

2011

# Annual financial report for the fiscal year 2009-2010

Florida International University

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# FLORIDA INTERNATIONAL UNIVERSITY

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## Financial Audit

For the Fiscal Year Ended  
June 30, 2010



STATE OF FLORIDA  
AUDITOR GENERAL  
DAVID W. MARTIN, CPA

## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

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Chair from 9-01-09  
Albert Maury, Vice Chair from 9-01-09  
David R. Parker to 1-06-10, Chair to 8-31-09  
Michael M. Adler from 1-07-10  
Sukrit Agrawal from 3-10-10 (1)  
Jorge L. Arrizurieta  
Cesar L. Alvarez  
Betsy S. Atkins to 1-06-10  
Thomas Breslin (2)  
Joseph Caruncho from 1-07-10  
Marcelo Claure from 3-10-10  
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S. Lawrence Kahn, III  
R. Kirk Landon to 3-09-10  
Miriam Lopez  
Claudia Puig  
Helena Ramirez from 5-01-10 (3)  
Anthony Rionda to 4-30-10 (3)

Dr. Mark B. Rosenberg, President

Notes: (1) Position remained vacant from  
January 7, 2010, through March 9, 2010.  
(2) Faculty Senate chair.  
(3) Student body president.

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

The audit team leader was Marilyn E. Tolley, CPA, and the audit was supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 922-2263.

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

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## EXECUTIVE SUMMARY

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### Summary of Report on Financial Statements

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

### Summary of Report on Internal Control and Compliance

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

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

### Audit Objectives and Scope

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

### Audit Methodology

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



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534  
FAX: 850-488-6975

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, 2010, which collectively comprise the University's basic financial statements as shown on pages 11 through 47. 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 represent 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, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on 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, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the University changed its reporting of the liability for Capital Improvement (Housing and Parking) Revenue Bonds from bonds and revenue certificates payable to capital improvement debt payable during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 3 to the financial statements, the University discontinued reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds on the University's statement of net assets during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 10 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 48 and 49 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA  
January 28, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2010, 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 \$1.2 billion at June 30, 2010. This balance reflects a \$81.6 million, or 7.6 percent, increase from the 2009-10 fiscal year, resulting primarily from an increase in net capital assets of \$63.2 million, a decrease in amounts due from State of \$48.2 million, and an increase in cash and investments of \$64.7 million. While assets grew, liabilities decreased by \$23.2 million, or 6.2 percent, totaling \$350.5 million at June 30, 2010, compared to \$373.7 million at June 30, 2009. New Parking Facility Revenue Bonds were issued for \$32 million for campus construction projects. While the new debt increased liabilities, this was offset by a decrease in liabilities, mainly due to a prior period adjustment of \$21.6 million to remove the State University System Capital Improvement Trust Revenue Bonds. As a result, the University's net assets increased by \$104.8 million, reaching a year-end balance of \$806.2 million.

The University's operating revenues totaled \$339.7 million for the 2009-10 fiscal year, representing an 11.1 percent increase over the 2008-09 fiscal year due mainly to an increase in net student tuition and fees of \$19.9 million, an increase in grant and contract revenues of \$8.7 million, an increase in sales and services of auxiliary enterprises revenues of \$8.6 million, and a decrease in other revenues of \$3.2 million. Operating expenses totaled \$625.1 million for the 2009-10 fiscal year, representing an increase of 6 percent over the 2008-09 fiscal year due mainly to an increase in compensation and employee benefits of \$16.3 million, an increase in services and supplies expense of \$6.3 million, a decrease in utilities and communications expense of \$1.7 million, and an increase in scholarships, fellowships, and waivers of \$13.7 million.

### 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 Florida International University Research Foundation, Inc., 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.



➤ ***FIU Athletics Finance Corporation***

The purpose of the FIU Athletics Finance Corporation includes the support of the University in matters pertaining to the financing of the FIU football stadium and, subsequently, the managing and operating of the facility.

➤ ***Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc.***

The purpose of the Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc., is to improve and support medical education at the FIU College of Medicine.

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

### THE STATEMENT OF NET ASSETS

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

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

**Condensed Statement of Net Assets at June 30**  
(In Millions)

	2010	2009
<b>Assets</b>		
Current Assets	\$ 396.6	\$ 403.5
Capital Assets, Net	720.2	657.0
Other Noncurrent Assets	39.9	14.6
<b>Total Assets</b>	<u>1,156.7</u>	<u>1,075.1</u>
<b>Liabilities</b>		
Current Liabilities	187.7	219.4
Noncurrent Liabilities	162.8	154.3
<b>Total Liabilities</b>	<u>350.5</u>	<u>373.7</u>
<b>Net Assets</b>		
Invested in Capital Assets,		
Net of Related Debt	588.2	534.6
Restricted	39.5	21.2
Unrestricted	178.5	145.6
<b>Total Net Assets</b>	<u>\$ 806.2</u>	<u>\$ 701.4</u>

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. The current assets decrease is mainly a result of the amounts due from the State, used for construction-related projects, decreasing by \$48.2 million and offset by a \$40.3 million increase in cash and investments, not classified as restricted.

In summary, total assets increased by \$81.6 million, or 7.6 percent, while total liabilities decreased by \$23.2 million, or 6.2 percent. As a result, the net assets balance at June 30, 2010, had a favorable increase of \$104.8 million to \$806.2 million. This ending balance included \$588.2 million invested in capital assets, net of related debt, \$39.5 million in restricted funds, and \$178.5 million in unrestricted funds, which increased \$32.9 million.

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 2009-10 and 2008-09 fiscal years:

#### Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Millions)

	2009-10	2008-09
Operating Revenues	\$ 339.7	\$ 305.7
Operating Expenses	625.1	589.8
<b>Operating Loss</b>	(285.4)	(284.1)
Net Nonoperating Revenues	319.9	276.4
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	34.5	(7.7)
Other Revenues, Expenses, Gains, or Losses	48.7	52.4
<b>Net Increase In Net Assets</b>	83.2	44.7
Net Assets, Beginning of Year	701.4	656.7
Adjustments to Beginning Net Assets (1)	21.6	
<b>Net Assets, Beginning of Year, as Restated</b>	723.0	656.7
<b>Net Assets, End of Year</b>	<u>\$ 806.2</u>	<u>\$ 701.4</u>

Note: (1) To recognize a change in reporting State University System Capital Improvement Trust Fund Revenue Bonds. It has been determined that these bonds were not debt to the University. See note 3 to financial statements for more information.

### 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 2009-10 and 2008-09 fiscal years:

**Operating Revenues**  
(In Millions)

	2009-10	2008-09
Net Tuition and Fees	\$ 148.7	\$ 128.8
Grants and Contracts	82.7	74.0
Sales and Services of Educational Departments	0.4	0.4
Sales and Services of Auxiliary Enterprises	97.1	88.5
Other	10.8	14.0
<b>Total Operating Revenues</b>	<b>\$ 339.7</b>	<b>\$ 305.7</b>

Operating revenues totaled \$339.7 million for the 2009-10 fiscal year, representing an 11.1 percent increase over the 2008-09 fiscal year. This was due to an increase in net student tuition and fees of \$19.9 million, an increase in grant and contract revenues of \$8.7 million, an increase in sales and services of auxiliary enterprises revenues of \$8.6 million, and a decrease in other revenues of \$3.2 million.

### 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 2009-10 and 2008-09 fiscal years:

**Operating Expenses**  
(In Millions)

	2009-10	2008-09
Compensation and Employee Benefits	\$ 376.7	\$ 360.4
Services and Supplies	130.5	124.2
Utilities and Communications	13.7	15.4
Scholarships, Fellowships, and Waivers	67.4	53.7
Depreciation	36.7	36.1
Self-Insured Claims and Expenses	0.1	
<b>Total Operating Expenses</b>	<b>\$ 625.1</b>	<b>\$ 589.8</b>

Operating expenses totaled \$625.1 million for the 2009-10 fiscal year. This represents a 6 percent increase over the 2008-09 fiscal year and was primarily due to an increase in compensation and employee benefits of \$16.3 million, an increase in services and supplies expense of \$6.3 million, a decrease in utilities and communications expense of \$1.7 million, and an increase of \$13.7 million in scholarships, fellowships, and waivers. During the fiscal year, the University established a self-insurance program with expenses of \$0.1 million.

