



*Celebrating* **30**  
*years of Excellence*



Florida International University  
Annual Financial Report 2002-2003

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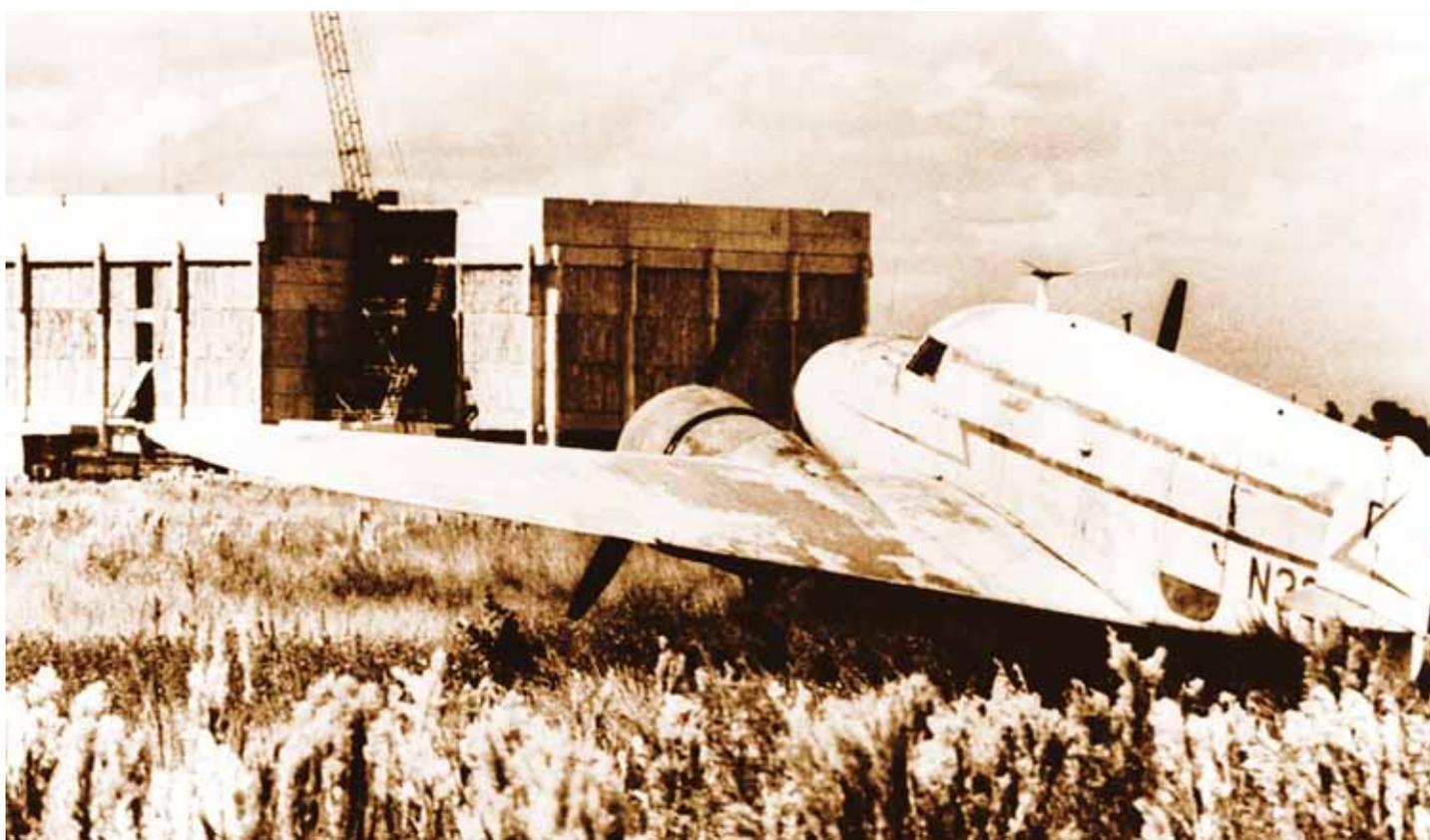
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**Aime Martinez**  
Assistant Controller  
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*Celebrating* **30**  
*years of Excellence*



*The abandoned Tamiami Airport would become the site of FIU's first campus.*

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## Message from the President



As a metropolitan university, located in one of the nation's most exciting international cities, we offer a unique combination of vast resources, personal attention and affordability. With more than 190 baccalaureate, master's and doctoral degree programs – as well as a nationally renowned faculty and an intimate learning environment – we prepare our students for the leading job markets and the latest technologies.

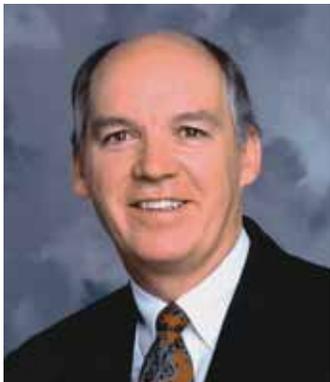
The year 2003 was filled with historic achievements at FIU – milestones that confirm the growing excellence and recognition of our institution. We were awarded a \$3 million dollar grant by the Ewing Marion Kaufman Foundation to fund our Global Entrepreneurship Center. We were also awarded the Education Award by the Beacon Council in recognition for our programs that have helped strengthen the local economy. Our state-of-the-art research programs, which have grown tenfold over the past decade, attracted \$75 million in external funding. We continue to be one of only five institutions of higher learning in Florida (and one of 265 out of 4,000 colleges and universities nationally) and Florida's only public university in a metropolitan area with both a Phi Beta Kappa chapter and the Carnegie Foundation's top rating for research universities.

Whether you are a first time student entering college, a “lifelong” learner looking to update your skills or expand your knowledge, or you are just interested in our diverse cultural and recreational activities, you will find that FIU has what you are looking for. We appreciate your interest and hope to see you on our campuses.

A handwritten signature in black ink, which appears to read "Modesto A. Maidique". The signature is fluid and cursive.

Modesto A. Maidique  
President

## Introduction from the Executive Vice President for Business and Finance



The year 2002 – 03 has been an exciting year as Florida International University marked its 30th year of offering educational programs to benefit the region, State, nation and international community. The University offers over 200 programs serving over 34,000 students from throughout the nation and the world. During this year, we have graduated approximately 6,000 students at the bachelors, masters and doctorate level.

On other fronts, our fundraising and sponsored research continues to grow. We have successfully completed a \$200 million campaign, which, at the same time, we have seen our federally sponsored research grow to over \$65 million.

Additionally, FIU currently has over \$200 million of construction at one phase or another. We are building additional residence halls, a Health and Life Science Building, Marine Science Building, Recreational Center, Art Museum, Law School Building and a Graduate Business Building. Construction funds are coming from both the public and private sector.

I am pleased to present the Annual Financial Report of Florida International University for the fiscal year, which ended June 30, 2003. The report includes the financial statements, notes to the financial statements and significant accounting policies, a statement of the University's mission, and financial highlights. The financial statements have been prepared in accordance with generally accepted accounting principles recognized by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants' Industry Audit Guide, Audits of Colleges and Universities.

The financial statements are intended to present the financial position of the University as of the end of June 30, 2003 and the result of operations for the year then ended. The Auditor General of the State of Florida audited the financial statements. The Auditor General has expressed an opinion on Florida International University's financial statements, as a result of the reorganization of the State University System of the State of Florida found on page eleven of this report. These will be consolidated with the other universities in the State University System. The consolidated financial statements will be presented in the Statewide General Purpose Financial Statement issued by the State Comptroller's Office. The Statewide statements will be the subject of an opinion by the Auditor General. I hope that this report will provide general information to those who have an interest in the financial operations of the University.

Our goal at Florida International University is to be the top public, urban, research university that will not only serve the South Florida community, but also reach out the entire State of Florida, as well as the nation. As a Carnegie Research Extensive University, we are well positioned to grow in quality, reputation, size and budget.

A handwritten signature in black ink, appearing to read "Paul D. Gallagher". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Paul D. Gallagher  
Executive Vice President for Business and Finance



## Mission Statement

**Institutional Mission Statement:** Florida International University is an urban, multicampus, research university serving South Florida, the state, the nation and the international community. It fulfills its mission by imparting knowledge through excellent teaching, promoting public service, discovering new knowledge, solving problems through research, and fostering creativity.

**Institutional Values Statement:** Florida International University is committed to:

- Freedom of thought and expression
- Excellence in teaching and in the pursuit, generation, dissemination, and application of knowledge
- Respect for the dignity of the individual
- Respect for the environment
- Honesty, integrity, and truth
- Diversity
- Strategic, operational and service excellence

**Operational Philosophy:** Strategic, operational and service excellence is an institutional imperative at Florida International University. The University seeks to employ concepts and strategies that foster systematic institution-wide continuous improvement in providing services and in achieving constituent satisfaction. Our guides for management excellence are:

1. **Quality** – generating outcomes and services that exceed constituent expectations

2. **Competitiveness** – performing in a way that allows the University to achieve a comparative advantage in our endeavors
3. **Accountability** – monitoring and assessing the results of policies, programs, and processes to ensure that results are achieved in an efficient, effective manner
4. **Innovation** – exploring and implementing new ideas in our administrative, research, and academic endeavors.
5. **Collegiality** – formulating decisions, policies, and management practices through a consultative process engaging the University community.
6. **Diversity** – creating a University environment that is responsive to diversity in all of its forms
7. **Operational Excellence** – implementing improved information and management systems to optimize use of our resources

