Assets, Net	409,911,925	11,924,132
Nondepreciable Capital Assets	126,173,608	702,500
Other Noncurrent Assets	963,066	127,050
Total Noncurrent Assets	580,652,226	83,972,005
TOTAL ASSETS	\$ 790,482,202	\$ 152,410,082
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 3,538,631	\$ 153,985
Construction Contracts Payable	9,221,911	
Salaries and Wages Payable	11,382,797	
Deposits Payable	8,575,689	
Due to State	307,310	
Due to Component Units/University	7,820,000	41,934
Deferred Revenue	50,257,547	393,522
Other Current Liabilities		364,068
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	5,883,257	
Notes Payable		2,292,811
Capital Leases Payable	1,255,475	
Compensated Absences Payable	1,268,608	
Total Current Liabilities	99,511,225	3,246,320
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	132,355,661	
Notes Payable		16,700,000
Capital Leases Payable	1,681,945	
Compensated Absences Payable	24,035,533	
Other Long-Term Liabilities		352,404
Total Noncurrent Liabilities	158,073,139	17,052,404
TOTAL LIABILITIES	257,584,364	20,298,724

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

	University	Component Units
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 442,943,851	\$
Restricted for Nonexpendable:		
Endowment		82,417,390
Restricted for Expendable:		
Debt Service	178,069	
Loans	1,650,206	
Capital Projects	2,806,135	
Other	8,434,934	26,070,875
Unrestricted	76,884,643	23,623,093
TOTAL NET ASSETS	532,897,838	132,111,358
TOTAL LIABILITIES AND NET ASSETS	\$ 790,482,202	\$ 152,410,082

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

FLORIDA INTERNATIONAL 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 Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$42,734,623	\$ 103,239,027	\$
Federal Grants and Contracts	61,803,513	
State and Local Grants and Contracts	9,321,388	
Nongovernmental Grants and Contracts	6,931,796	
Sales and Services of Auxilliary Enterprises	58,725,482	
Sales and Services of Educational Departments	3,144,029	
Gifts and Donations		18,205,300
Interest on Loans and Notes Receivable	172,905	
Other Operating Revenues	10,416,772	4,121,733
Total Operating Revenues	253,754,912	22,327,033
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	298,664,737	
Services and Supplies	89,744,948	
Utilities	15,924,343	
Scholarships and Fellowships	45,352,896	
Depreciation	47,431,730	
Other Operating Expenses		14,657,250
Total Operating Expenses	497,118,654	14,657,250
Operating Income (Loss)	(243,363,742)	7,669,783
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	191,480,504	
Federal and State Student Financial Aid	47,776,443	
Investment Income	2,653,832	9,081,229
Interest on Capital Asset-Related Debt	(6,828,624)	
Other Nonoperating Revenues (Expenses)	(2,697,601)	340,000
Interest Expense		(298,656)
Net Nonoperating Revenues	232,384,554	9,122,573
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(10,979,188)	16,792,356
Capital Appropriations	52,729,640	
Capital Grants, Contracts, and Donations	2,895,496	
Total Other Revenues	55,625,136	
Increase in Net Assets	44,645,948	16,792,356
Net Assets, Beginning of Year	488,251,890	115,864,002
Adjustment to Beginning Net Assets		(545,000)
Net Assets, Beginning of Year, as Restated	488,251,890	115,319,002
Net Assets, End of Year	\$ 532,897,838	\$ 132,111,358