### 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 2009-10 and 2008-09 fiscal years:

**Nonoperating Revenues (Expenses)**  
(In Millions)

	2009-10	2008-09
State Appropriations	\$ 203.1	\$ 227.1
Federal and State Student Financial Aid	82.4	65.0
State Appropriated American Recovery and Reinvestment Act Funds	15.1	
Investment Income (Loss)	24.3	(7.6)
Other Nonoperating Revenues	1.0	1.4
Loss on Disposal of Capital Assets	(0.2)	(0.2)
Interest on Capital Asset-Related Debt	(5.7)	(6.0)
Other Nonoperating Expenses	(0.1)	(3.3)
<b>Net Nonoperating Revenues</b>	<b>\$ 319.9</b>	<b>\$ 276.4</b>

Nonoperating revenues increased by 15.7 percent from the prior fiscal year due mainly to an increase in investment income of \$31.9 million, an increase in Federal and State Student Financial Aid of \$17.4 million, and a new revenue source of \$15.1 million in State Appropriated American Recovery and Reinvestment Act income, which were offset by a decrease of \$24 million in State Appropriations.

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

This category is composed of capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

**Other Revenues, Expenses, Gains, or Losses**  
(In Millions)

	2009-10	2008-09
Capital Appropriations	\$ 45.8	\$ 44.6
Capital Grants, Contracts, Donations, and Fees	2.9	7.8
<b>Total</b>	<b>\$ 48.7</b>	<b>\$ 52.4</b>

Other revenues, expenses, gains, or losses totaled \$48.7 million for the 2009-10 fiscal year. This represents a 7.1 percent decrease compared to the 2008-09 fiscal year and was primarily due to a \$4.9 million decrease in capital grants, contracts, donations, and fees offset by an increase of \$1.2 million in Capital Appropriations.

**THE STATEMENT OF CASH FLOWS**

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

The following summarizes cash flows for the 2009-10 and 2008-09 fiscal years:

**Condensed Statement of Cash Flows**  
(In Millions)

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (238.4)	\$ (247.3)
Noncapital Financing Activities	299.6	281.8
Capital and Related Financing Activities	(20.6)	(40.8)
Investing Activities	(49.2)	22.6
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(8.6)	16.3
Cash and Cash Equivalents, Beginning of Year	16.6	0.3
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 8.0</u>	<u>\$ 16.6</u>

Major sources of funds came from State appropriations (\$218.5 million), net student tuition and fees (\$155.5 million), sales and services of auxiliary enterprises (\$95.1 million), and grants and contracts (\$78.7 million). Major uses of funds included payments to employees (\$370.4 million), payments to suppliers of goods and services (\$138.7 million), purchase or construction of capital assets (\$99.4 million), and payments to students for scholarships and fellowships (\$67.4 million).

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

**CAPITAL ASSETS**

At June 30, 2010, the University had \$1,107.3 million in capital assets, less accumulated depreciation of \$387.1 million, for net capital assets of \$720.2 million. Depreciation charges for the current fiscal year totaled \$36.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30**  
(In Millions)

	2010	2009
Land	\$ 31.0	\$ 31.0
Construction in Progress	94.5	79.5
Buildings	486.4	447.1
Infrastructure and Other Improvements	2.3	2.7
Furniture and Equipment	44.6	36.1
Library Resources	55.3	54.0
Property Under Capital Leases	1.2	2.1
Computer Software	0.8	0.7
Works of Art and Historical Treasures	4.1	3.8
<b>Capital Assets, Net</b>	<u>\$ 720.2</u>	<u>\$ 657.0</u>

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

**CAPITAL EXPENSES AND COMMITMENTS**

Major capital expenses through June 30, 2010, were incurred on the following projects: the Parking Garage V/Retail/Public Safety Building (\$28.4 million) and the Social Science Building – International Studies (\$10.2 million). The University's major capital commitments at June 30, 2010, are as follows:

	Amount (In Millions)
Total Commitment	\$ 259.0
Completed to Date	<u>(94.5)</u>
<b>Balance Committed</b>	<b><u>\$ 164.5</u></b>

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

### DEBT ADMINISTRATION

As of June 30, 2010, the University had \$132.1 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of \$3.4 million, or 2.6 percent, from the prior fiscal year. During the 2009-10 fiscal year, the University issued \$32,000,000 of Florida International University Parking Facility Revenue Bonds consisting of \$3,085,000, Series 2009A, tax-exempt bonds and \$28,915,000, Series 2009B, taxable Build America Bonds. The increase in long-term debt from the new bond issue was offset by a decrease from a prior period adjustment to remove the debt of State University System Capital Improvement Trust Fund Revenue Bonds for \$21.6 million that should not have been reported on the University's statement of net assets in the prior years. In addition, because of a reporting change, for the 2009-10 fiscal year, the University began reporting the liability for Capital Improvement (Housing and Parking) Revenue Bonds, issued by the Florida Board of Governors on behalf of the University, as capital improvement debt payable, instead of bonds payable. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

<b>Long-Term Debt, at June 30</b>		
<b>(In Millions)</b>		
	2010	2009
Bonds Payable	\$	\$ 126.2
Capital Improvement Debt Payable	130.7	
Capital Leases Payable	1.4	2.5
<b>Total</b>	<b><u>\$ 132.1</u></b>	<b><u>\$ 128.7</u></b>

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

### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The condition of the State of Florida's economy is the primary factor that will impact the University in the future. There is cautious optimism for the current year mainly due to population growth and recent reports that the worst of the recession has past. General revenue State appropriations to FIU were increased by \$4.8 million for the 2010-11 fiscal year. The legislature also approved an 8 percent statewide tuition increase for undergraduate students and a tuition differential that allowed the University to increase undergraduate tuition up to 15 percent.

The State outlook for the 2011-12 fiscal year is not as optimistic since stimulus funds will no longer be available and a Medicaid shortfall is expected. The full scope of the gap created by the increased State expenses for the 2011-12 fiscal year is still unknown. FIU will continue to implement its long-range strategic plan for the 2011-12 fiscal year, which incorporates a reduction strategy that minimizes impact on critical operations and strategic areas.

The FIU College of Medicine (COM) admitted its second class in August 2010. The COM receives line-item appropriations from the Florida Legislature. For the 2010-11 fiscal year, general revenue State appropriations to the COM increased by \$3.8 million. With total general revenue State appropriations of \$25.2 million and \$0.9 million

received from stimulus funds, the 2010-11 fiscal year COM budget is aligned with the implementation plan approved by the Board of Governors in July 2007.

The economic condition and the overall State agenda will continue to influence appropriation strategies for higher education. The main factors affecting FIU in the future are its ability to execute the cost reduction strategies, finding alternate revenue sources through existing and new ventures, and attracting external monetary support, while remaining intently focused on its mission and goals. However, as the State addresses the issue of diversifying its revenue streams, one of the options being explored is the New Florida Initiative that proposes a “knowledge-based economy.” This presents an opportunity for FIU to obtain additional funds that are tied to specific programs.

### **REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer and Senior Vice President for Finance and Administration, Dr. Kenneth Jessell, at Florida International University, 11200 Southwest 8<sup>th</sup> Street, Miami, Florida 33199.

# BASIC FINANCIAL STATEMENTS

## FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2010

	University	Component Units
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,926,261	\$ 6,317,384
Investments	236,394,627	117,891,190
Accounts Receivable, Net	26,362,008	55,773,944
Loans and Notes Receivable, Net	385,902	
Due from State	130,284,215	
Due from Component Units/University	607,903	966,498
Inventories	389,045	
Other Current Assets	249,200	1,947,517
<b>Total Current Assets</b>	<b>396,599,161</b>	<b>182,896,533</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,074,690	3,510,589
Restricted Investments	26,445,900	2,766,057
Loans and Notes Receivable, Net	2,620,787	
Depreciable Capital Assets, Net	590,544,591	10,529,646
Nondepreciable Capital Assets	129,636,936	247,604
Due from Component Units/University	3,552,761	
Other Noncurrent Assets	1,267,446	29,067,173
<b>Total Noncurrent Assets</b>	<b>760,143,111</b>	<b>46,121,069</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,156,742,272</b>	<b>\$ 229,017,602</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 16,251,788	\$ 350,099
Construction Contracts Payable	5,368,076	
Salaries and Wages Payable	9,202,014	
Deposits Payable	9,221,761	
Due to State	471,162	
Due to Component Units/University	966,498	607,903
Deferred Revenue	136,876,244	839,087
Other Current Liabilities		802,573
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	6,428,523	
Bonds Payable		599,723
Notes Payable		990,000
Capital Leases Payable	899,713	
Compensated Absences Payable	2,067,109	
Liability for Self-Insured Claims	7,526	
<b>Total Current Liabilities</b>	<b>187,760,414</b>	<b>4,189,385</b>