**University Vision:** These five words summarize FIU's vision:  
TOP • URBAN • PUBLIC • RESEARCH • UNIVERSITY

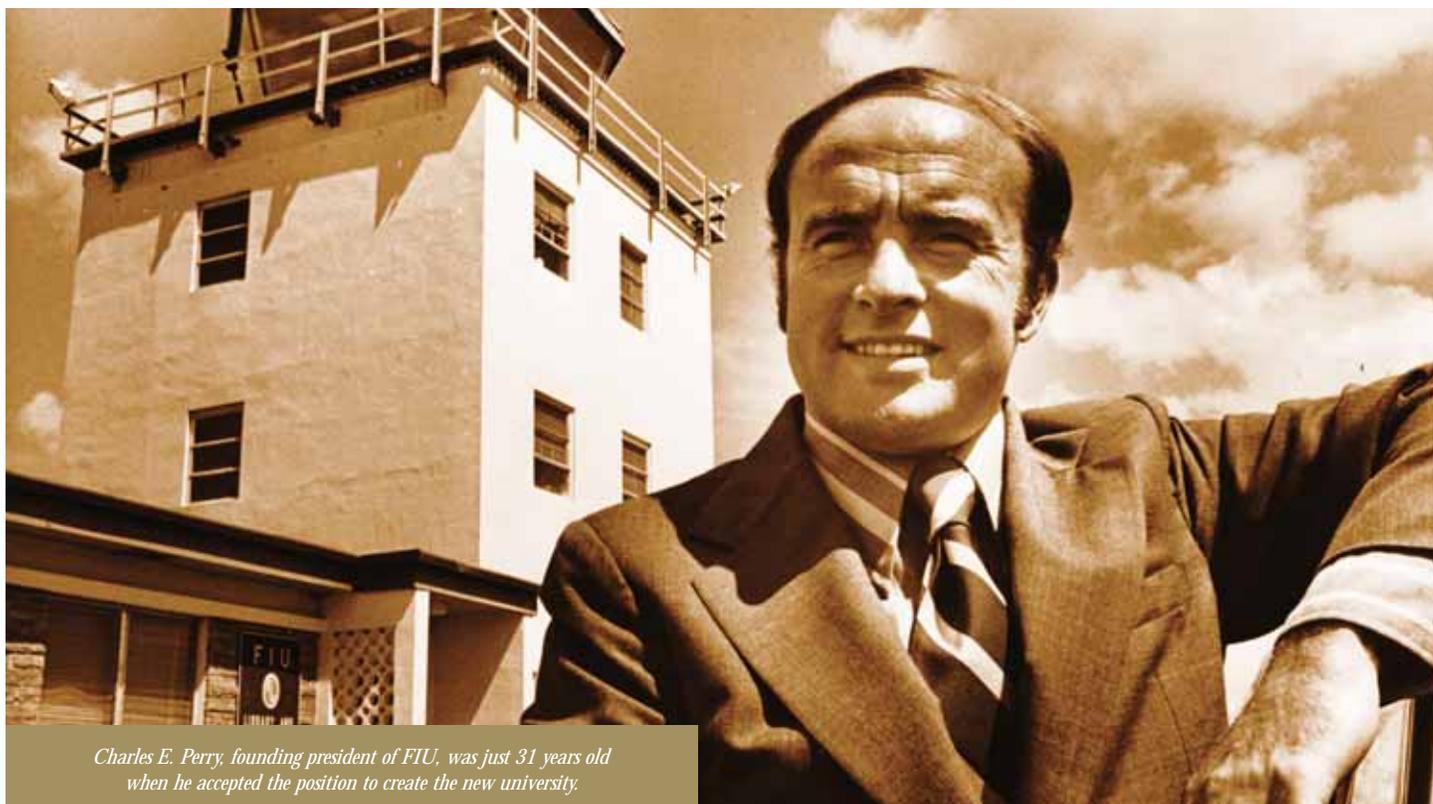
**Strategic Themes:** Strategic themes are areas of activity (academic programs, research, and service) that offer opportunities for development and the potential to achieve strategic advantages in higher education. Given rapid globalization in the 21st century, FIU's strategic themes necessarily involve engagement at the both local and global level.

**Institutional Goals:** The pursuit of our vision of being a Top Urban Public Research University.



*Tamiami Airport's old air traffic controller's tower was the "nerve center" for the University's four founders. The building still stands today, a permanent landmark on the University Park campus.*

# The University



*Charles E. Perry, founding president of FIU, was just 31 years old when he accepted the position to create the new university.*

## ABOUT THE UNIVERSITY 1972-2003

Florida International University (FIU) was established on June 22, 1965 by the Florida Legislature. In the fall of 1972, FIU opened its doors to 5,667 students enrolled in upper-division and graduate programs. This was the largest opening day enrollment in the history of the United States. The University was originally established as an upper-division institution, operating one campus in Miami-Dade County. Thirty years later, FIU has 33,880 enrolled students, over 95,000 alumni and 1,000 full-time faculty. The University now offers a full balance of degree programs through the doctoral level and many research programs. FIU has two major campuses in Miami-Dade County, University Park and Biscayne Bay Campus; The Center for Engineering and Applied Science located near University Park; and the new Pines Center located in Broward County. FIU is one of the 30th largest educational institutions in the United States.

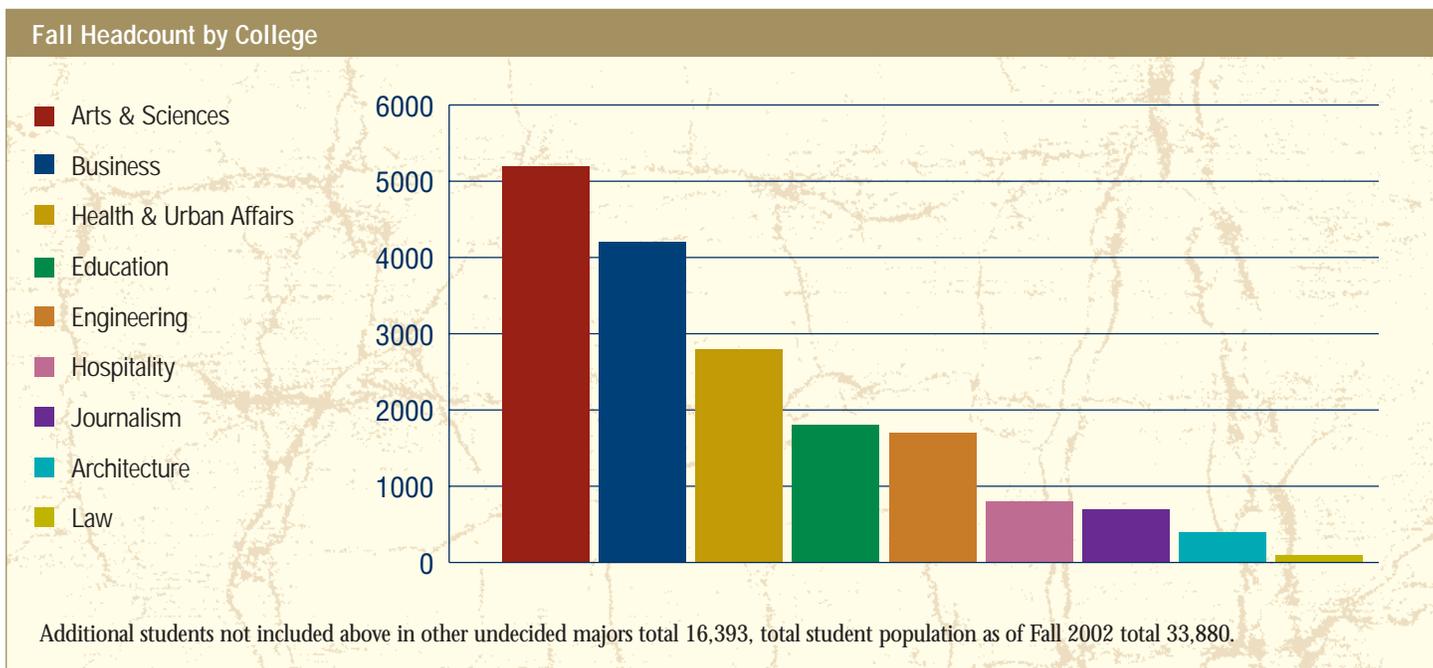
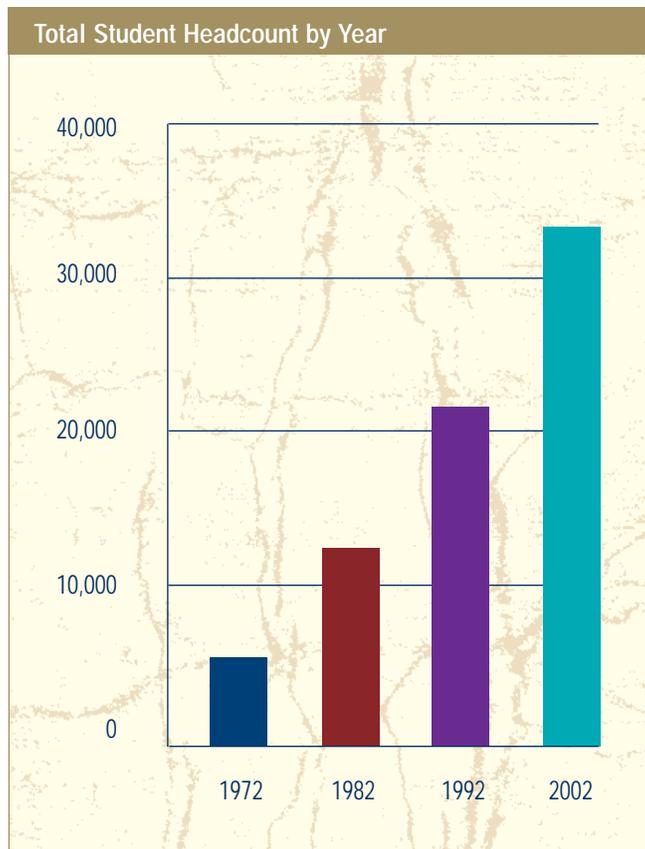
The University is accredited by the Southern Association of Colleges and Schools. In 2000, the Carnegie Foundation reclassified the University as a Carnegie Doctoral/Research Universities-Extensive, the highest ranking for research universities. A significant change occurred in January 2003 when the process of devolution was completed. The

Florida Legislature abolished the Board of Regents and established a local board for each university. Responsibilities vested on the Florida International University Board of Trustees include the hiring and firing of the university president, approval of new degree programs and establishment of local tuition rates.