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2006**

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 106,341,568
Grants and Contracts	85,488,769
Sales and Services of Auxiliary Enterprises	59,153,799
Sales and Services of Educational Departments	3,144,029
Interest on Loans and Notes Receivable	172,371
Other Operating Receipts	8,461,697
Payments to Employees	(296,996,634)
Payments to Suppliers for Goods and Services	(102,644,797)
Payments to Students for Scholarships and Fellowships	(45,352,895)
Net Loans Issued to Students	(472,751)
Net Cash Used by Operating Activities	(182,704,844)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	191,480,504
Operating Subsidies and Transfers	(1,555,021)
Net Change in Funds Held for Others	(1,171,573)
Federal and State Student Financial Aid	47,776,443
Other Nonoperating Receipts	25,624
Other Nonoperating Expenses	(340,000)
Net Cash Provided by Noncapital Financing Activities	236,215,977
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	48,144,852
Capital Subsidies and Transfers	40,758,848
Capital Gifts and Grants	2,185,953
Proceeds from Capital Debt and Leases	502,731
Purchases of Capital Assets	(93,443,460)
Principal Paid on Capital Debt and Leases	(7,357,849)
Interest Paid on Capital Debt and Leases	(6,830,898)
Net Cash Used by Capital and Related Financing Activities	(16,039,823)
CASH FLOWS FROM INVESTING ACTIVITIES	
Change in Investments, Net	(40,092,574)
Investment Income	5,161,731
Net Cash Used by Investing Activities	(34,930,843)
Net Increase in Cash and Cash Equivalents	2,540,467
Cash and Cash Equivalents, Beginning of Year	3,889,279
Cash and Cash Equivalents, End of Year	\$ 6,429,746

**FLORIDA INTERNATIONAL 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	\$ (243,363,742)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	47,431,730
Change in Assets and Liabilities:	
Receivables, Net	8,149,795
Inventories	1,523,925
Other Assets	42,398
Accounts Payable	1,458,170
Salaries and Wages Payable	1,896,903
Deposits Payable	90,710
Compensated Absences Payable	(228,799)
Deferred Revenue	294,066
NET CASH USED BY OPERATING ACTIVITIES	\$ (182,704,844)

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

FLORIDA INTERNATIONAL 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.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 6C-9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

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

➤ Florida International University Foundation, Inc.

The purpose of the Florida International University Foundation, Inc., is to encourage, solicit, receive and administer gifts and bequests of property and funds for the advancement of Florida International University and its objectives.

➤ Florida International University Research Foundation, Inc.

The purpose of the Research Foundation includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of Florida International University through income from contracts, grants, and other sources, including, but not limited to, income derived from or related to the development and commercialization of University work products.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. Additional information on the University's component units, including copies of audit reports, is available by contacting the University's Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

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

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

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

The University's discretely presented component units use the accrual basis of accounting whereby revenues are earned and expenses are recognized when incurred. The Florida International University Foundation, Inc., follows FASB standards of accounting and financial reporting for not-for-profit organizations. The Florida International University Research Foundation, Inc., follows the GASB standards of accounting and financial reporting because it meets the criteria regarding the popular election of officers or appointment of a controlling majority of the members of the organization's governing body by one or more State or local governments.

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

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

a third party making payment on behalf of the student. The University applied “The Alternate Method” as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

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

Capital Assets. University capital assets consist of land; buildings; infrastructure and other improvements; furniture, equipment, and software; library resources; property under capital leases; construction in progress; and works of arts and historical treasures. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for tangible personal property and \$50,000 for buildings and other improvements. A change in the estimated useful lives of certain building components resulted in \$18.4 million additional depreciation expense. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 15 years
- Furniture and Equipment – 3 to 20 years
- Software – 5 years
- Library Resources – 10 years
- Property Under Capital Leases – 5 years

Depreciable assets of the Florida International University Foundation, Inc., are stated at cost, and are net of accumulated depreciation of \$1,319,503. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds and revenue certificates 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 and deferred losses on refundings. The University amortizes bond premiums and discounts over

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

the life of the bonds and revenue certificates using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds and revenue certificates using the straight-line method.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of cash on hand and cash in demand accounts. University cash deposits are held in domestic and foreign banks. The domestic 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. As of June 30, 2006, deposits held in foreign banks totaled \$86,672. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

3. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds 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. Pursuant to Section 218.415(16), 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; 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 University's Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University's investments at June 30, 2006, are reported at fair value, as follows:

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

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools - State Treasury	
Special Purpose Investment Account	\$ 93,790,550
Fixed Income and Bond Mutual Funds	35,978,652
Equity Mutual Funds	23,945,803
State Board of Administration Debt Service	
Accounts	151,133
Total University Investments	\$ 153,866,138

External Investment Pools

The University reported investments at fair value totaling \$93,790,550 at June 30, 2006, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor’s and had an effective duration of 2.72 years at June 30, 2006. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to the financial statements of the State’s Comprehensive Annual Financial Report.

Fixed Income and Bond Mutual Funds

The University invested in various mutual funds in accordance with the University’s investment policy. The following risks apply to the University’s fixed income and bond mutual fund investments:

- *Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), Florida Statutes, the University’s investments in securities must provide sufficient liquidity to pay obligations as they come due. The future maturities of the securities held in the fixed income and bond mutual funds at June 30, 2006, are as follows:

<u>Type of Investment</u>	University Debt Investment Maturities				
	<u>Investment Maturities (In Years)</u>				
	<u>Fair Market Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Fixed Income Mutual Funds	\$ 29,953,659	\$ 1,635,328	\$ 11,397,465	\$ 13,540,643	\$ 3,380,223
Bond Mutual Fund	6,024,993	1,004,366	1,956,918	2,704,619	359,090
Total	\$ 35,978,652	\$ 2,639,694	\$ 13,354,383	\$ 16,245,262	\$ 3,739,313

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

➤ *Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2006, the securities held in the bond mutual fund had credit quality ratings by a nationally-recognized rating agency (i.e., Standard and Poor’s), as follows:

University Debt Investment Credit Quality Ratings

Type of Investment	Fair Value	AAA	AA	A	BBB to Not Rated
Bond Mutual Fund	\$ 6,024,993	\$ 144,600	\$ 560,324	\$	\$ 5,320,069

State Board of Administration Debt Service Accounts

The University reported investments at fair value totaling \$151,133 at June 30, 2006, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University’s investments consist of United States Treasury securities, with maturity dates of six months or less. The University relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to the financial statements of the State’s Comprehensive Annual Financial Report.

Component Units Investments

Investments held by the Florida International University Foundation, Inc., at June 30, 2006, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
Common Stock and Mutual Funds	\$ 63,009,831
Limited Partnerships	17,881,617
U.S. Government and Municipal Securities	7,377,536
Corporate Bonds	3,323,865
Plus Accrued Interest	185,872
Total	\$ 91,778,721

4. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student fee deferments, various student services provided by the University to students and third parties, contract and grant reimbursements due from third parties, and interest accrued on investments.

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

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts and loans and notes receivable 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, and loans and notes receivable, are reported net of allowances of \$8,188,580 and \$1,174,512, respectively, at June 30, 2006.

5. DUE FROM STATE

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

6. DUE FROM/TO COMPONENT UNITS/UNIVERSITY

The \$41,934 reported as due from component units represents grants owed to the University by the Florida International University Foundation, Inc. The \$7,820,000 reported as due from university represents the amount owed to the Florida International University Research Foundation, Inc. (Research Foundation), to fund two series of notes issued by the Research Foundation to assist the University with a settlement agreement involving various Federal agencies (see note 12).

7. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.
- Merchandise Inventory – Those inventories maintained by the University's telephone systems department and the duplicating center are not expensed at the time of purchase. These inventories are reported on the statement of net assets, and are valued at cost using either the moving average method or the first-in, first-out, method.