**FLORIDA INTERNATIONAL UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS (Continued)**  
**June 30, 2010**

	<u>University</u>	<u>Component Units</u>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 124,242,506	\$
Bonds Payable		33,586,723
Notes Payable		8,785,000
Capital Leases Payable	539,744	
Compensated Absences Payable	26,986,843	
Due to Component Units/University		3,552,761
Other Postemployment Benefits Payable	8,240,000	
Liability for Self-Insured Claims	67,733	
Other Long-Term Liabilities	2,694,346	4,415,559
	<u>162,771,172</u>	<u>50,340,043</u>
<b>Total Noncurrent Liabilities</b>		
	<u>162,771,172</u>	<u>50,340,043</u>
<b>TOTAL LIABILITIES</b>	<u>350,531,586</u>	<u>54,529,428</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	588,152,799	
Restricted for Nonexpendable:		
Endowment		150,907,682
Restricted for Expendable:		
Debt Service	352,425	
Loans	332,349	
Capital Projects	20,861,155	
Other	17,973,467	10,906,029
Unrestricted	178,538,491	12,674,463
	<u>806,210,686</u>	<u>174,488,174</u>
<b>TOTAL NET ASSETS</b>		
	<u>806,210,686</u>	<u>174,488,174</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,156,742,272</u>	<u>\$ 229,017,602</u>

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, 2010**

	<u>University</u>	<u>Component Units</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$65,826,203	\$ 148,724,903	\$
Federal Grants and Contracts	64,198,436	
State and Local Grants and Contracts	9,180,685	
Nongovernmental Grants and Contracts	9,256,567	
Sales and Services of Educational Departments	439,325	
Sales and Services of Auxiliary Enterprises	97,120,287	
Sales and Services of Component Units		1,077,502
Gifts and Donations		16,663,961
Interest on Loans and Notes Receivable	46,824	
Other Operating Revenues	10,741,722	4,550,340
<b>Total Operating Revenues</b>	<u>339,708,749</u>	<u>22,291,803</u>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	376,700,544	
Services and Supplies	130,504,221	470,733
Utilities and Communications	13,778,248	120,616
Scholarships, Fellowships, and Waivers	67,396,117	
Depreciation	36,681,038	890
Self-Insured Claims and Expenses	83,688	
Other Operating Expenses		15,315,191
<b>Total Operating Expenses</b>	<u>625,143,856</u>	<u>15,907,430</u>
<b>Operating Income (Loss)</b>	<u>(285,435,107)</u>	<u>6,384,373</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	203,133,227	
Federal and State Student Financial Aid	82,412,428	
State Appropriated American Recovery and Reinvestment Act Funds	15,116,940	
Investment Income	24,267,078	11,261,161
Other Nonoperating Revenues	968,007	19,483
Loss on Disposal of Capital Assets	(174,286)	
Interest on Capital Asset-Related Debt	(5,761,953)	(1,656,351)
Other Nonoperating Expenses	(100,444)	(495,069)
<b>Net Nonoperating Revenues</b>	<u>319,860,997</u>	<u>9,129,224</u>
<b>Income Before Other Revenues, Expenses, Gains, or Losses</b>	34,425,890	15,513,597
Capital Appropriations	45,839,625	
Capital Grants, Contracts, Donations, and Fees	2,917,329	
<b>Increase in Net Assets</b>	<u>83,182,844</u>	<u>15,513,597</u>
Net Assets, Beginning of Year	701,432,285	158,974,577
Adjustment to Beginning Net Assets	21,595,557	
<b>Net Assets, Beginning of Year, as Restated</b>	<u>723,027,842</u>	<u>158,974,577</u>
<b>Net Assets, End of Year</b>	<u>\$ 806,210,686</u>	<u>\$ 174,488,174</u>

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, 2010**

	<u>University</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 155,493,628
Grants and Contracts	78,728,542
Sales and Services of Educational Departments	439,325
Sales and Services of Auxiliary Enterprises	95,078,709
Interest on Loans and Notes Receivable	4,095
Payments to Employees	(370,446,252)
Payments to Suppliers for Goods and Services	(138,682,513)
Payments to Students for Scholarships and Fellowships	(67,396,117)
Payments on Self-Insured Claims	(8,429)
Net Loans Issued to Students	(524,171)
Other Operating Receipts	8,909,243
<b>Net Cash Used by Operating Activities</b>	<u>(238,403,940)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	203,823,915
Federal and State Student Financial Aid	82,735,065
State Appropriated American Recovery and Reinvestment Act Funds	14,706,279
Operating Subsidies and Transfers	(218,905)
Net Change in Funds Held for Others	17,457
Other Nonoperating Disbursements	(1,438,971)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>299,624,840</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	31,474,296
Capital Appropriations	56,620,538
Capital Grants, Contracts, Donations, and Fees	1,953,454
Capital Subsidies and Transfers	469,420
Other Receipts for Capital Projects	933,941
Purchase or Construction of Capital Assets	(99,411,727)
Principal Paid on Capital Debt and Leases	(6,774,953)
Interest Paid on Capital Debt and Leases	(5,950,024)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(20,685,055)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Changes in Investments, Net	(56,325,564)
Investment Income	7,141,866
<b>Net Cash Used by Investing Activities</b>	<u>(49,183,698)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(8,647,853)
Cash and Cash Equivalents, Beginning of Year	<u>16,648,804</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 8,000,951</u></u>

**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
STATEMENT OF CASH FLOWS (Continued)  
For the Fiscal Year Ended June 30, 2010**

	<u>University</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (285,435,107)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	36,681,038
Change in Assets and Liabilities:	
Receivables, Net	(2,056,478)
Inventories	47,231
Other Assets	(20,366)
Accounts Payable	5,571,958
Salaries and Wages Payable	1,536,792
Deposits Payable	(6,913)
Compensated Absences Payable	554,503
Deferred Revenue	485,143
Liability for Self-Insured Claims	75,259
Other Postemployment Benefits Payable	4,163,000
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (238,403,940)</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING AND NONCASH INVESTING ACTIVITIES</b>	
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (174,286)
Unrealized gains from investing activities were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 17,075,153

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, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's *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 are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

**Blended Component Unit.** Based on the application of the criteria for determining component units, the Florida International University College of Medicine Self-Insurance Program is included within the University reporting entity as a blended component unit. The Self-Insurance Program was created on June 18, 2009, by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes, and provides professional and general liability protection for faculty, medical residents, and students of the College of Medicine.

**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 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 Foundation, Inc. – Encourages, solicits, receives, and administers gifts and bequests of property and funds for the advancement of the University and its objectives.

**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

- Florida International University Research Foundation, Inc. – Promotes encourages, and assists research and training activities of faculty, staff, and students of the 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.
- FIU Athletics Finance Corporation – Supports the University in matters pertaining to the financing of the University’s football stadium and subsequent managing and operating of the facility.
- Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc. – Improves and supports medical education at the FIU College of Medicine.

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 discretely presented 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 entitywide reporting including the following components:

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

**Basis of Accounting.** Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The 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,

**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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 the Accounting Standards Codification (ASC) 958, Not-for-Profit Entities, (formerly Financial Accounting Standards Board Statement, No. 117). The Florida International University Research Foundation, Inc., the FIU Athletics Finance Corporation, and the Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc., follow the GASB standards of accounting and financial reporting because they meet 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 applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, has elected to apply only those FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

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

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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

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

**Concentration of Credit Risk – Component Units**

Financial instruments that potentially subject the Florida International University Foundation, Inc. (Foundation), to concentration of credit risk consist principally of cash in banks. The Foundation places substantially all of its cash with high quality financial institutions which the Foundation believes limits this risk. At June 30, 2010, \$60,400 was in excess of the Federal Depository Insurance Corporation (FDIC) limits.

Financial instruments that potentially subject the FIU Athletics Finance Corporation (Finance Corporation) to concentration of credit risk consist principally of cash in banks and investments.

In addition to insurance provided by the FDIC, the Foundation, the Finance Corporation, and the Florida International Research Foundation, Inc., deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits, with the exception noted in the preceding paragraph, are insured or collateralized with securities held by the entity or its agent in the entity's name.