Charles E. Perry was FIU's first president appointed by the Board of Regents. In 1976, he was succeeded by Harold B. Crosby. In February of 1979 Gregory B. Wolfe became the third president. Modesto A. Maidique was appointed president of FIU in August 1986 and has guided the University for the past sixteen years. Prior to coming to FIU, the president held a faculty position at Stanford University and left a profitable private venture capital firm to lead the new public university. He has set very high standards for the university and has attained many goals within these pivotal years. Under President Maidique's leadership, FIU is the youngest university in U.S. history to get the top research university rating from the Carnegie Foundation for the Advancement of Teaching. The University was admitted into Phi Beta Kappa, the most prestigious academic honor society in the United States. The president also, opened the school of law and began a football team.



FIU emphasizes research as a major component of its mission. The University is ranked by the Carnegie Foundation for the Advancement of Teaching as a Doctoral/Research University-Extensive, the highest ranking in its classification system.



The University (continued)

## ACCOMPLISHMENTS

The University has achieved many triumphs since 1972. FIU continuously receives national recognition for its excellence. In September 2003, *Kiplinger's Personal Finance Magazine* ranked FIU as the country's 18th best value in public higher education. *U.S. News and World Report* magazine ranked FIU among the top 100 public national universities in its annual survey of "America's Best Colleges". The magazine noted FIU students as being the least indebted college students in the nation and recognized the University as a "best buy" in higher education. FIU has also been recognized as one of the top 10 public commuter universities in the nation by *Money Magazine*.

Many of our programs have obtained national recognition. In October 2002, *Business Week* ranked the International MBA program at FIU's Alvah H. Chapman, Jr., Graduate School of Business among the best 71 in the U.S. (out of over 1,000) in its "2002 Best B-Schools Guide." A report in the January 2001 issue of the *Academy of Management Journal* ranked the college's Management Information Systems (MIS) unit the 11th best in the United States. The National Council for Accreditation of Teacher Education reaccredited the FIU College of Education, during fiscal year 2002-03 making it the first school in Florida to be certified under new, more rigorous guidelines. A recent study in the *Journal of Hospitality and Tourism Education* ranked the FIU School of Hospitality Management number one in student ratings. The Creative Writing Program is ranked among the top 10 creative writing programs in the country in the *Dictionary of Literary Biography*.

On August 26, 2002 the College of Law opened its doors to its first 115 students, 67 full-time and 48 part-time law students. The faculty is made up of 11 professors, who previously taught at distinguished universities. According to Leonard Stickman the College of Law Dean, "I could not be more pleased with the faculty who will teach the first class. They have outstanding records, both as classroom teachers and as scholars." The College of Law will provide the traditional law school education but, unique to FIU will also require International Law and Comparative Law. These courses highlight the differences between the U.S. legal system and others around the world. This approach ensures that the graduates will be comfortable in international settings.

Major milestones have been achieved in FIU's athletic programs. This was the first season of the FIU football team, the Golden Panthers. The team is headed by Football Coach Don Strock, the former Miami Dolphins quarterback. On August 29, 2003 the Golden Panthers played their first game to a sellout crowd, as 17,314 fans came to support the team. FIU's baseball team Head Coach, Danny Price, was featured in *Sports Illustrated* this year for becoming one of only 20 active coaches in the nation to notch his 900th career win. The coaches leading the teams are true professionals who have been in the field and have dedicated much of their lives to FIU. Swimming and rowing are the two new sports preparing to be introduced into the athletic program. FIU athletes have signed multi-million dollar contracts with professional sports teams, have gone to the Olympics, and some have returned to the University as employees.



**CONSTRUCTION**

FIU's vision of being a Top Urban Public Research University has placed an emphasis on the need to build more research facilities. The first president of FIU, Charles E. Perry, said during the opening ceremony of the University, "The building process has begun, and it will last forever, because it is the nature of a university always to be building –the mind, the body, the spirit...Florida International was conceived to serve mankind by constantly searching for truth and a better life."

In efforts to expand the Health and Life Sciences research programs, the University has begun construction on various building projects expected to be completed within the next five years. During fiscal year 2002-2003 the Health and Life Science Building Phase I was completed. The total capitalized cost of this project was \$17.8 million. Due to the growth of the Health and Life Science programs, Phase II of this building has begun. The estimated budget for Phase II is approximately \$18.8 million dollars. These buildings will not only serve as office and research laboratories, but will also house health clinics that will serve members of the University and the surrounding community. Additional research buildings are in their planning and early construction phases. Total estimated costs for those buildings are listed as follows.

Project Name	Total Estimated Costs
Health & Life Sciences Expansion - Phase I	\$ 18,846,830
College of Law Building	15,331,551
Health Care and Wellness Center Expansion	3,000,000
Marine Biology Bldg - BBC Science/Classroom	<u>11,750,000</u>
<b>Total</b>	<b><u>\$ 48,928,381</u></b>

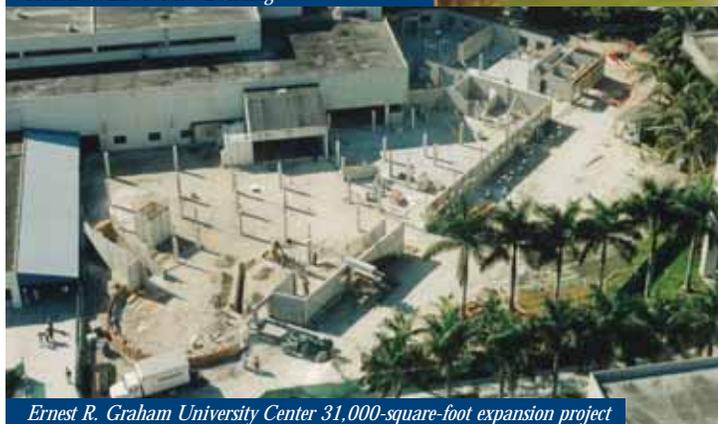
In the fall of 2002, Everglades Hall, a \$20 million, 388 bed facility opened its doors. This is a significant accomplishment. Thirty years ago FIU was not expected to have any on-campus residents. Today there are approximately 2,200 students living at the University. The Paul L. Cejas School of Architecture Building was completed totaling \$16 million. This building won many awards at the 2001 A1A Miami Awards. By next fall the Graham University Center, the College of Law and the Patricia and Phillip Frost Art Museum will be nearing completion. The University has also begun planning for Parking Garage III and IV in University Park. FIU has 46 major buildings on its campuses, totaling 3,933,615 square feet. The University has an ambitious construction program in order to ensure that we meet the needs of our students.



*Health & Life Science Building*



*Groundbreaking of the Patricia and Phillip Frost Art Museum*



*Ernest R. Graham University Center 31,000-square-foot expansion project*



*Paul L. Cejas School of Architecture, designed by renowned architect Bernard Tschumi*

# Florida International University Audited Financial Report





WILLIAM O. MONROE, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL State of Florida

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Florida International University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2003, as shown on pages eighteen through twenty. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, as described in note 1 to the financial statements, which comprises 100 percent of the transactions and account balances of the discretely presented component unit column. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for this entity, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Florida International University and of its discretely presented component unit as of June 30, 2003, and the respective changes in financial position and the cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated February 2, 2004, on our consideration of the University's internal control and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit. That report will be included as part of our separately issued audit report on the University.

Respectfully submitted,

Handwritten signature of William O. Monroe in cursive.

William O. Monroe, CPA  
February 2, 2004

# Management's Discussion and Analysis

The management's discussion and analysis of Florida International University and its component unit, the Florida International University Foundation, Inc., introduces the financial statements, and provides an analytical overview of its financial activities for the fiscal year ended June 30, 2003. Management has prepared the financial statements and the related note disclosures along with the management's discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University. The management's discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts, and should be read in conjunction with the accompanying financial statements and notes thereto.

The University's reporting authority, the Governmental Accounting Standards Board (GASB), made significant changes to how the University presented its financial activities beginning with the 2001-02 fiscal year. At that time, the University elected business-type activity reporting to enhance comparability between public universities and their private counterparts. This election required the adoption of the accrual basis of accounting and entity-wide reporting, and included depreciating capital assets, classifying revenues and expenses as operating and nonoperating, and reducing student tuition and fees by scholarship allowances. Comparative analysis of financial data for the University is included for the first time this year. Information and analysis is also presented for the component unit for the fiscal year ended June 30, 2003. This year, the financial data reported for the component unit is for the 2002-03 fiscal year. The financial data reported for the component unit in the University's 2001-02 fiscal year financial statements was actually 2000-01 fiscal year data since the component unit 2001-02 audited financial data was not available when the University completed its financial statements.

## USING THIS ANNUAL REPORT

The University's basic financial statements are comprised of the following:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

## FINANCIAL HIGHLIGHTS

The 2002-03 fiscal year saw significant changes from past practice with respect to how operating budgets were requested and approved. For the first time, the operating budget was presented to the Florida International University Board of Trustees for approval. The process of devolution, which began when the Legislature abolished the Board of Regents, and established local boards at all of the State universities, was completed in January 2003. The Board of Trustees, in addition to approving the budget detail, approved a local tuition fees increase (beyond the State mandated increase) and also participated in the process to develop the Legislative budget request for the upcoming 2003-04 fiscal year.