8. CAPITAL ASSETS

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

FLORIDA INTERNATIONAL 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	\$ 28,402,805	\$	\$ 13,255	\$ 28,389,550
Construction in Progress	42,248,555	76,411,763	23,797,758	94,862,560
Works of Art and Historical Treasures	2,714,533	206,965		2,921,498
Total Nondepreciable Capital Assets	\$ 73,365,893	\$ 76,618,728	\$ 23,811,013	\$ 126,173,608
Depreciable Capital Assets:				
Buildings	\$ 422,641,442	\$ 25,221,879	\$ 812,904	\$ 447,050,417
Infrastructure and Other Improvements	10,077,528			10,077,528
Furniture, Equipment, and Software	118,293,287	15,794,417	6,588,863	127,498,841
Library Resources	77,693,852	5,492,945	1,587	83,185,210
Property Under Capital Leases	11,290,462	475,263	501	11,765,224
Total Depreciable Capital Assets	639,996,571	46,984,504	7,403,855	679,577,220
Less, Accumulated Depreciation:				
Buildings	96,715,477	27,752,555	376,949	124,091,083
Infrastructure and Other Improvements	8,567,934	329,604		8,897,538
Furniture, Equipment, and Software	87,809,641	12,638,400	5,636,954	94,811,087
Library Resources	29,297,961	4,508,499		33,806,460
Property Under Capital Leases	5,856,455	2,202,672		8,059,127
Total Accumulated Depreciation	228,247,468	47,431,730	6,013,903	269,665,295
Total Depreciable Capital Assets, Net	\$ 411,749,103	\$ (447,226)	\$ 1,389,952	\$ 409,911,925

9. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay and Alec P. Courtelis Capital Facilities Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2006, to spend the funds, contracts and grants payments received in advance, and student fees received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2006, the University reported the following amounts as deferred revenue:

Description	Amount
Capital Appropriations	\$ 43,847,899
Contracts and Grants	6,144,834
Student Fees	264,814
Total Deferred Revenue	\$ 50,257,547

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

10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2006, include bonds and revenue certificates, 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	\$ 143,024,407	\$ 2,117,231	\$ 6,902,720	\$ 138,238,918	\$ 5,883,257
Capital Leases Payable	4,854,171	475,263	2,392,014	2,937,420	1,255,475
Compensated Absences Payable	25,532,941	1,691,641	1,920,441	25,304,141	1,268,608
Total Long-Term Liabilities	\$ 173,411,519	\$ 4,284,135	\$ 11,215,175	\$ 166,480,479	\$ 8,407,340

Bonds and Revenue Certificates Payable. Bonds and revenue certificates were issued to construct University facilities, including parking garages, student housing facilities, and academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and an assessed transportation fee based on credit hours. Building and capital improvement fees, collected as part of tuition and remitted to the State Board of Education, are used to retire the revenue certificates of the academic and student service facilities. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

The University extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

- On October 20, 2005, the State Board of Education issued \$28,290,000 of University System Improvement Revenue Refunding Bonds, Series 2005A, with interest rates ranging from 3.625 percent to 4.125 percent. The University's portion of the refunding bonds (\$2,257,296) was used to advance-refund \$2,129,231 of University System Improvement Revenue Bonds, Series 1997. Securities were placed in an irrevocable trust with an escrow agent to provide for future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$232,150 over the next 16 years and obtained an economic gain of \$170,393. At June 30, 2006, the remaining balance of the Series 1997 bonds was \$89,329.

The University had the following bonds and revenue certificates payable outstanding at June 30, 2006:

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Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing and Parking:				
1995	\$ 7,780,000	\$ 4,851,100	4.90 - 5.375	2016
1998	26,525,000	23,300,080	4.30 - 6.30	2028
1999	7,530,000	5,771,701	4.70 - 5.625	2019
2000	14,605,000	12,928,953	4.50 - 5.75	2025
2002	22,915,000	19,892,269	2.75 - 4.60	2022
2004A	53,915,000	52,690,083	4.00 - 5.00	2034
Total Student Housing and Parking Bonds	133,270,000	119,434,186		
Academic and Student Services Facilities:				
1997	2,936,719	89,329	5.10	2007
1997A	4,360,924	3,760,109	4.40 - 5.00	2016
1998	5,643,367	4,385,817	4.00 - 5.00	2023
2001	5,566,922	4,867,715	4.00 - 5.00	2026
2003A	5,049,124	3,620,575	5.00	2013
2005A	2,257,296	2,081,187	3.625 - 4.125	2022
Total Academic and Student Services Facilities Bonds	25,814,352	18,804,732		
Total	\$159,084,352	\$ 138,238,918		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 5,786,885	\$ 6,498,109	\$ 12,284,994
2008	6,052,532	6,115,174	12,167,706
2009	6,338,874	5,835,758	12,174,632
2010	6,620,109	5,547,342	12,167,451
2011	6,934,134	5,245,577	12,179,711
2012-2016	38,197,493	21,118,777	59,316,270
2017-2021	27,680,014	12,992,760	40,672,774
2022-2026	21,944,287	6,845,800	28,790,087
2027-2031	11,780,000	2,780,325	14,560,325
2032-2034	6,105,000	557,550	6,662,550
Subtotal	137,439,328	73,537,172	210,976,500
Plus: Net Bond Discounts, Premiums, and Losses on Bond Refundings	799,590		799,590
Total	\$ 138,238,918	\$ 73,537,172	\$ 211,776,090

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Capital Leases Payable. Data processing, telecommunication, laboratory, and measuring equipment in the amount of \$11,765,224 are being acquired under capital lease agreements. The stated interest rates range from 2.38 to 3.62 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	Amount
2007	\$ 1,336,828
2008	911,339
2009	491,743
2010	297,574
2011	51,703
Total Minimum Payments	3,089,187
Less, Amount Representing Interest	(151,767)
Present Value of Minimum Payments	\$ 2,937,420

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors Regulation 6C-5.920 and bargaining agreements 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 \$25,304,141. 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.

11. NOTES PAYABLE – FLORIDA INTERNATIONAL UNIVERSITY FOUNDATION, INC.

On January 20, 2000, the Miami-Dade County Educational Facilities Authority (the Authority) issued \$13,000,000 tax-exempt revenue bonds (Florida International University Foundation Project – Series 1999). These bonds are payable from and secured by a pledge of payments to be made to the Authority under a loan agreement dated December 1, 1999, between the Florida International University Foundation, Inc., (Foundation) and the Authority. The Foundation will finance the payments to the Authority under the loan

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agreement with lease payments received from the University under an operating lease (see note 16). The \$13,000,000 principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The variable rate on 50 percent of the original issue, \$6,500,000, has been synthetically fixed at 4.63 percent through February 1, 2015, by way of an interest rate swap agreement with a commercial bank. The bond proceeds are being used to acquire, construct, and equip a multi-function support complex located on the University Park campus and to pay issuance costs. As of June 30, 2006, the outstanding principal balance due under this note payable was \$10,745,000.

The bonds are also payable from an irrevocable letter of credit. On December 1, 1999, the Foundation entered into a letter of credit agreement with a commercial bank that permitted the Foundation to borrow up to \$13,000,000 through December 15, 2004, bearing interest at the prime rate plus 2 percent. On November 29, 2004, this agreement was extended, with the same terms and conditions, through December 15, 2009. The Foundation must pay an annual commitment fee of 0.45 percent on the unused portion of the commitment. Borrowings under the financing agreement mature 90 days after the date of the borrowing.

Under the letter of credit agreement and loan agreement noted above, the Foundation is obligated under debt covenants to which they are in compliance with.