The Finance Corporation maintains investment accounts with financial institutions that are not insured by the FDIC. Fund shares are not guaranteed by the U.S. government. Current and future portfolio holdings are subject to risk. At June 30, 2010, \$4,830,116 was held in these accounts. The Finance Corporation believes that the number, diversity, and financial strength of the issuers mitigate the credit risks associated with all investments.

The Florida International Research Foundation, Inc. (Research Foundation), maintains a deposit balance in Colombia, South America, to manage its Colombian operation pertaining to a U.S. Agency for International Development (USAID) grant. The balance in this account of \$27,292, as of June 30, 2010, is not FDIC insured and is subject to foreign exchange risk. Additionally, in March 2010, a bank account in Tanzania, Africa was opened to support the operations pertaining to the Tanzania Integrated Water, Sanitation, and



**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

Hygiene (iWASH) Program also under a USAID grant. The balance in this account of \$107,601 as of June 30, 2010, is not FDIC insured and is subject to foreign exchange risk. The Research Foundation maintains its cash balances with high quality financial institutions, which the Research Foundation believes limits these risks.

**Capital Assets.** University capital assets consist of land, works of art and historical treasures, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, computer software, and property under capital leases. 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. 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
- Library Resources – 10 years
- Computer Software – 5 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 \$2,557,547. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Depreciable assets of the Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc., are stated at cost and are net of accumulated depreciation of \$890. Depreciation is provided using the straight-line method over the estimated useful lives of 5 years for the assets.

**Noncurrent Liabilities.** Noncurrent liabilities include principal amounts of capital improvement debt payable, capital leases payable, compensated absences payable, other postemployment benefits payable, liability for self-insured claims, and other long-term liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt payable is reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**2. REPORTING CHANGES**

In prior fiscal years, the University reported the liability for Capital Improvement (Housing and Parking) Revenue Bonds issued by the Florida Board of Governors on behalf of the University as bonds payable on the statement of net assets. The Florida Board of Governors loaned the bond proceeds to the University for the stated capital improvement projects. Pursuant to an agreement with the Florida Board of Governors, revenues to be generated from the constructed facilities were pledged by the University to repay the bonds. Pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the liability for the Capital Improvement Revenue Bonds should be reported as collateralized borrowing. Accordingly, for the 2009-10 fiscal year, the University began reporting the outstanding liability for these bonds as capital improvement debt payable. This change affects the comparability of amounts reported as bonds payable and capital improvement debt payable on the statement of net assets for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

**3. PRIOR PERIOD ADJUSTMENT**

The University's beginning net assets was increased by \$21,595,557 to recognize a change in reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years the liability for these bonds was reported on the University's statement of net assets. It has subsequently been determined that these bonds are not debt of the University. Although proceeds from the bonds were provided to the University for capital projects, the University is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all Florida universities and remitted in total to the Florida Department of Education.

**4. INVESTMENTS**

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of 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

**FLORIDA INTERNATIONAL UNIVERSITY  
A COMPONENT UNIT OF THE STATE OF FLORIDA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

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, 2010, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
<b>External Investment Pools:</b>	
State Treasury Special Purpose Investment Account	\$ 88,889,842
State Board of Administration Florida PRIME	440
State Board of Administration Fund B Surplus Funds	
Trust Fund	9,115
State Board of Administration Debt Service Accounts	2,896,811
<b>Mutual Funds:</b>	
Limited Partnerships	20,856,083
Equities	37,005,086
Fixed Income and Bond Mutual Funds	88,153,588
Money Market Funds	<u>25,029,562</u>
<b>Total University Investments</b>	<b><u>\$ 262,840,527</u></b>

**External Investment Pools**

**State Treasury Special Purpose Investment Account.** The University reported investments at fair value totaling \$88,889,842 at June 30, 2010, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 1.81 years at June 30, 2010. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**State Board of Administration Florida PRIME.** At June 30, 2010, the University reported investments at fair value totaling \$440 in the State Board of Administration (SBA) Local Government Surplus Trust Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The University's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, at June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 46 days as of June 30, 2010. A portfolio's WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

**State Board of Administration Fund B Surplus Funds Trust Fund.** On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund to establish

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

At June 30, 2010, the University reported investments at fair value of \$9,115 for amounts held in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of .67353149 at June 30, 2010. The weighted-average life (WAL) of Fund B at June 30, 2010, was 8.05 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2010. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

**State Board of Administration Debt Service Accounts.** The University reported investments at fair value totaling \$2,896,811 at June 30, 2010, in the State Board of Administration (SBA) 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, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to 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(6), 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, 2010, are as follows:

Type of Investment	University Debt Investment Maturities				
	Investment Maturities (In Years)				
	Fair Market Value	Less Than 1	1-5	6-10	More Than 10
Fixed Income					
Mutual Fund	\$ 43,769,459	\$ 6,127,724	\$ 19,258,562	\$ 7,878,503	\$ 10,504,670
TIPS Index Fund	27,775,644	5,166	9,716,310	9,165,962	8,888,206
High Yield Bond					
Mutual Fund	16,608,485	1,328,679	7,639,903	7,141,648	498,255
<b>Total</b>	<b>\$ 88,153,588</b>	<b>\$ 7,461,569</b>	<b>\$ 36,614,775</b>	<b>\$ 24,186,113</b>	<b>\$ 19,891,131</b>

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- *Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010, the securities held in fixed income and bond mutual funds had credit quality ratings by a nationally-recognized rating agency (i.e., Standard & Poor's or Moody's), as follows:

<b>University Debt Investment Credit Quality Ratings</b>					
Type of Investment	Fair Value	AAA	AA	A/Ba	BBB/Baa to Not Rated
Fixed Income					
Mutual Fund	\$ 43,769,459	\$ 29,325,537	\$ 1,750,778	\$ 4,814,641	\$ 7,878,503
TIPS Index Fund	27,775,644	27,770,478			5,166
High Yield Bond					
Mutual Fund	16,608,485			49,825	16,558,660
<b>Total</b>	<b>\$ 88,153,588</b>	<b>\$ 57,096,015</b>	<b>\$ 1,750,778</b>	<b>\$ 4,864,466</b>	<b>\$ 24,442,329</b>

- *Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy addresses the issue of concentration of credit risk by establishing the following restrictions:
- Maximum position in an individual security (excluding Government securities) must not exceed 5 percent of the account market value.
  - Maximum position in any one issuer (excluding Government securities) must not exceed 5 percent of the account market value.

**Component Units Investments**

The Florida International University Foundation, Inc., investments at June 30, 2010, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
Common Stock and Mutual Funds	\$ 70,624,710
Limited Partnerships	23,671,390
U.S. Government and Municipal Securities	7,668,529
Corporate Bonds	13,564,097
Accrued Interest	298,505
<b>Total</b>	<b>\$ 115,827,231</b>

Note: See note 1 for disclosures regarding concentration of credit risk.

The FIU Athletics Finance Corporation investments are made in accordance with the trust indenture dated April 1, 2007. The investments at June 30, 2010, are reported at fair value, as follows:

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<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Board of Administration Fund B	
Surplus Funds Trust Fund	\$ 639,811
Money Market Funds	<u>4,190,305</u>
<b>Total</b>	<b><u>\$ 4,830,116</u></b>

At June 30, 2010, the FIU Athletics Finance Corporation reported investments at fair value totaling \$639,811 in the Fund B Surplus Funds Trust Fund (Fund B). Fund B is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes. Disclosures regarding external investment pools are presented on pages 22 and 23.

At June 30, 2010, the FIU Athletics Finance Corporation reported investments at fair value totaling \$4,190,305 in a money market mutual fund. The fund maintains a weighted average maturity of 32 days and is rated AAAM by Standard & Poor's, Aaa by Moody's, and AAA by Fitch. The fund complies with the requirements of Rule 2a-7 under the Investment Company Act of 1940, which sets forth portfolio quality and diversification restrictions for money market mutual funds.

## 5. RECEIVABLES

**Accounts Receivable.** Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2010, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 11,051,465
Student Tuition and Fees	14,647,256
Other	<u>663,287</u>
<b>Total Accounts Receivable, Net</b>	<b><u>\$ 26,362,008</u></b>

**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 on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Student tuition and fees receivable, contracts and grants receivable, and loans and notes receivable are reported net of allowances of \$19,242,543, \$4,857,344, and \$1,290,952, respectively, at June 30, 2010.

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**6. DUE FROM STATE**

This amount includes \$119,454,617 of Public Education Capital Outlay and \$6,503,456 of Capital Improvement Fee Trust Fund allocations due from the State to the University for the construction of University facilities. The amount also includes \$3,915,481 due from the Educational Enhancement Trust Fund and \$410,661 from the State Appropriated American Recovery and Reinvestment Act.