In terms of incremental dollars, the Education and General budget for the 2002-03 fiscal year increased from \$218.9 million to \$244.4 million, an increase of \$25.5 million, or approximately 12 percent. Compared to recent years, this is a very good budget and it will appear even better when we look back from the future years of declining State revenues for higher education. The University received a third installment of funding for \$2.8 million for the College of Law at a time when the first-ever law school class was being assembled. Enrollment growth generated an additional \$7.8 million based on an increase of 1,226 full time equivalent (FTE) students. Planned (funded) enrollment increased from 18,914 to 20,140 FTEs. The funding factors for enrollment growth were once again reduced by Legislative policy. Salary increases for faculty and support staff were funded at \$2.7 million. Funding was also provided for universities below the system average in funding (equity), which provided an incremental allocation of \$2.4 million. Local initiatives, which is funding provided by the Legislature for programs or projects to be determined by the local Board of Trustees, was funded at \$3.4 million. Plant operations and maintenance received \$.3 million. The increase in tuition fees provided an additional \$6.1 million in the budget. During the 2002-03 fiscal year, the University's net assets decreased by \$1.3 million. Detailed analysis of financial data is included in the paragraphs below.

### The Statement of Net Assets

The purpose of the statement of net assets is to report all financial and capital resources of the University. The assets and liabilities are shown in order of their relative liquidity. An asset's liquidity is determined by how readily it is expected to be converted to cash and whether restrictions limit the University's ability to use the resources. A liability's

*Management's Discussion and Analysis (continued)*

liquidity is based on its maturity, or when cash is expected to be used to liquidate it. The difference between the University's assets and liabilities at June 30, 2003, is shown as net assets. Over time, increases and decreases in net assets measure whether the University's financial position is improving or deteriorating.

Assets totaled \$676.2 million at June 30, 2003. This amount is net of accumulated depreciation of \$184.4 million, which increased by 10 percent. The 12.5 percent increase in assets was primarily the result of amounts invested with the State Treasury, some of which related to bond proceeds. In addition, capital assets increased due to additions to buildings, furniture and equipment, and library resources.

Liabilities totaled \$225.7 million at June 30, 2003, compared to \$153.9 million at June 30, 2002. Current liabilities increased by \$51.4 million primarily due to an increase in deferred revenues from Public Education Capital Outlay (PECO) allocations. The increase of 17.7 percent for noncurrent liabilities relates mainly to the issuance of the Parking Facility Revenue Bonds, Series 2002.

The University's net assets balance of \$450.5 million at June 30, 2003, included \$319.8 million invested in capital assets, net of related debt, \$53.7 million of restricted net assets, and \$77 million of unrestricted net assets. Net assets include a \$5 million adjustment to increase beginning fund balance to properly reflect the balance due from the Florida Department of Education for a PECO allocation which was understated at June 30, 2002.

The component unit had total assets of \$101.1 million at June 30, 2003. An increase in cash and cash equivalents along with increases in contributions receivable caused total assets to increase by \$6.4 million, or 6.8 percent, when compared to the 2001-02 fiscal year. Total liabilities of \$13.1 million at June 30, 2003, primarily consists of a \$12.6 million notes payable used to fund the construction of the Management Advances Research Center. Net assets increased by \$7.3 million primarily in the restricted nonexpendable endowment, which increased by \$4 million.

Consolidated assets, liabilities, and net assets for the University and its component unit are shown in table A.

At June 30, 2003, the University's net capital assets totaled \$398.3 million compared to \$395.1 million at June 30, 2002. The increase resulted mainly from the capitalization of completed buildings (\$34.3 million) and the acquisition of books (\$4.5 million). A reduction of \$34.3 million was taken from construction work in progress for completed projects that were capitalized as buildings during the 2002-03 fiscal year. Funding for the construction of buildings on campus is provided from Public Education Capital Outlay (PECO) funds, Capital Facilities Matching Trust Fund, auxiliary enterprises, and bond proceeds. The University's capital assets are shown in table B.

Assets, Liabilities, and Net Assets at June 30 (in millions)				Table A
	University		Change	Component Unit 2003
	2003	2002		
<b>Assets</b>				
Current Assets	\$ 225.7	\$ 198.0	\$ 14.0	\$ 32.1
Noncurrent Assets:				
Capital Assets, Net of Depreciation	398.3	395.1	0.8	17.2
Other	52.2	12.7	311.0	51.8
<b>Total Assets</b>	<b>676.2</b>	<b>605.8</b>	<b>11.6</b>	<b>101.1</b>
<b>Liabilities</b>				
Current Liabilities	90.4	38.9	132.4	0.7
NonCurrent Liabilities	135.3	115.0	17.7	12.4
<b>Total Liabilities</b>	<b>225.7</b>	<b>153.9</b>	<b>46.7</b>	<b>13.1</b>
<b>Net Assets</b>				
Invested in Capital Assets	319.8	309.4	3.4	
Restricted for Nonexpendable				64.8
Restricted for Expendable	53.7	94.4	(43.1)	8.3
Unrestricted	77.0	48.0	60.4	14.9
<b>Total Net Assets</b>	<b>\$ 450.5</b>	<b>\$ 451.8</b>	<b>\$ (0.3)</b>	<b>\$ 88.0</b>

For more detailed information see the statement of net assets.

Management's Discussion and Analysis (continued)

Net Capital Assets at June 30 (in millions)	Table B	
	2003	2002
<b>Capital Assets</b>		
Buildings	\$ 358.8	\$ 324.4
Furniture and Equipment	108.3	103.0
Library Resources	66.8	62.3
Construction in Progress	8.2	31.6
Land	26.7	26.7
Other	13.9	14.7
<b>Total</b>	<b>\$ 582.7</b>	<b>\$ 562.7</b>
Less, Accumulated Depreciation	184.4	167.6
<b>Net Capital Assets</b>	<b>\$ 398.3</b>	<b>\$ 395.1</b>

### The Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets is the operating statement of the University and, as such, it reports all the revenues and expenses. Operating revenues are reported by major sources and tuition and fees are reported net of scholarship allowances. Operating expenses are reported by natural classification. The statement reports revenues and expenses under the operating and nonoperating classifications. Other revenues, expenses, gains, or losses are also reported separately.

Revenues totaled \$410.4 million for the 2002-03 fiscal year. This represents a 6.2 percent increase over the 2001-02 fiscal year due to

increases in General Revenue Appropriations and tuition and fees. Education and General Funds revenue constituted the largest component of revenue (\$244.4 million) and consisted primarily of General Revenue appropriated by the Legislature, revenues from the State Lottery System, and revenues generated by the University through student tuition and fees. Revenues from Federal, State, and private grants totaled \$89.2 million for the 2002-03 fiscal year, as compared to \$87 million for the 2001-02 fiscal year.

Expenses totaled \$411.7 million for the 2002-03 fiscal year, representing an increase of 6.7 percent over the 2001-02 fiscal year. This increase was primarily due to an increase in personnel services of \$17.9 million and an increase in materials and supplies of \$7.8 million. Total operating expenses were \$406 million. Operating expenses are classified into various categories of which instruction, research and academic support are the major components. Depreciation expense of \$24.9 million is also included in the total operating expenses.

The component unit's operating income for the fiscal year ended June 30, 2003, totaled \$4.9 million. The increase was attributed to an additional \$1 million in contributions as well as the generation of rental income (\$1.5 million) from the Management and Advanced Research Center. Nonoperating activities net revenues totaled \$2.4 million. Investment income totaled \$1.5 million and net unrealized investment gains amounted to \$.8 million.

A summary of revenues and expenses of the University and its component unit is presented in table C.

Operating Results for the Year Ended June 30 (in millions)	University			Component Unit 2003
	2003	2002	Change	
Operating Revenues	\$ 228.9	\$ 219.5	\$ 9.4	\$ 13.2
Less Operating Expenses	406.0	358.0	48.0	8.3
<b>Total Operating Income (Loss)</b>	<b>(177.1)</b>	<b>(138.5)</b>	<b>(38.6)</b>	<b>4.9</b>
Net Nonoperating Revenues	167.5	140.9	26.6	2.4
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b>(9.6)</b>	<b>2.4</b>	<b>(12.0)</b>	<b>7.3</b>
Capital Appropriations	6.1	16.2 (1)	(10.1)	
Loss on Disposal of Assets		(13.1)	13.1	
Capital Grants and Contracts	2.2 (2)		2.2	
<b>Change in Net Assets</b>	<b>(1.3)</b>	<b>5.5</b>	<b>(6.8)</b>	<b>7.3</b>
Net Assets, Beginning of Year	451.8	446.3	5.5	80.7
<b>Net Assets, End of Year</b>	<b>\$ 450.5</b>	<b>\$ 451.8</b>	<b>\$ (1.3)</b>	<b>\$ 88.0</b>

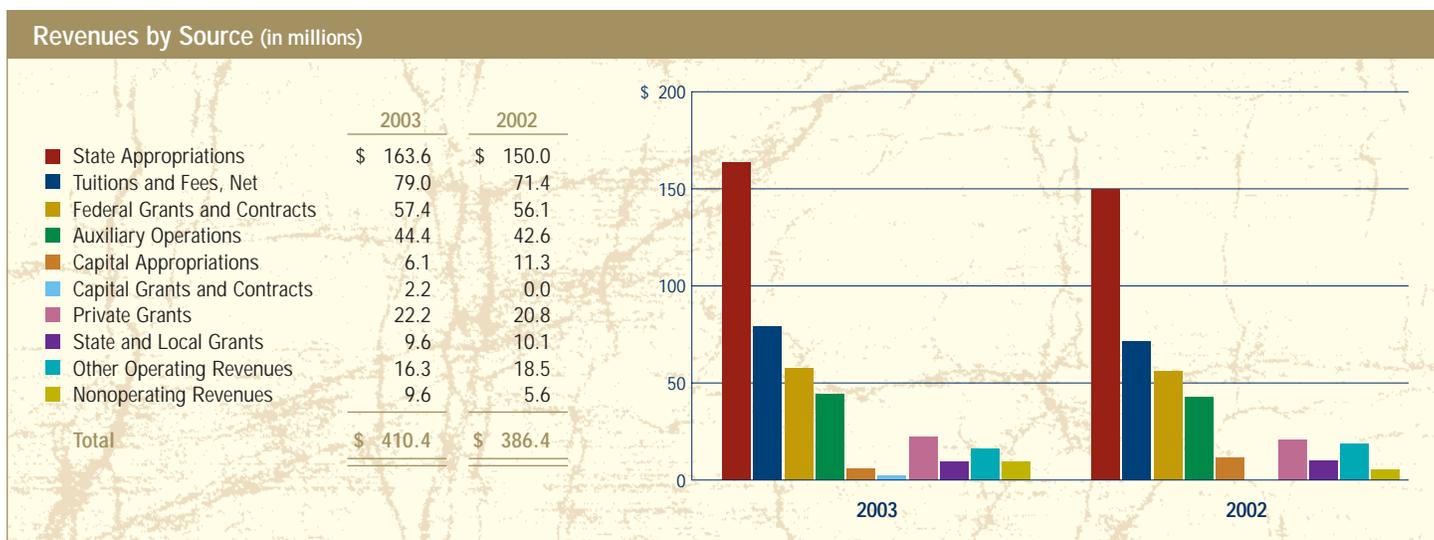
1. Includes prior period adjustment for PECO. See note 16 to the financial statements.  
2. This amount represents debt services payments on revenue certificates made by the State Board of Education on behalf of the University.