The aggregate maturities of the notes payable, as of June 30, 2006, are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 470,000
2008	495,000
2009	525,000
2010	550,000
2011	575,000
Thereafter	<u>8,130,000</u>
Total	<u><u>\$ 10,745,000</u></u>

**12. NOTES PAYABLE – FLORIDA INTERNATIONAL UNIVERSITY
RESEARCH FOUNDATION, INC. – RELATED PARTY TRANSACTION**

The Florida International University Research Foundation, Inc., (Research Foundation) issued the following notes on June 30, 2005, to assist the University with a settlement agreement involving various Federal agencies, relating to the Hemispheric Center for Environmental Technology. The University is obligated to provide funds to the Research Foundation to pay the principal and interest on the notes (see note 6):

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- \$7,955,000, Florida International University Research Foundation, Inc., Tax-Exempt Note, Series 2005; interest at 65 percent of three month London Interbank Offered Rate plus 39.23 basis points; interest and principal payable on a quarterly basis with principal ranging from \$135,000 on July 1, 2006, to a final payment of \$515,000 on July 1, 2010.
- \$1,670,000, Florida International University Research Foundation, Inc., Taxable Note, Series 2005; interest at three month London Interbank Offered Rate plus 15 basis points; interest and principal payable on a quarterly basis with principal ranging from \$445,000 on October 1, 2005, to a final payment of \$292,811 on October 1, 2006.

Principal and interest requirements on the notes payable 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	\$ 1,822,811	\$ 242,557	\$ 2,065,368
2008	1,910,000	183,024	2,093,024
2009	1,970,000	120,869	2,090,869
2010	2,030,000	57,235	2,087,235
2011	515,000	4,100	519,100
Total	\$ 8,247,811	\$ 607,785	\$ 8,855,596

13. 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 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

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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
Teacher's Retirement System, Plan E	6.25	11.35
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 for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, totaled \$5,412,463, \$5,423,372, and \$5,872,754, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, 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 170 University participants during the 2005-06 fiscal year. Required contributions made to the PEORP totaled \$523,857.

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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 salary deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 1,323 University participants during the 2005-06 fiscal year. Required contributions made to the Program totaled \$11,932,501, including \$4,469,465 from employee contributions.

14. 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 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 13.

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

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less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

15. CONSTRUCTION COMMITMENTS

The University's major construction commitments (\$3 million or more) at June 30, 2006, are as follows:

Project Name	Total Commitment	Completed to Date	Balance Committed
Graduate School of Business	\$ 24,155,473	\$ 3,798,713	\$ 20,356,760
Social Science - International Studies	18,466,710	24,061	18,442,649
Molecular Biology	17,556,243		17,556,243
Lakeview Housing	42,006,776	34,613,415	7,393,361
Law School Building	32,677,182	27,838,961	4,838,221
Wolfe University Center	5,327,872	1,291,241	4,036,631
Art Museum	13,892,437	10,506,199	3,386,238
Total	\$ 154,082,693	\$ 78,072,590	\$ 76,010,103

16. OPERATING LEASE COMMITMENT – FLORIDA INTERNATIONAL UNIVERSITY FOUNDATION, INC. – RELATED PARTY TRANSACTION

On December 1, 1999, the former Board of Regents of the State University System of the State of Florida for and on behalf of the University entered into a ground lease agreement with the Florida International University Foundation, Inc. (Foundation). Under this agreement, the Foundation leases from the University the grounds on which a multi-function support complex facility was built on the University Park campus. The consideration required to be paid by the Foundation is \$10 annually. The ground lease will expire on December 31, 2024, or on the date the Foundation makes its final payment under a letter of credit agreement related to the financing of the facility. On December 1, 1999, the former Board of Regents on behalf of the University also entered into a 20-year operating lease agreement with the Foundation for the multi-function support complex facility. Under the terms of the operating lease, the University will pay the Foundation rent in the amount equal to all amounts due and payable by the Foundation under the letter of credit agreement, if any, and loan agreement related to the financing of the facility. The payments also include any costs of operating and maintaining the facility. The lease will terminate on May 1, 2022, which is the date of maturity of the loan agreement.