**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 which are available for resale to individuals and other University departments, and are not expensed at the time of purchase. Inventories are comprised of telephone, information technology, and pharmaceutical supplies, as well as items maintained at the University's duplicating and postal service centers. Merchandise inventories are reported on the statement of net assets, and are valued at cost using the first-in, first-out, method.

**8. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>				
Land	\$ 30,989,550	\$	\$	\$ 30,989,550
Works of Art and Historical Treasures	3,818,249	326,950		4,145,199
Construction in Progress	79,467,046	71,569,303	56,534,162	94,502,187
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 114,274,845</b>	<b>\$ 71,896,253</b>	<b>\$ 56,534,162</b>	<b>\$ 129,636,936</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 621,222,394	\$ 56,534,162	\$	\$ 677,756,556
Infrastructure and Other Improvements	14,676,851			14,676,851
Furniture and Equipment	150,399,720	24,078,153	6,198,442	168,279,431
Library Resources	103,242,121	6,958,977		110,201,098
Computer Software	1,954,964	349,911	42,804	2,262,071
Property Under Capital Leases	6,299,117		1,827,016	4,472,101
<b>Total Depreciable Capital Assets</b>	<b>897,795,167</b>	<b>87,921,203</b>	<b>8,068,262</b>	<b>977,648,108</b>
<b>Less, Accumulated Depreciation:</b>				
Buildings	174,166,906	17,186,976		191,353,882
Infrastructure and Other Improvements	11,999,863	397,250		12,397,113
Furniture and Equipment	114,296,832	12,213,388	2,850,172	123,660,048
Library Resources	49,238,805	5,695,627		54,934,432
Computer Software	1,256,903	256,283	12,863	1,500,323
Property Under Capital Leases	4,153,221	931,514	1,827,016	3,257,719
<b>Total Accumulated Depreciation</b>	<b>355,112,530</b>	<b>36,681,038</b>	<b>4,690,051</b>	<b>387,103,517</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 542,682,637</b>	<b>\$ 51,240,165</b>	<b>\$ 3,378,211</b>	<b>\$ 590,544,591</b>

## 9. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay and Capital Improvement Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2010, to spend the funds. In addition, deferred revenue also includes stadium rental income for prepaid rent received from the FIU Athletics Finance Corporation, contracts and grants payments received in advance, student housing fees, athletic revenues, and student trust fund fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2010, the University reported the following amounts as deferred revenue:

Description	Amount
Capital Appropriations	\$ 103,842,574
Stadium Rental Income	28,003,218
Contracts and Grants	4,097,575
Student Housing Fees	775,085
Athletic Revenues	135,367
Student Trust Fund Fees	22,425
<b>Total Deferred Revenue</b>	<b>\$ 136,876,244</b>



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## 10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include capital improvement debt payable, capital leases payable, compensated absences payable, liability for self-insured claims, other postemployment benefits payable, and other long-term liabilities. Other long-term liabilities consist of the liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable (1)	\$ 126,187,462	\$ 32,011,551	\$ 27,527,984	\$ 130,671,029	\$ 6,428,523
Capital Leases Payable	2,554,410		1,114,953	1,439,457	899,713
Compensated Absences Payable	28,499,449	2,951,528	2,397,025	29,053,952	2,067,109
Liability for Self-Insured Claims		83,688	8,429	75,259	7,526
Other Postemployment Benefits Payable	4,077,000	4,163,000		8,240,000	
Other Long-Term Liabilities	2,785,317		90,971	2,694,346	
<b>Total Long-Term Liabilities</b>	<b>\$ 164,103,638</b>	<b>\$ 39,209,767</b>	<b>\$ 31,139,362</b>	<b>\$ 172,174,043</b>	<b>\$ 9,402,871</b>

Note: (1) The University recorded an adjustment to beginning net assets to recognize a change in reporting bonds and revenue certificates payable for State University Capital Improvement Trust Fund Revenue Bonds and a change to report collateralized debt as capital improvement debt payable. See notes 2 and 3.

**Capital Improvement Debt Payable.** The University had the following capital improvement debt payable outstanding at June 30, 2010:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
<b>Student Housing Debt:</b>				
1998	\$ 26,525,000	\$ 20,628,248	4.30 - 4.75	2028
2000	14,605,000	11,121,805	4.75 - 5.75	2025
2004A	53,915,000	43,740,186	4.00 - 5.00	2034
<b>Total Student Housing Debt</b>	<b>95,045,000</b>	<b>75,490,239</b>		
<b>Parking Garage Debt:</b>				
1995	7,780,000	3,231,660	5.25 - 5.375	2016
1999	7,530,000	4,381,177	5.10 - 5.625	2019
2002	22,915,000	15,913,781	3.25 - 4.60	2022
2009 A&B	32,000,000	31,654,172	2.00 - 6.875	2039
<b>Total Parking Garage Debt</b>	<b>70,225,000</b>	<b>55,180,790</b>		
<b>Total Capital Improvement Debt</b>	<b>\$ 165,270,000</b>	<b>\$ 130,671,029</b>		

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

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The University has pledged a portion of future housing rental revenues, traffic and parking fees, and an assessed transportation fee per student to repay \$165,270,000 in capital improvement (housing and parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing rental income, traffic and parking fees, and an assessed transportation fee per student. The University has committed to appropriate each year from the housing rental income, traffic and parking fees, and the assessed transportation fee sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$212,025,732, and principal and interest paid for the current year totaled \$11,519,463. During the 2009-10 fiscal year, housing rental income, traffic and parking fees, and assessed transportation fees totaled \$23,188,374, \$3,810,226, and \$7,353,660, respectively.

On December 17, 2009, the University issued \$32,000,000 of Florida International University Parking Facility Revenue Bonds consisting of \$3,085,000, Series 2009A, tax-exempt bonds and \$28,915,000, Series 2009B, taxable Build America Bonds. The capital improvement debt proceeds are being used to finance a portion of the construction of Parking Garage V, a new multilevel parking garage that was partially occupied in August 2010.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,215,000	\$ 6,487,478	\$ 12,702,478
2012	6,475,000	6,220,675	12,695,675
2013	6,765,000	5,938,299	12,703,299
2014	7,065,000	5,634,993	12,699,993
2015	7,400,000	5,311,226	12,711,226
2016-2020	30,045,000	21,760,357	51,805,357
2021-2025	25,870,000	15,051,646	40,921,646
2026-2030	18,630,000	9,305,770	27,935,770
2031-2034	15,015,000	4,770,444	19,785,444
2035-2039	6,860,000	1,204,844	8,064,844
<b>Subtotal</b>	130,340,000	81,685,732	212,025,732
Plus: Net Discounts, Premiums, and Losses on Refundings	331,029		331,029
<b>Total</b>	<u>\$ 130,671,029</u>	<u>\$ 81,685,732</u>	<u>\$ 212,356,761</u>

**Capital Leases Payable.** Data processing, food service equipment, and vehicles, in the amount of \$4,472,101 are being acquired under capital lease agreements. The stated interest rates range from 3.78 to 11.60 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2010, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 947,813
2012	447,917
2013	<u>108,416</u>
<b>Total Minimum Payments</b>	1,504,146
Less, Amount Representing Interest	<u>(64,689)</u>
<b>Present Value of Minimum Payments</b>	<u><u>\$ 1,439,457</u></u>

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State 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, 2010, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$29,053,952. 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.

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

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

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 392 retirees received postemployment healthcare benefits. The University provided

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required contributions of \$1,358,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,172,000.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 2,880,000
Amortization of Unfunded Actuarial	
Accrued Liability	2,403,000
Interest on Normal Cost and Amortization	<u>211,000</u>
<b>Annual Required Contribution</b>	5,494,000
Interest on Net OPEB Obligation	163,000
Adjustment to Annual Required Contribution	<u>(136,000)</u>
<b>Annual OPEB Cost (Expense)</b>	5,521,000
Contribution Toward the OPEB Cost	<u>(1,358,000)</u>
<b>Increase in Net OPEB Obligation</b>	4,163,000
Net OPEB Obligation, Beginning of Year	<u>4,077,000</u>
<b>Net OPEB Obligation, End of Year</b>	<u><u>\$ 8,240,000</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, July 1, 2007	\$		\$
2007-08	3,429,000	38.3%	2,117,000
2008-09	3,216,000	43.9%	4,077,000
2009-10	5,521,000	24.6%	8,240,000

*Funded Status and Funding Progress.* As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$72,099,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$72,099,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$239,560,000 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 30.1 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the University's 2009-10 fiscal year annual required contribution. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for the PPO plan was 10.32 and 8.84 percent for the first two years, 7 percent in the third year, grading to 5.1 percent over 70 years. Initial healthcare cost trend rates for the HMO plan was 10 percent for the first two years, 7 percent in the third year, grading to 5.1 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 27 years.