For more detailed information, see the statement of revenues, expenses, and changes in net assets.

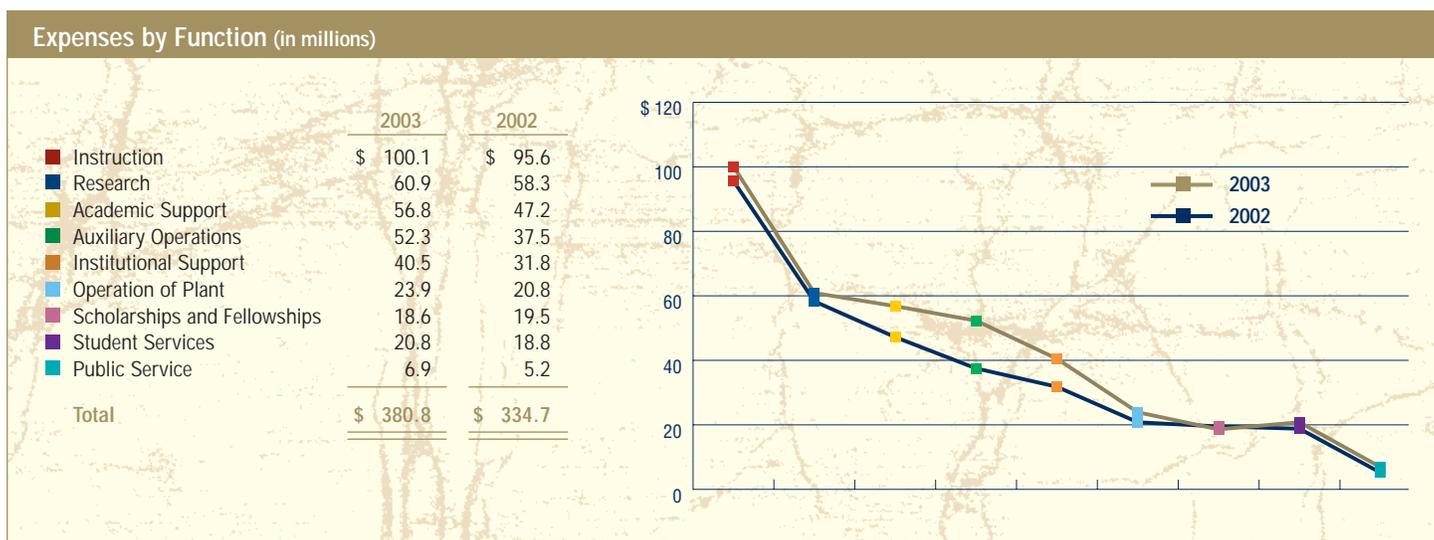
Management's Discussion and Analysis (continued)



The following are graphic illustrations of revenue by source for the University for the 2002-03 and 2001-02 fiscal years:



The following are graphic illustrations of operating expenses by function for the University for the 2002-03 and 2001-02 fiscal years:



For more detailed information see the statement of revenues, expenses, and changes in net assets.

Management's Discussion and Analysis (continued)

**The Statement of Cash Flows**

The purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of the University. The statement reports how cash and cash equivalents were affected by the University's operations, noncapital financing activities, capital and related financing activities, and investing activities. The statement shows that cash and cash equivalents increased by \$17.8 million for the fiscal year ended June 30, 2003, as compared to a decrease in the 2001-02 fiscal year of \$1.3 million.

The statement of cash flows reports cash and cash equivalents totaling \$53.7 million at June 30, 2003. This amount includes \$35.8 million representing moneys in the Student Fee Trust Fund and General Revenue Unexpended Releases. While reported as cash and cash equivalents on the statement, the University did not have the authority to invest these funds. Major sources of operating cash included tuition and fees of \$78.8 million and grants and contracts of \$91.1 million. Cash used for operating activities consisted primarily of amounts paid to employees of \$237.6 million and payments to suppliers of goods and services for \$82.1 million. Cash received for noncapital financing activities included State appropriations of \$163.6 million. Cash received from capital and related financing activities included capital appropriations of \$37.3 million and bond proceeds of \$22.3 million and were impacted by purchases and construction of capital assets totaling \$31.6 million. A summary to the University's cash flows for the fiscal year ended June 30, 2003, is shown in the following table:

**Cash Flows at June 30 (in millions)**

	2003	2002	Change
Capital Provided (Used) by:			
Operating Activities	\$ (141.9)	\$ (120.7)	\$ (21.2)
Noncapital Financing Activities	165.2	150.8	14.4
Capital and Related Financing Activities	15.3	(49.9)	65.2
Investing Activities	(20.8)	18.5	(39.3)
<b>Net Increase (Decrease) in Cash</b>	<b>17.8</b>	<b>(1.3)</b>	<b>19.1</b>
Cash and Cash Equivalents, Beginning of the Year	35.9	37.2	(1.3)
<b>Cash and Cash Equivalents, End of the Year</b>	<b>\$ 53.7</b>	<b>\$ 35.9</b>	<b>\$ 17.8</b>

**Analysis by Source of Funds**

**Education and General**

The major funding source of the University is derived from Educational and General Funds, consisting of General Revenue appropriated by the Legislature from tax collections, Educational Enhancement Trust Funds from proceeds of the State Lottery System, and the Student Fee Trust Fund from revenues generated by the University through student fees. During the 2002-03 fiscal year, funds received from these sources amounted to \$244.4 million, or 59.6 percent of total revenue. Compared to recent years, the University had a good budget year generating an increase of approximately 12 percent over the 2001-02 fiscal

*The University's 195-acre Biscayne Bay Campus is located in northeast Miami-Dade County.*



Management's Discussion and Analysis (continued)



FIU emphasizes research as a major component of its mission.



year. Tuition and other registration fees collected from the students totaled \$109.6 million and were reduced by scholarship allowances of \$30.6 million. The tuition fees included a State mandated increase of five percent for resident and ten percent for nonresident students. In addition to the State mandated fees, the Board of Trustees approved an additional increase of five percent for graduate students and ten percent for nonresident students. Beginning with the 2002-03 fiscal year, moneys in the Student Fee Trust Fund (formerly, Incidental Trust Fund) were no longer appropriated. As a result, the University is in control of these funds and if the collections exceed the budget, the University can spend these funds on priorities recommended to and approved by the Board of Trustees. On the downside, if collections are below the budget, a budget reduction has to be made. During the 2002-03 academic year, the per credit hour fees were as follows:

	Undergraduate	Graduate	Law
RESIDENT	\$ 83.72	\$ 177.05	\$ 198.17
NON-RESIDENT	\$ 399.23	\$ 665.64	\$ 707.09

A health fee of \$44 and an athletic fee of \$10 were assessed on a per-student basis.

**Sponsored Research**

Sponsored Research funds are awarded by Federal, State, and private agencies to conduct research and training. The University continues to strengthen its efforts as a Research I university. This year, the University received an additional \$2.2 million in revenue over the 2001-02 fiscal year.

**Auxiliaries**

Auxiliary enterprises are self-supported activities providing services to students, faculty, and staff. These services are essential to the operations of the University and include activities such as student housing, parking, student health services, and central stores. Auxiliary enterprises revenues increased to \$44.4 million from \$42.5 million in the 2001-02 prior fiscal year. Auxiliary operations accounted for 19.4 percent of the University's total operating revenues for the 2002-03 fiscal year.

**Construction Funds**

The University's focus on growth and quality is reflected in the number of construction projects underway. The University continues to have an active construction program. These projects are essential to accommodate the growth in enrollment and programs experienced by the University. Funding for the construction of buildings on campus is provided from PECO funds, the Capital Facilities Matching Trust Fund, auxiliary enterprises, and bond proceeds. PECO funds were the primary source of funding for construction projects, amounting to over \$37.2 million during the 2002-03 fiscal year.

**Loan Funds**

Loan funds are used to issue loans to students. The terms of the loan agreements usually specify that the money operate on a revolving basis, i.e., repayment of principal and interest are loaned to other individuals. At June 30, 2003, the University had approximately \$3.7 million in outstanding loans to students.

**Agency Funds**

The University holds funds as custodians or fiscal agents for others. These funds include, but are not limited to; organization accounts, student deposits, professional clubs, student clubs, and student fees. Deposits payable held for these purposes at June 30, 2003, totaled approximately \$3.8 million, an increase of \$1.5 million over the 2001-02 fiscal year.

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

While the budget for the current 2002-03 fiscal year gives cause for optimism, the realities of the near future and beyond present a much different picture. The economic growth of the University is closely tied to that of the State. Any slow down, which would affect the State, would also impact the University. The Board of Trustees, working with the University administration, will continue their efforts to seek funding equity for the University.