The facility under the above operating lease is not recorded as an asset on the statement of net assets; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses,

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and changes in net assets when paid or incurred. The following schedule by years presents management's best estimate of future minimum rental payments for this non-cancelable operating lease as of June 30, 2006:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2007	\$ 1,575,000
2008	1,575,000
2009	1,575,000
2010	1,575,000
2011	1,575,000
Thereafter	<u>17,325,000</u>
Total	<u>\$ 25,200,000</u>

17. GIFT AGREEMENT – FLORIDA INTERNATIONAL UNIVERSITY FOUNDATION, INC.

The Wolfsonian, Inc. (Wolfsonian), was established in 1986 to create and operate a museum and research center in Miami Beach, Florida, and to support a comprehensive program focused on the collection, exhibition, interpretation, preservation, research and publication of the decorative, design and architectural arts. The Wolfsonian has been loaned the Mitchell Wolfson, Jr., collection of nearly 27,000 objects of art and rare books dating from the late nineteenth to the mid-twentieth century. It encompasses furniture, sculpture, paintings, books, graphics and other works of art on paper, as well as archives relating to the period. Through a series of academic study and fellowship programs, national and international traveling exhibitions, and scholarly initiatives, the Wolfsonian promotes public education and awareness of the social, historical, technological, political, economic, and artistic material culture of Europe and America in the 1885-1945 period.

On July 1, 1997, the Foundation entered into a gift agreement (Agreement) with Mitchell Wolfson, Jr., the Wolfsonian, and the University, whereby Mitchell Wolfson, Jr., agreed to donate all rights, title, and interest in and to all objects constituting the Mitchell Wolfson, Jr., Collection of Decorative and Propaganda Arts to the Foundation, subject to a loan agreement made and entered into by the Wolfsonian and Mr. Wolfson, Jr., dated July 29, 1991. The loan agreement was extended in July 2001 for ten years to July 2011.

The Foundation has elected to exercise the option of not capitalizing the items that meet the definition of "collection" as prescribed by accounting principles generally accepted in the United States. Therefore, the fair value of the donated Collection of Decorative and Propaganda Arts is not reflected in the accompanying consolidated financial statements. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the

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assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

As a result of the Agreement, the Wolfsonian amended its articles of incorporation and bylaws to provide that all its directors be appointed and removed at any time with or without cause by the Foundation, to effect a transfer of complete control of all of the assets, interest, and obligations of the Wolfsonian to the Foundation. On May 26, 1999, the Foundation passed a revision to the bylaws of the Wolfsonian to make the Foundation the sole voting member of the Wolfsonian.

The gifts are conditional upon the provisions outlined in the Agreement, including but not limited to the Foundation continuing the museum and educational activities and operations that were conducted by the Wolfsonian. As a result of the Agreement, the University and Foundation have assumed all administrative functions and operating costs of the Wolfsonian.

The most significant of the obligations under the Agreement is for the University to provide the Wolfsonian with the same financial support from its general budget, as provided to other departments, to continue the museum and educational activities and operations of the Wolfsonian. The University provided support of \$2.2 million during the 2005-06 fiscal year for Wolfsonian expenses which included salaries, equipment, administrative expenses, insurance premium for the art collection, and building security. In addition, the University provided support of approximately \$447,000 during the 2005-06 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

18. 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 for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. 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.

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

19. LITIGATION

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

20. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

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<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 120,244,949
Research	64,558,735
Public Service	4,019,774
Academic Support	65,515,757
Student Services	18,981,659
Institutional Support	51,778,378
Operation and Maintenance of Plant	30,043,641
Scholarships and Fellowships	25,276,951
Auxiliary Operations	69,209,944
Depreciation	47,431,730
Loan Operations	57,136
Total Operating Expenses	\$ 497,118,654

21. 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 separately. The following financial information for the University's Housing and Parking Facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Assets