## **11. COMPONENT UNITS DEBT ISSUES**

### **Notes Payable – Florida International University Foundation, Inc.**

On January 20, 2000, the Miami-Dade County Educational Facilities Authority (the Authority) issued \$13 million 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 agreement with lease payments received from the University under an operating lease (see note 15). The \$13 million principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The variable rate on

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50 percent of the original issue, \$6.5 million, has been synthetically fixed at 4.63 percent through February 1, 2015, by way of an interest rate swap agreement with a commercial bank (see note 14). For the year ended June 30, 2010, total interest paid was \$405,964. The bond proceeds are being used to acquire, construct, and equip the multi-function support complex located on the University Park campus and to pay issuance costs. As of June 30, 2010, the outstanding principal balance due under this note payable was \$9.26 million. As of June 30, 2010, the fair value of the FIU Foundation's liability under the swap agreement was \$645,890.

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 million 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. There were two additional extensions subsequent to that date through July 30, 2010. The Foundation must pay an annual commitment fee of .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.

Due to significant stress in the bank market the bonds were repurchased by the Trustee under the SunTrust Bank letter of credit due to the diminishing ability to remarket the variable rate demand bonds in the public marketplace. Subsequent to the fiscal year end, on July 30, 2010, the commercial bank converted the variable rate demand bonds into a five-year tax exempt qualified loan. After the initial five-year period, the bank would have the right to require the Foundation to refinance the bank qualified loan or could agree to extend the maturity date for an additional five-year period. The Foundation agrees to pay interest at a rate of 67 percent of one month London Interbank Offered Rate (LIBOR) plus 1.68 percent. The bond maturity date of May 1, 2022, remains unchanged as does the swap agreement. As of June 30, 2010, the principal portion that was due was included in the refinanced amount.

The aggregate maturities of the notes payable, as of June 30, 2010, are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 475,000
2012	605,000
2013	640,000
2014	670,000
2015	705,000
Thereafter	<u>6,165,000</u>
<b>Total</b>	<b><u>\$ 9,260,000</u></b>

**Notes Payable – Florida International University Research Foundation, Inc.**

The Florida International University Research Foundation, Inc. (Research Foundation), issued the following promissory note on June 30, 2005, to assist the University with a settlement agreement involving various

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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 note as follows:

- \$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. The remaining balance of \$515,000 was paid in full subsequent to fiscal year-end on July 1, 2010.

**Bonds Payable – FIU Athletics Finance Corporation**

On April 20, 2007, the FIU Athletics Finance Corporation issued \$28,000,000 of Capital Improvement Revenue Bonds, Series 2007A, and \$7,000,000 of Capital Improvement Revenue Bonds, Series 2007B. These bonds were issued and secured under and pursuant to a trust indenture, dated April 1, 2007, between the FIU Athletics Finance Corporation and a commercial bank, as trustee, and shall be payable from pledged revenues. The bond proceeds were used to finance certain football stadium improvements, fund capitalized interest through March 1, 2009, fund a deposit to a debt service reserve fund, and pay costs related to the issuance of the bonds. The bonds are secured by operating and nonoperating revenues of the facility as well as the University athletic fees. These bonds were refunded during the fiscal year ended June 30, 2010.

On December 1, 2009, the FIU Athletics Financial Corporation issued \$30,000,000 of Miami-Dade County Industrial Development Authority Revenue Bonds Series 2009A and \$5,310,000 of Miami-Dade County Industrial Development Authority Taxable Revenue Bonds Series 2009B. These bonds were issued and secured under and pursuant to a trust indenture. Repayments of the bonds will be payable from pledged revenues, which are all operating and nonoperating revenues. Principal payments for the bonds began March 1, 2010. Interest payments are made on a quarterly basis. The interest rate on the Series 2009A bonds is equal to the sum of 63.7 percent of three-month LIBOR plus 1.90 percent. The interest rate on the Series 2009B bonds shall be at a rate equal to three-month LIBOR plus 2.65 percent. The total proceeds from the new bond issue were used solely to retire and refund the outstanding Series 2007A and B bonds and pay costs of issuance of the bonds and other refinancing costs. The funds were held in escrow by the Trustee and the Series 2007A and B bonds were fully redeemed effective January 8, 2010. Total principal due at June 30, 2010, was \$34,603,707.

As a result of the refunding, the FIU Athletics Finance Corporation increased its total debt service requirements by \$4,203,644, which resulted in a net present value loss of \$3,034,308.

The FIU Athletics Finance Corporation has funded a debt service reserve fund in accordance with the bond indenture requirement of maintaining an amount equal to the maximum allowable debt service on the bond in the current and any future fiscal year. This debt service reserve fund currently totals \$2,766,057 and is presented in restricted investments.

The FIU Athletics Finance Corporation is also required to have minimum deposits of \$3,500,000 with Regions Bank. The deposit is to be held in an interest-bearing additional reserve fund and is presented in restricted cash.

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The interest rates on these bonds are both fixed and variable and are subject to a hedge agreement that was entered into to reduce the exposure to market risks from changing interest rates. Interest is computed on the basis of the actual number of days elapsed over a year of 365 or 366 days (see note 12).

The aggregate maturities of these bonds as of June 30, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 599,723	\$ 1,500,126	\$ 2,099,849
2012	618,074	1,567,747	2,185,821
2013	636,987	1,627,027	2,264,014
2014	656,479	1,677,592	2,334,071
2015	676,567	1,719,051	2,395,618
2016-2020	5,865,877	7,899,173	13,765,050
2021-2025	8,135,713	6,031,312	14,167,025
2026-2030	10,150,001	3,637,679	13,787,680
2031-2033	7,264,286	792,886	8,057,172
<b>Subtotal</b>	34,603,707	26,452,593	61,056,300
Less, Amount Deferred on Refunding	(417,261)		(417,261)
<b>Total</b>	<u>\$ 34,186,446</u>	<u>\$ 26,452,593</u>	<u>\$ 60,639,039</u>

## 12. DERIVATIVE FINANCIAL INSTRUMENTS – COMPONENT UNITS

The Florida International University Foundation, Inc., the Florida International University Research Foundation, Inc., and the FIU Athletics Finance Corporation all entered into derivative instruments (i.e., interest rate swap agreements) to reduce their exposure to market risks from changing interest rates. For interest rate swap agreements, the differential to be paid or received is accrued and recognized as interest expense and may change as market interest rates change. These interest rate swap agreements are discussed below.

### **Florida International University Foundation, Inc. (Foundation)**

On February 1, 2000, the Foundation entered into an interest rate swap agreement (swap agreement) with a commercial bank on a notional amount of \$6.5 million, which represents 50 percent of the principal amount of the bond issue, as described in note 11. Under the original swap agreement, the Foundation agreed to pay a fixed rate of 5.03 percent per annum and receive variable rates based on 67 percent of the one-month U.S. Dollar London Interbank Offered Rate (LIBOR). Effective October 1, 2005, the Foundation renegotiated the swap agreement reducing the interest rate swap to 4.63 percent per annum. The renegotiated swap agreement expires on February 1, 2015. The derivative liability at June 30, 2010, was \$645,890.

### **Florida International University Research Foundation, Inc. (Research Foundation)**

On June 30, 2005, the Research Foundation entered into an interest rate swap agreement with a commercial bank on a notional amount of \$7,955,000, which represents the notes payable described in note 12. Under the swap agreement, the Research Foundation agrees to pay a fixed rate of 3.15 percent per annum and



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receive a variable rate based on 65 percent of the three-month LIBOR plus .3923 percent. As of June 30, 2010, the Research Foundation reported a derivative liability of \$3,344 in the statement of net assets and an unrealized gain of \$38,824 in the statement of revenue, expenses, and changes in net assets. The swap agreement has a maturity date of July 1, 2010.