# Statement of Net Assets

As of June 30, 2003

	University	FIU Foundation
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 44,373,302	\$ 6,168,208
Investments with State	88,829,211	
Other Investments		9,837,085
Accounts Receivable, Net	15,280,946	15,899,123
Due From State	75,699,260	
Notes Receivable, Net	586,466	
Inventories	218,064	
Other Assets	717,116	189,227
<b>Total Current Assets</b>	<b><u>\$ 225,704,365</u></b>	<b><u>\$ 32,093,643</u></b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	\$ 9,342,306	\$ 2,000,000
Restricted Investments with State	40,564,978	
Other Restricted Investments	1,065	49,659,628
Loans and Notes Receivable, Net	1,908,581	
Infrastructure, Buildings, Equipment, and Other Depreciable Capital Assets, Net	361,105,965	14,703,224
Land and Other Nondepreciable Capital Assets	37,218,694	2,468,855
Other Assets	333,008	151,128
<b>Total Noncurrent Assets</b>	<b><u>\$ 450,474,597</u></b>	<b><u>\$ 68,982,835</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 676,178,962</u></b>	<b><u>\$ 101,076,478</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	\$ 1,139,292	\$ 260,020
Salary and Payroll Taxes Payable	3,656,702	
Construction Contracts Payable	2,756,938	
Deferred Revenue	52,327,937	
Deposits Payable	4,540,014	
Due to State	94,507	
Obligations Under Security Lending and Reverse Repurchase Agreements	20,491,157	
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	3,349,350	
Notes Payable	1,070,943	405,000
Compensated Absences Payable	935,796	
<b>Total Current Liabilities</b>	<b><u>\$ 90,362,636</u></b>	<b><u>\$ 665,020</u></b>
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	\$ 92,783,680	\$
Notes Payable	20,754,289	12,210,000
Compensated Absences Payable	21,741,014	
Other Noncurrent Liabilities		189,145
<b>Total Noncurrent Liabilities</b>	<b><u>\$ 135,278,983</u></b>	<b><u>\$ 12,399,145</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 225,641,619</u></b>	<b><u>\$ 13,064,165</u></b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$ 319,825,238	\$
Restricted:		
Nonexpendable:		
Endowment		64,848,819
Expendable:		
Loans	4,779,067	
Capital Projects	25,634,309	
Debt Service	373,626	
Other Restricted Net Assets	22,896,526	8,307,399
Unrestricted	77,028,577	14,856,095
<b>Total Net Assets</b>	<b><u>\$ 450,537,343</u></b>	<b><u>\$ 88,012,313</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 676,178,962</u></b>	<b><u>\$ 101,076,478</u></b>

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

# Statement of Revenues, Expenses, and Changes in Net Assets

For the Fiscal Year Ended June 30, 2003

	University	FIU Foundation
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$ 30,565,262	\$ 79,045,595	\$
Federal Grants and Contracts	57,400,725	
State and Local Grants and Contracts	9,594,691	
Nongovernmental Grants and Contracts	22,188,803	
Gifts and Donations		11,520,920
Sales and Services of Auxiliary Enterprises	44,447,531	
Interest on Loans Receivable	157,081	
Other Operating Revenues	16,111,585	1,711,563
<b>Total Operating Revenues</b>	<b><u>\$ 228,946,011</u></b>	<b><u>\$ 13,232,483</u></b>
<b>EXPENSES</b>		
Operating Expenses:		
Personnel Services	\$ 240,839,696	\$
Contractual Expenses	26,514,901	
Utilities	9,703,688	
Materials and Supplies	29,738,989	
Repairs and Maintenance	18,003,584	
Scholarships and Fellowships	15,510,937	
Depreciation Expense	24,878,024	
Other Operating Expenses	40,835,436	8,275,082
<b>Total Operating Expenses</b>	<b><u>\$ 406,025,255</u></b>	<b><u>\$ 8,275,082</u></b>
<b>Operating Income (Loss)</b>	<b><u>\$ (177,079,244)</u></b>	<b><u>\$ 4,957,401</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	\$ 163,623,877	\$
Investment Income	9,529,062	2,358,300
Other Non-operating Revenues	10,828	
Interest on Capital Asset-Related Debt	(5,577,448)	
Other Nonoperating Expenses	(121,568)	
<b>Net Nonoperating Revenues</b>	<b><u>\$ 167,464,751</u></b>	<b><u>\$ 2,358,300</u></b>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	<b><u>\$ (9,614,493)</u></b>	<b><u>\$ 7,315,701</u></b>
Capital Appropriations	6,094,966	
Capital Grants and Contracts	2,195,888	
<b>Total Other Revenues</b>	<b><u>\$ 8,290,854</u></b>	<b><u>\$</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>\$ (1,323,639)</u></b>	<b><u>\$ 7,315,701</u></b>
Net Assets, Beginning of year	\$ 446,860,982	\$ 80,696,612
Adjustment to Beginning Net Assets	5,000,000	
<b>Restated Net Assets, Beginning of Year</b>	<b><u>\$ 451,860,982</u></b>	<b><u>\$ 80,696,612</u></b>
<b>Net Assets, End of Year</b>	<b><u>\$ 450,537,343</u></b>	<b><u>\$ 88,012,313</u></b>

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

# Statement of Cash Flows

For the Fiscal Year Ended June 30, 2003

	University
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 78,841,760
Grants and Contracts	91,140,570
Sales and Services of Auxiliary Enterprises	44,421,408
Interest on Loans Receivable	51,705
Net Loans Issued to Students	25,879
Other Operating Receipts	19,709,480
Payments to Employees	(237,633,000)
Payments to Suppliers for Goods and Services	(82,092,512)
Payments for Scholarships and Fellowships	(15,510,937)
Other Operating Expenses	(40,830,256)
<b>Net Cash Used By Operating Activities</b>	<b><u>\$ (141,875,903)</u></b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	\$ 163,623,877
Operating Subsidies	770,693
Funds Held for Others	1,256,575
Other Expenses	(459,386)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>\$ 165,191,759</u></b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt	\$ 22,329,608
Capital Appropriations	37,257,214
Capital Grants and Contracts	2,195,888
Other Receipts for Capital Projects	10,827
Capital Subsidies	(5,876,627)
Purchases of Capital Assets	(31,642,563)
Principal Paid on Capital Debt	(3,512,358)
Interest Paid on Capital Debt	(5,425,658)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b><u>\$ 15,336,331</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Investments	\$ (26,200,854)
Sales of Investments	571,456
Investment Income	4,828,587
<b>Net Cash Used by Investing Activities</b>	<b><u>\$ (20,800,811)</u></b>
Net Increase in Cash and Cash Equivalents	17,851,376
Cash and Cash Equivalents, Beginning of Year	<u>35,864,232</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 53,715,608</u></b>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (177,079,244)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	24,878,024
Changes in Assets and Liabilities:	
Receivables, Net	4,885,009
Inventories	2,135,342
Loan and Notes Receivable, Net	25,879
Other Assets	5,179
Accounts Payable	(266,692)
Salaries and Wages Payable	1,038,406
Deposits Payable	333,904
Compensated Absences	<u>2,168,290</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u>\$ (141,875,903)</u></b>

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

# Notes to Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

Florida International University, a component unit of the State of Florida, is considered a separate entity for financial reporting purposes and is part of the State's university system. It is under the general direction and control of the Commissioner of Education and the Division of Colleges and Universities, and is governed by Florida laws and State Board of Education rules. The governing body of the University is its Board of Trustees. The Board constitutes a body corporate composed of 13 members. Five Board members are appointed by the Florida Board of Governors and six by the Governor, and all are confirmed by the Senate. The remaining Board members consist of the Faculty Senate Chair and the Student Government President. By law, the Board of Trustees selects the University President for ratification by the State Board of Education. The University Board of Trustees adopts University rules and procedures, and plans for future needs of the University. The University President is responsible for the management of the University and has the ultimate responsibility for administering the policies prescribed by the Board of Trustees.

### Component Unit

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determine potential component units for which the University Board of

Trustees is financially accountable and other organizations for which the nature and significance of their relationship with the University Board of Trustees are such that exclusion would cause the University's financial statements to be misleading or incomplete. Based on the application of these criteria, the Florida International University Foundation, Inc., is included within the University Board of Trustees' reporting entity as a discretely presented component unit. The financial data reported on the accompanying financial statements was derived from the audited annual financial statements of the organization for the fiscal year ended June 30, 2003. Additional information on the University's component unit, including copies of audit reports, is available by contacting the University Controller's Office.

The University further categorizes this component unit as a direct-support organization, as defined in Section 1004.28, Florida Statutes. This is a separate, not-for-profit corporation 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 this organization to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. An annual audit of the organization's financial statements is conducted by an independent certified public accountant. The audit is submitted to the Auditor General and the Board of Trustees. The purpose of 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.



*Former Miami Dolphins quarterback Don Strock became FIU's first football coach in 1999.*

### Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles applicable to public colleges and universities as prescribed by the Governmental Accounting Standards Board's (GASB) statements. The University also adheres to the recommendations of the National Association of College and University Business Officers (NACUBO). NACUBO's recommendations are prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).

In November 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The State's public universities, including Florida International University, elected to report as entities engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

### Basis of Accounting

Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. University 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-type transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. Auxiliary service departments account for interdepartmental transactions 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 plus administration, operation and maintenance of plant assets, and depreciation on capital assets. Included in nonoperating revenues are State



*Alumni Johanna Rodriguez received a full graduate fellowship from one of the nation's premier research universities to pursue a Ph.D. in biochemistry.*

appropriations, investment income, and revenues for capital construction projects. Interest on asset-related debts is a nonoperating expense.