	<u>Housing Facility Revenue Bonds</u>	<u>Parking Facility Revenue Bonds</u>
Assets		
Current Assets	\$ 13,931,387	\$ 7,769,136
Capital Assets, Net	90,803,009	41,818,324
Other Noncurrent Assets	3,858,117	1,483,090
Total Assets	108,592,513	51,070,550
Liabilities		
Current Liabilities	2,910,920	1,758,586
Noncurrent Liabilities	87,591,396	29,001,586
Total Liabilities	90,502,316	30,760,172
Net Assets		
Invested in Capital Assets, Net of Related Debt	5,807,099	12,374,881
Restricted - Expendable	1,556,670	302,669
Unrestricted	10,726,428	7,632,828
Total Net Assets	\$ 18,090,197	\$ 20,310,378

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

	Housing Facility Revenue Bonds	Parking Facility Revenue Bonds
Operating Revenues	\$ 14,353,288	\$ 7,016,065
Operating Expenses	(8,554,776)	(3,721,948)
Operating Income	5,798,512	3,294,117
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	20,580	27,118
Interest Expense	(4,255,787)	(1,418,220)
Other Nonoperating Expense	(41,457)	(14,417)
Net Nonoperating Expenses	(4,276,664)	(1,405,519)
Income Before Transfers	1,521,848	1,888,598
Net Transfers	4,103,647	719,358
Increase in Net Assets	5,625,495	2,607,956
Net Assets, Beginning of Year	17,311,574	17,702,422
Adjustment to Beginning Net Assets (1)	(4,846,872)	
Net Assets, Beginning of Year, as Restated	12,464,702	17,702,422
Net Assets, End of Year	\$ 18,090,197	\$ 20,310,378

Note: (1) The prior period adjustment relates to a reclassification of beginning net assets due to student fee revenues recognized in the prior year that should have been reported as deferred revenue.

Condensed Statement of Cash Flows

	Housing Facility Revenue Bonds	Parking Facility Revenue Bonds
Net Cash Provided (Used) by:		
Operating Activities	\$ 6,684,462	\$ 4,745,635
Capital and Related Financing Activities	(5,099,368)	(4,614,438)
Investing Activities	(921,522)	(681,273)
Net Increase (Decrease) in Cash and Cash Equivalents	663,572	(550,076)
Cash and Cash Equivalents, Beginning of Year	768,837	780,684
Cash and Cash Equivalents, End of Year	\$ 1,432,409	\$ 230,608

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22. COMPONENT UNITS

The University has two component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

	Florida International University Foundation, Inc.	Florida International University Research Foundation, Inc.	Total
Condensed Statement of Net Assets			
Assets:			
Current Assets	\$ 60,081,854	\$ 8,356,223	\$ 68,438,077
Capital Assets, Net	12,626,632		12,626,632
Other Noncurrent Assets	71,345,373		71,345,373
Total Assets	144,053,859	8,356,223	152,410,082
Liabilities:			
Current Liabilities	1,708,845	1,889,879	3,598,724
Noncurrent Liabilities	10,275,000	6,425,000	16,700,000
Total Liabilities	11,983,845	8,314,879	20,298,724
Net Assets:			
Restricted	108,488,265		108,488,265
Unrestricted	23,581,749	41,344	23,623,093
Total Net Assets	\$ 132,070,014	\$ 41,344	\$ 132,111,358
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	\$ 22,327,033	\$	\$ 22,327,033
Operating Expenses	14,657,250		14,657,250
Operating Income	7,669,783		7,669,783
Net Nonoperating Revenues	9,081,229	41,344	9,122,573
Increase in Net Assets	16,751,012	41,344	16,792,356
Net Assets, Beginning of Year	115,864,002		115,864,002
Adjustment to Beginning Net Assets	(545,000)		(545,000)
Net Assets, Beginning of Year, as Restated	115,319,002		115,319,002
Net Assets, End of Year	\$ 132,070,014	\$ 41,344	\$ 132,111,358