**FIU Athletics Finance Corporation (Finance Corporation)**

*Objectives.* As a means to lower its borrowing costs and increase its savings, when compared *against* fixed-rate bonds at the time of issuance in May 2007, and refunding in December 2009, the Finance Corporation entered into an interest rate swap agreement in connection with its \$30 million 2009A Miami-Dade County Industrial Development Authority Revenue Bond issuance. The intention of the swap agreement was to effectively change the Finance Corporation's variable interest rate on the bonds to a synthetic fixed rate of 3.60 percent.

*Terms.* On May 30, 2007, the Finance Corporation entered into an interest rate swap agreement with a commercial bank on a notional amount of \$21 million, which represents the fixed portion of the bonds payable described in note 13. Under the swap agreement, the Finance Corporation agreed to pay a fixed rate of 4.1451 percent per annum and receive a variable rate based on the Securities Industry and Financial Markets Association (SIFMA) index (tax-exempt variable demand bond index maintained by the Bond Marketing Association).

On December 22, 2009, the Finance Corporation amended the interest rate swap agreement to hedge the floating rate on \$21 million of the principal amount of the 2009A Bonds. This represents the fixed portion of the tax exempt bonds payable described in note 13. Under the swap agreement, the Finance Corporation agrees to pay a fixed rate of 3.60 percent and receive a variable rate equal to 63.7 percent of three-month LIBOR. The swap agreement has a maturity date of March 1, 2033.

*Fair Value.* As of June 30, 2010, the Finance Corporation swap has a derivative liability of \$3,905,754. The negative fair value was determined using Mark-to-Market Value and represents the closing mid-market values.

As of December 22, 2009, the fair value of the Series 2007A ineffective interest rate swap was \$2,251,646. This interest rate swap was not terminated when the bonds were refunded. However, the interest rate on the refunded Series 2009 bonds reflects a higher rate due to not terminating this interest rate swap. Accordingly, the fair value of \$2,251,646 of the ineffective Series 2007A interest rate swap will be amortized over the remaining life of the refunded Series 2009A bond. For the period July 1, 2009, to December 22, 2009, the change in the fair value of this ineffective interest rate swap was \$495,069.

The consistent critical terms method evaluates the effectiveness by qualitative consideration of the critical terms of the hedgeable items and the potential hedging derivative instrument. The Finance Corporation determined the terms of the Series 2009A refunded bonds and the interest rate swap are consistent and meet the criteria of the consistent critical terms method. As a result of these refunded bonds, the change in the fair value in the effective interest rate swap, from December 22, 2009, to June 30, 2010, is a deferred outflow

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of resources in the amount of \$1,702,531. Effectively, the revised swap agreement started with a zero fair value.

*Credit Risk.* As of June 30, 2010, the Finance Corporation was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Finance Corporation would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty (Regions Bank) was rated Baal by Moody's Investors Service, BBB by Standard & Poor's, and BBB+ by Fitch Ratings.

*Basis Risk.* Basis risk arises when different indexes are used in connection with a derivative. Given that both the bond and the interest rate swap are based on 63.7 percent of the three-month LIBOR rate, there is limited basis risk.

*Termination Risk.* The derivative contract uses the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes an "additional termination event." That is, the swap agreement may be terminated if: (i) the loan or other indebtedness in connection with which a transaction entered into by the Finance Corporation for the purpose or with the effect of altering the net combined payment from a floating to fixed or a fixed to floating rate basis is repaid, whether upon acceleration of principal, at maturity, or otherwise, or for any other reason ceases to be an obligation of the Athletics Finance Corporation, with or without the consent of the counterparty (Regions Bank); or (ii) any credit support document expires, terminates or ceases to be of full force and effect. Also, the swap agreement may be terminated or assigned by the Finance Corporation if the counterparty's (Regions Bank) long-term, senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below at least two of the following: (a) "Baa3" as determined by Moody's; or (b) "BBB-" as determined by Standard & Poor's; or (c) "BBB-" as determined by Fitch.

*Swap Payments and Associated Debt.* Using rates as of June 30, 2010, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows: As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2011	\$	\$ 399,714	\$ 755,286	\$ 1,155,000
2012		399,714	755,286	1,155,000
2013		399,714	755,286	1,155,000
2014		399,714	755,286	1,155,000
2015		399,714	755,286	1,155,000
2016-2020	3,115,000	1,931,001	3,648,749	8,694,750
2021-2025	5,695,000	1,494,931	2,824,769	10,014,700
2026-2030	7,105,000	901,641	1,703,709	9,710,350
2031-2033	5,085,000	196,526	371,349	5,652,875
<b>Total</b>	<b>\$ 21,000,000</b>	<b>\$ 6,522,669</b>	<b>\$ 12,325,006</b>	<b>\$ 39,847,675</b>

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### 13. RETIREMENT PROGRAMS

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

Employees in the Plan vest at six years of service. All vested members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability and death benefits, and annual cost-of-living adjustments.

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

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

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

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

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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, 2008, June 30, 2009, and June 30, 2010, totaled \$7,869,759, \$8,286,522, and \$8,493,631, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. 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, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 351 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$1,403,559.

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

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

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

There were 1,731 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$14,580,154 and employee contributions totaled \$5,460,069.

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**14. CONSTRUCTION COMMITMENTS**

The University's major construction commitments at June 30, 2010, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Science Classroom Complex	\$ 50,000,000	\$ 796,375	\$ 49,203,625
Graduate Classroom Building	33,300,000	165,264	33,134,736
Parking Garage V/Retail/Public Safety Building	43,796,422	28,422,124	15,374,298
International Hurricane Center	15,000,000	176,277	14,823,723
Social Science - International Studies	22,849,971	10,213,274	12,636,697
Satellite Chiller Plant	7,110,000	45,628	7,064,372
Utilities/Infrastructure Improvements - Project BT 852	5,142,603	737,634	4,404,969
US Century Bank Arena/Fitness Center Renovation	3,802,513	361	3,802,152
Utilities/Infrastructure Improvements - Project BT 802	9,975,000	6,721,853	3,253,147
Public Safety Building, Modesto A. Maidique Campus	3,944,900	823,434	3,121,466
<b>Subtotal</b>	194,921,409	48,102,224	146,819,185
Projects with Balance Committed Under \$3 Million	64,096,380	46,399,963	17,696,417
<b>Total</b>	<u>\$ 259,017,789</u>	<u>\$ 94,502,187</u>	<u>\$ 164,515,602</u>

**15. OPERATING LEASE COMMITMENTS – RELATED PARTY TRANSACTIONS**

**Florida International University Foundation, Inc. (Foundation)**

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 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, in addition to amounts necessary to pay any unanticipated and extraordinary costs. The lease commenced during August 2002 when the facility became operational. 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, 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 noncancelable operating lease as of June 30, 2010:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 1,260,000
2012	1,260,000
2013	1,260,000
2014	1,260,000
2015	1,260,000
Thereafter	8,820,000
<b>Total Minimum Payments Required</b>	<b>\$ 15,120,000</b>

**Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc.**

Florida International University and the Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc. (FIU COM Health Care Network) entered into an agreement dated July 27, 2009. Under this agreement, the FIU COM Health Care Network will use the University Health Service Building to provide medical care to the faculty and staff of FIU. FIU COM Health Care Network shall pay the University for rental of the premises in the sum of \$15,284 per year. The term of this agreement was originally scheduled to expire on July 26, 2010, but was subsequently renewed for an additional period of one year. Rent expense related to this lease was \$14,326 during the 2009-10 fiscal year.

**16. 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 “collections” 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

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assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the 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 activities within the University.

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 \$1.9 million during the 2009-10 fiscal year for Wolfsonian expenses which included salaries, equipment, administrative expenses, insurance premiums for the art collection, and building security. In addition, the University provided support of approximately \$280,000 during the 2009-10 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

**17. RISK MANAGEMENT PROGRAMS**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2009-10 fiscal year, for property losses, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$40 million for named wind and flood through February 14, 2010, and increased to \$58.75 million starting February 15, 2010. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$100,000 per person, and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums

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considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

**University Self-Insurance Program.** The Florida International University College of Medicine Self-Insurance Program was established pursuant to Section 1004.24, Florida Statutes, on June 18, 2009. The Self-Insurance Program provides professional and general liability protection for the Florida International University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff and resident physicians. Liability protection is afforded to the students of the college. The Self-Insurance Program provides legislative claims bill protection.