The University follows Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The statement of net assets is presented in a classified format to distinguish between current and long-term assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, grants, etc., 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 discounts and allowances. Tuition scholarship discounts and allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or 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 net tuition discounts and allowances reported in the statement of revenues, expenses, and changes in net assets. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

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

*Notes to Financial Statements (continued)*

*University Park, FIU's main campus, is spread over 344 acres in southwestern Miami-Dade County*

### Cash and Cash Equivalents

The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, unexpended general revenue appropriation releases, cash held in the State Treasury, and cash placed with the State Board of Administration. Cash and cash equivalents and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital or other restricted assets are classified as restricted. Demand deposits were placed in banks covered by Federal depository insurance or in banks that qualified as public depositories under Florida law. Accordingly, all deposits are insured or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes.

The University's component unit generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

### Capital Assets

University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, library resources, works of art and historical treasures, construction in progress, and other capital assets. These assets are capitalized and recorded at historical cost at the date of acquisition or at appraised value at the date received in the case of gifts or 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 all movable equipment items. Depreciation is computed on a straight-line basis over the estimated useful life of the related assets.

The following estimated useful lives are used to determine depreciation expense:

- Buildings – 20 to 50 Years, Depending on Construction
- Infrastructure and Other Improvements – 15 Years
- Furniture and Equipment:
  - Equipment (Non-Office) – 10 to 20 Years
  - Computer Equipment – 3 to 7 Years
  - Moveable Equipment – 3 to 20 Years
  - Library Resources – 10 Years

### 2. INVESTMENTS

The University participates in investment pools through the State Treasury and the State Board of Administration in accordance with the provisions of Sections 17.61 and 215.49, Florida Statutes. These investments conform with guidelines provided in Section 215.47, Florida Statutes. The University's investments in the State Treasury's investment pools totaled \$129,036,082, and are reported at fair value. Investments in the State Board of Administration's investment pools totaled \$358,107, and are reported at amortized cost. Additionally, the University invested assets outside the State Treasury. These investments consisted of money market funds totaling \$1,065, and are reported at fair value.

Generally accepted accounting principles require the classification of credit risk of investments into the following three categories:

- Risk Category 1 – Insured or registered, or securities held by the entity or its agent in the entity's name.
- Risk Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
- Risk Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

University investments in the investment pools managed by the State Treasury and the State Board of Administration and those in money market funds cannot be categorized as to credit risk because the University's investments are not evidenced by specific, identifiable investment securities.

Under the State Treasury's authority to purchase and sell securities, it has entered into reverse repurchase and secured lending agreements. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. A secured lending agreement is a loan of securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. As required by generally accepted accounting principles, the University has reported investments and an offsetting current liability of \$20,491,157 in order to account for these transactions. Required note disclosures for these agreements are reported in the State's Comprehensive Annual Financial Report.

Investments held by the University's discretely presented component unit included equity, debt, Federal agency securities, and mutual funds. These investments are presented on the financial statements at fair value of \$59,496,713, and are not classified as to risk category.

### 3. RECEIVABLES

Accounts receivable reported in the statement of net assets represent amounts for student fee deferments, various student services provided by the University, various auxiliary services provided to students and third parties, and grant reimbursements due from third parties.

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.

The allowance for uncollectible receivables is based on management's best estimate as of the end of the fiscal year and take into consideration the account type, age, collection history, and any other appropriate factors. Delinquent notes receivable where the Federal "due diligence" requirements have been fulfilled and all "in house" efforts have been exhausted, are considered uncollectible. Accounts receivable, and loans and notes receivable, are reported net of allowances for uncollectible accounts of \$4,254,522 and \$1,158,733, respectively.

### 4. DUE FROM STATE

This amount includes \$67,533,947 of Public Education Capital Outlay allocations for construction of University facilities.

### 5. INVENTORIES

Inventories consist of expendable supplies and goods purchased for resale. The central stores inventory is valued using the average cost method. Duplicating center and telecommunications supplies inventories are valued using the last invoice cost, which approximates the first-in, first-out method of inventory valuation.

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003, are presented in the table below.

Depreciation expense reported on the statement of revenues, expenses, and changes in net assets also includes \$899,333 in net losses on disposition of capital assets.

Capital Assets				
DESCRIPTION	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 26,652,805	\$	\$	\$ 26,652,805
Construction in Progress	31,585,097	11,005,079	34,348,368	8,241,808
Works of Art and Historical Treasures	3,272,280	3,000	951,199	2,324,081
<b>Total Non-Depreciable Capital Assets</b>	<b>\$ 61,510,182</b>	<b>\$ 11,008,079</b>	<b>\$ 35,299,567</b>	<b>\$ 37,218,694</b>
<b>Depreciable Capital Assets:</b>				
Buildings	\$ 324,417,390	\$ 34,348,368	\$	\$ 358,765,758
Infrastructure and Other Improvements	10,063,920			10,063,920
Furniture and Equipment	103,046,227	13,834,096	8,535,968	108,344,355
Library Resources	62,339,252	4,458,447	13,527	66,784,172
Other Capital Assets	1,398,083	132,223	7,420	1,522,886
<b>Total Depreciable Assets</b>	<b>\$ 501,264,872</b>	<b>\$ 52,773,134</b>	<b>\$ 8,556,915</b>	<b>\$ 545,481,091</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	\$ 75,654,884	\$ 6,343,840		\$ 81,998,724
Infrastructure and Other Improvements	6,555,150	670,928		7,226,078
Furniture and Equipment	67,417,616	12,955,022	7,244,411	73,128,227
Library Resources	17,204,787	3,759,817		20,964,604
Computer Software	811,592	249,084	3,183	1,057,493
<b>Total Accumulated Depreciation</b>	<b>\$ 167,644,029</b>	<b>\$ 23,978,691</b>	<b>\$ 7,247,594</b>	<b>\$ 184,375,126</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 333,620,843</b>	<b>\$ 28,794,443</b>	<b>\$ 1,309,321</b>	<b>\$ 361,105,965</b>

## Notes to Financial Statements (continued)

## 7. STATE RETIREMENT PLANS

**Florida Retirement System.**

Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered, cost-sharing, multiple-employer, public employee defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein plan eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Plan. Benefits vest at specified ages or number of years of service depending upon the employee's classification. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (DROP), subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly retirement benefit payments while continuing employment with a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after the participation election date. During DROP participation, the deferred monthly benefit accruing on behalf of the participant, plus interest compounded monthly, is held in the Florida Retirement System Trust Fund. Upon termination of employment, the participant receives the total DROP benefits, and begins to receive previously determined retirement benefits.

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

The State of Florida establishes contribution rates for Plan members. Contribution rates during the 2002-03 fiscal year are presented in table D.

The University's liability for participation in the Plan 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 to the Plan (including employee contributions) for the fiscal years ended June 30, 2001, June 30, 2002, and June 30, 2003,

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	5.76
Florida Retirement System, Senior Management Service	0.00	6.06
Florida Retirement System, Special Risk	0.00	16.01
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the above Classes or Plan	0.00	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement and .15 percent for administrative costs of the Public Employee Optional Retirement Program.  
(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

totaled \$6,407,296, \$5,568,117, and \$4,441,483, respectively, which were equal to the required contributions for each fiscal year.

**State University System Optional Retirement Program**

Pursuant to Section 121.35, Florida Statutes, the Florida Legislature created an Optional Retirement Program (ORP) for eligible State University System faculty and administrators. The program, which became effective July 1, 1984, was expanded in 1988 to include the State University System Executive Service. The Program is designed to aid the University system in recruiting employees by offering more portability to employees not expected to remain in the Florida Retirement System for six or more years.

The Optional Retirement 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 Optional Retirement Program rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary. A portion of the total contribution remains in the Optional Retirement Program Trust Fund for program administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute by salary reduction an amount not to exceed the percentage contributed by the University to his or her annuity account.

There were 1,219 University participants during the 2002-03 fiscal year. Required contributions made to the Optional Retirement Program totaled \$8,837,689, including \$3,281,473 from employee contributions.

**Public Employee Optional Retirement Program.**

Effective July 1, 2002, the Florida Legislature created a defined contri-

bution program called the Public Employee Optional Retirement Program. This program is an option to the Florida Retirement System and is self-directed by the employee. A retirement account is established for each employee who selects this option and an employer contribution is directed to the individual account. The employees have the responsibility of selecting how their funds are invested within the System. There were 78 University participants during the 2002-03 fiscal year. Required employer contributions made to the Program totaled \$112,674.

**8. POST-EMPLOYMENT BENEFITS**

To assist retirees of all State-administered retirement systems in paying health insurance costs, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS). During the 2002-03 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the FRS rate contributions discussed in note 7.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2002-03 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

**9. CONSTRUCTION COMMITMENTS**

A summary of the University's major construction commitments (estimated cost of \$3 million or more) remaining at June 30, 2003, is presented in the following table:



Construction Commitments			
PROJECT NAME	TOTAL ESTIMATED COMMITMENT	TOTAL CONSTRUCTION EXPENSES	COMMITMENT BALANCE
Health and Life Sciences Expansion - Phase II	\$ 18,846,830	\$ 2,448,499	\$ 16,398,331
Graduate School of Business - Office and Classroom	16,745,000		16,745,000
Law School Building	15,331,551	183,111	15,148,440
Parking Garage IV	12,912,963	714,007	12,198,956
Parking Garage III	12,778,182	554,058	12,224,124
Marine Biology Building - Biscayne Bat Campus Science and Classroom	11,750,000	314,503	11,435,497
Art Museum	9,721,944	186,474	9,535,470
Recreation Center - Phase I	8,983,721	511,533	8,472,188
Graham Center Expansion	6,543,145	389,157	6,153,988
FIU and Florida Memorial College Cooperative Use Facility	5,000,000	1,772,550	3,227,450
Wolfe University Center Expansion	3,666,872	58,616	3,608,256
Academic Learning Center	3,168,952	91,358	3,077,594
University Park Central Utility Plant	3,134,355	12,370	3,121,985
Health Care and Wellness Center Expansion	3,000,000	772,802	2,227,198
<b>Total</b>	<b>\$ 131,583,515</b>	<b>\$ 8,009,038</b>	<b>\$ 123,574,477</b>

Notes to Financial Statements (continued)

**10. LITIGATION**

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



**11. LONG-TERM LIABILITIES**

Long-term liabilities of the University include bonds, revenue certificates, notes, and compensated absences. A summary of the University's long-term liabilities activity for the fiscal year ended June 30, 2003, is shown in the following table:

Long Term Liabilities					
	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION
Bond and Revenue Certificates	\$ 75,847,969	\$ 27,954,076	\$ 7,669,015	\$ 96,133,030	\$ 3,349,350
Notes Payable	22,851,175		1,025,943	21,825,232	1,070,943
Compensated Absences	20,508,520	3,793,868	1,625,578	22,676,810	935,796
<b>Total Long-Term Liabilities</b>	<b>\$ 119,207,664</b>	<b>\$ 31,747,944</b>	<b>\$ 10,320,536</b>	<b>\$ 140,635,072</b>	<b>\$ 5,356,089</b>

**Bonds and Revenue Certificates**

Bonds and revenue certificates were issued to construct University facilities, including parking garages, student housing, and academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and various student fee assessments. Building and capital improvement fees are used to retire the revenue certificates for the academic and student service facilities.