The University is protected for losses that are subject to Section 768.28, Florida Statutes, to the extent of the waiver of sovereign immunity as described in Section 768.28(5), Florida Statutes. The Self-Insurance Program also provides: \$1,000,000 per legislative claims bills inclusive of payments made pursuant to Section 768.28, Florida Statutes; \$250,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; \$250,000 per claim protection for participants who engage in approved community service and act as Good Samaritans; and student protections of \$100,000 for a claim arising from an occurrence for any one person, \$250,000 for all claims arising from an occurrence and professional liability required by a hospital or other healthcare facility for educational purposes not to exceed per occurrence limit of \$1,000,000.

The Self-Insurance Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported. Changes in the balances of claims liability for the Self-Insurance Program during the 2009-10 fiscal year is presented in the following table:

Fiscal Year Ended	Claims Liabilities Beginning of Year	Current Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
June 30, 2010	\$	\$ 83,688	\$ (8,429)	\$ 75,259

#### 18. 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



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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 175,672,806
Research	56,887,821
Public Services	6,939,775
Academic Support	85,621,810
Student Services	21,528,906
Institutional Support	56,516,677
Operation and Maintenance of Plant	37,750,622
Scholarships and Fellowships	69,098,764
Depreciation	36,681,038
Auxiliary Enterprises	78,442,659
Loan Operations	<u>2,978</u>
<b>Total Operating Expenses</b>	<b><u>\$ 625,143,856</u></b>

## 19. SEGMENT INFORMATION

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

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

**Condensed Statement of Net Assets**

	Housing Revenue Bonds	Parking Revenue Bonds
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Current Assets	\$ 16,968,251	\$ 13,672,951
Capital Assets, Net	85,327,282	67,345,635
Other Noncurrent Assets	<u>2,400,290</u>	<u>8,791,539</u>
<b>Total Assets</b>	<u>104,695,823</u>	<u>89,810,125</u>
<b>Liabilities</b>		
Current Liabilities	5,144,817	5,428,046
Noncurrent Liabilities	<u>71,889,487</u>	<u>52,722,917</u>
<b>Total Liabilities</b>	<u>77,034,304</u>	<u>58,150,963</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	9,149,790	12,572,922
Restricted - Expendable	3,848,392	5,648,211
Unrestricted	<u>14,663,337</u>	<u>13,438,029</u>
<b>Total Net Assets</b>	<u>\$ 27,661,519</u>	<u>\$ 31,659,162</u>

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

	Housing Revenue Bonds	Parking Revenue Bonds
	<u>                    </u>	<u>                    </u>
Operating Revenues	\$ 23,188,374	\$ 11,163,886
Depreciation Expense	(3,013,861)	(1,166,289)
Other Operating Expenses	<u>(12,896,489)</u>	<u>(5,127,580)</u>
<b>Operating Income</b>	<u>7,278,024</u>	<u>4,870,017</u>
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	329,312	518,854
Interest Expense	(3,499,530)	(2,188,343)
Other Nonoperating Expense	<u>(27,040)</u>	<u>(23,304)</u>
<b>Net Nonoperating Expenses</b>	<u>(3,197,258)</u>	<u>(1,692,793)</u>
<b>Income Before Transfers and Other Revenues</b>	4,080,766	3,177,224
Net Transfers	(1,914,826)	194,773
Capital Grants	<u>                    </u>	<u>346,145</u>
<b>Increase in Net Assets</b>	2,165,940	3,718,142
Net Assets, Beginning of Year	<u>25,495,579</u>	<u>27,941,020</u>
<b>Net Assets, End of Year</b>	<u>\$ 27,661,519</u>	<u>\$ 31,659,162</u>

**FLORIDA INTERNATIONAL UNIVERSITY  
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**Condensed Statement of Cash Flows**

	Housing Revenue Bonds	Parking Revenue Bonds
	<u>                    </u>	<u>                    </u>
Net Cash Provided (Used) by:		
Operating Activities	\$ 11,236,688	\$ 6,095,664
Capital and Related Financing Activities	(8,863,413)	1,459,894
Investing Activities	<u>(2,091,484)</u>	<u>(6,974,505)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	281,791	581,053
Cash and Cash Equivalents, Beginning of Year	<u>2,582,874</u>	<u>833,995</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 2,864,665</u></u>	<u><u>\$ 1,415,048</u></u>

**20. COMPONENT UNITS**

The University has four 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:

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JUNE 30, 2010**

	Direct-Support Organizations				Total
	Florida International University Foundation, Inc.	Florida International University Research Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc.	
<b>Condensed Statement of Net Assets</b>					
Assets:					
Current Assets	\$ 177,554,468	\$ 745,485	\$ 4,528,377	\$ 68,203	\$ 182,896,533
Capital Assets, Net	10,773,692			3,558	10,777,250
Other Noncurrent Assets	94,946		35,248,873		35,343,819
<b>Total Assets</b>	<b>188,423,106</b>	<b>745,485</b>	<b>39,777,250</b>	<b>71,761</b>	<b>229,017,602</b>
Liabilities:					
Current Liabilities	2,394,119	626,929	1,165,985	2,352	4,189,385
Noncurrent Liabilities	9,054,805		41,232,477	52,761	50,340,043
<b>Total Liabilities</b>	<b>11,448,924</b>	<b>626,929</b>	<b>42,398,462</b>	<b>55,113</b>	<b>54,529,428</b>
Net Assets:					
Restricted	161,813,711				161,813,711
Unrestricted	15,160,471	118,556	(2,621,212)	16,648	12,674,463
<b>Total Net Assets</b>	<b>\$ 176,974,182</b>	<b>\$ 118,556</b>	<b>\$ (2,621,212)</b>	<b>\$ 16,648</b>	<b>\$ 174,488,174</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>					
Operating Revenues	\$ 18,751,586	\$	\$ 3,481,395	\$ 58,822	\$ 22,291,803
Operating Expenses	(14,095,569)	(15,825)	(1,755,523)	(40,513)	(15,907,430)
<b>Operating Income (Loss)</b>	<b>4,656,017</b>	<b>(15,825)</b>	<b>1,725,872</b>	<b>18,309</b>	<b>6,384,373</b>
Net Nonoperating Revenues (Expenses)	10,975,563	17,168	(1,861,846)	(1,661)	9,129,224
<b>Increase (Decrease) in Net Assets</b>	<b>15,631,580</b>	<b>1,343</b>	<b>(135,974)</b>	<b>16,648</b>	<b>15,513,597</b>
Net Assets, Beginning of Year	161,342,602	117,213	(2,485,238)		158,974,577
<b>Net Assets, End of Year</b>	<b>\$ 176,974,182</b>	<b>\$ 118,556</b>	<b>\$ (2,621,212)</b>	<b>\$ 16,648</b>	<b>\$ 174,488,174</b>

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

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (2) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 48,762,000	\$ 48,762,000	0%	\$ 223,494,966	21.8%
7/1/2009	\$	\$ 72,099,000	\$ 72,099,000	0%	\$ 239,560,000	30.1%

Notes: (1) The most recent actuarial valuation was July 1, 2009.

(2) The actuarial cost method used by the institution is the entry-age actuarial cost method.

**FLORIDA INTERNATIONAL UNIVERSITY  
OTHER REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**

The July 1, 2009, unfunded actuarial liability of \$72,099,000 was significantly higher than the July 1, 2007, liability of \$48,762,000, as a result of changes to demographic, trend, actuarial, and coverage assumptions.

**Changes in Demographic Assumptions**

More eligible employees elected coverage than expected resulting in a considerable increase in the number of participants receiving healthcare benefits, accordingly the number employees and retirees used to compute the liability was increased.

**Changes in Trend Assumptions**

For the first two years the actuarial study used trends from the December 7, 2009, Financial Outlook for the State Employees' Group Health Self-Insurance Fund. For subsequent years the trend model has been changed to the Getzen trend model for retiree healthcare valuations. The Getzen trend model does not differentiate between pre-Medicare and post-Medicare medical trends and considers long-term healthcare trends relating what U.S. Citizens will accept for healthcare as a percent of total gross domestic product output/consumption.

**Changes in Actuarial Assumptions**

Participants are living longer after retirement and receiving healthcare benefits for more years than assumed previously which increases healthcare costs. Reductions in healthcare costs resulted from retirement rates which were less than expected as participants are retiring at older ages and disability rates which were less than expected. The assumptions for these factors have been adjusted to be more in line with experience and to recognize general trends.

**Changes in Coverage Assumptions**

As a result of the change in demographic assumptions the number of participants that are expected to elect coverage at retirement has also been increased to reflect the revised expectations.



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

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

We have audited the financial statements of Florida 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, 2010, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

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

Respectfully submitted,



David W. Martin, CPA  
January 28, 2011