On November 2002, the Division of Bond Finance of the State Board of Administration, on behalf of the University, issued Florida International University Parking Facility Revenue Bonds, Series 2002. The amount of the issue totaled \$22,915,000 with a maturity date of July 1, 2022. The proceeds will be used to fund the construction of two parking facilities at the University Park campus.

The State Board of Administration administers the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements. Bonds and revenue certificates payable at June 30, 2003, are shown in the following table:

Type and Series	Amount of Original Issue	Amount Outstanding	Interest Rates (Percent)	Annual Maturity To
<b>Student Housing and Parking</b>				
1995	\$ 7,780,000	\$ 5,859,430	4.7 - 5.375	2016
1998	26,525,000	24,916,455	4.3 - 6.3	2028
1999	7,530,000	6,657,093	4.25 - 5.625	2019
2000	14,605,000	14,074,315	4.4 - 5.75	2025
2002	22,915,000	22,607,386	2.6 - 4.6	2022
<b>Academic and Student Services Facilities</b>				
1997	2,936,719	2,430,933	4.0 - 7.0	2022
1997-A	4,360,924	4,123,299	4.1 - 5.0	2016
1998	5,643,367	4,885,319	4.0 - 5.0	2023
2001	5,566,922	5,302,088	4.0 - 5.0	2026
2003-A	5,049,124	5,276,712	3.0 - 5.0	2013
<b>Total Bonds and Revenues Certificates Payable</b>				
	<b>\$ 102,912,056</b>	<b>\$ 96,133,030</b>		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2003, are shown in the following table:

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 3,397,108	\$ 4,489,563	\$ 7,886,671
2005	3,544,543	4,343,426	7,887,969
2006	3,697,052	4,186,015	7,883,067
2007	3,866,725	4,024,595	7,891,320
2008	4,031,573	3,852,613	7,884,186
2009-2013	23,037,267	16,426,958	39,464,225
2014-2018	23,600,499	10,888,777	34,489,276
2019-2023	21,031,955	5,394,480	26,426,435
2024-2028	10,697,528	1,320,397	12,017,925
<b>Total</b>	<b>\$ 96,904,250</b>	<b>\$ 54,926,824</b>	<b>\$151,831,074</b>
Less Unamortized Discount	771,220		771,220
<b>Total</b>	<b>\$ 96,133,030</b>	<b>\$ 54,926,824</b>	<b>\$151,059,854</b>

### Notes Payable

During the 1993-94 fiscal year, the Dade County Educational Facilities Authority issued Dade County Educational Facilities Authority Revenue and Revenue Refunding Bonds, Series 1993, (Florida International University Project) in the amount of \$29,345,000. Proceeds from the sale of the bonds were loaned to the University under a loan agreement, dated October 15, 1993, and used with other moneys available to: (1) current refund, defease, and redeem the outstanding Dade County Educational Facilities Authority Dormitory Bonds, Series 1984; (2) advance refund and defease the outstanding Dade County Educational Facilities Authority Revenue Bonds, Series 1991; (3) reimburse to the Florida International University Foundation, Inc., an advance made in connection with the acquisition of the dormitories at the University Park campus; (4) acquire, construct and equip additional dormitories; and (5) pay certain expenses incurred in connection with the issuance of the Series 1993 Bonds. Pursuant to the loan agreement, the University makes loan payments to a Trustee in amounts sufficient to pay, when due, the principal and interest on the Dade County Educational Facilities Authority Revenue and Revenue Refunding, Series 1993.

Notes payable at June 30, 2003, consists of the following:

Type and Series	Amount of Original Issue	Amount Outstanding	Interest Rates (Percent)	Annual Maturity
<b>Student Housing and Parking:</b>				
1993	\$29,345,000	\$21,825,232	4.50 - 5.125	2017

Annual requirements to amortize the notes payable as of June 30, 2003, are shown in the following table:

Fiscal Year Ending June 30	Principal	Interest	Total
2004	\$ 1,095,000	\$ 1,074,135	\$ 2,169,135
2005	1,195,000	1,022,610	2,217,610
2006	1,250,000	966,347	2,216,347
2007	1,310,000	905,533	2,215,533
2008	1,370,000	840,528	2,210,528
2009-2013	7,965,000	3,062,884	11,027,884
2014-2017	7,965,000	822,278	8,787,278
<b>Total</b>	<b>\$ 22,150,000</b>	<b>\$ 8,694,315</b>	<b>\$ 30,844,315</b>
Less Unamortized Discount	324,768		324,768
<b>Total</b>	<b>\$ 21,825,232</b>	<b>\$ 8,694,315</b>	<b>\$ 30,519,547</b>

### Compensated Absences

Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave pursuant to Section 6C-5.920, Florida Administrative Code, and pursuant to bargaining agreements with the United Faculty of Florida. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. GASB Statement No. 16 requires that the University accrue a liability in the statement of net assets for employees' right to receive compensation for future absences when certain conditions are met, whereas 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. Consequently, the recording of the liability for compensated absences without the corresponding recognition of such future resources results in the appearance of a reduced ability to meet current obligations. At June 30, 2003, the estimated liability for annual and sick leave, which includes the University's share of the Florida Retirement System and FICA contributions, is \$12,595,013 and \$10,081,797, respectively. The net assets at June 30 of \$450,537,343 would have been \$473,214,153 if such liability for compensated absences had not been applied against it. The current compensated absences liability is based on actual usage and payouts over the last three years, calculated as a percentage of those years' total compensated absences liability.

### Defeased Debt

On March 19, 2003, the Division of Bond Finance of the State Board of Administration, on behalf of the universities, issued \$50,545,000, Revenue Refunding Bonds, Series 2003A, of which Florida International University's prorated share was \$5,049,124. The Revenue Refunding Bonds, with interest rates ranging from 3.0 percent to 5.0 percent, were issued to advance-refund a portion of the outstanding Revenue Certificates, Series 1993, of which the University's prorated share was \$5,323,832. As a result, \$5,323,832 of the Revenue Certificates, Series 1993, are considered to be in substance defeased and

Notes to Financial Statements (continued)

the liability for these bonds has been removed from the financial statements. The University's prorated economic gain (difference between the present value of the debt service payments on the old and new debt) resulting from this refund was approximately \$513,474.

**12. NOTES PAYABLE – FIU FOUNDATION**

On January 20, 2000, the Miami-Dade County Educational Facilities Authority (the "Authority") issued \$13,000,000 tax-exempt revenue bonds (Florida International University Foundation Project – Series 1999). These bonds are payable from and secured by a pledge of payments to be made to the Authority under a loan agreement dated December 1, 1999, between the Florida International University Foundation, Inc. (the "Foundation"), and the Authority. The bonds will also be payable from an irrevocable letter of credit issued by a commercial bank which will expire on February 5, 2005. The Foundation will finance the payments to the Authority under the loan agreement with lease payments received from the University under an operating lease. Of the \$13,000,000 principal amount, \$6,500,000 are fixed term bonds issued at a fixed rate of 5.03 percent under a 10 year interest rate swap agreement with a commercial bank, and the remaining \$6,500,000 are variable term bonds issued at a variable rate, with final maturity of May 1, 2022. The bond proceeds are being used to acquire, construct and equip a multi-function support complex located on the University Park campus and to pay issuance costs. As of June 30, 2003, the outstanding principal balance due under this note payable amounted to \$12,615,000.

On December 1, 1999, the Foundation entered into a letter of credit agreement with a commercial bank that permits the Foundation to borrow through February 15, 2005, up to \$13,000,000, bearing interest at the prime rate plus 2 percent. The Foundation must pay an annual commitment fee of 0.45 percent on the unused portion of the commitment. Borrowings under the financing agreement mature 90 days after the date of the borrowing.

Under the letter of credit agreement and loan agreement noted above, the Foundation is obligated under debt covenants.

The aggregate maturities of the notes payable, as of June 30, 2003, are shown in the following table:

Notes Payable • Fiscal Year Ending June 30	
	Amount
2004	\$ 405,000
2005	425,000
2006	450,000
2007	470,000
2008	495,000
Thereafter	10,370,000
<b>Total</b>	<b>\$ 12,615,000</b>

**13. CONSTRUCTION CONTRACTS PAYABLE**

This amount includes \$983,614 of retainage relating to construction of University facilities.

**14. OPERATING LEASE COMMITMENT RELATED PARTY TRANSACTION**

On December 1, 1999, the former Board of Regents of the State University System of the State of Florida for and on behalf of the University entered into a ground lease agreement with the Florida International University Foundation, Inc. (Foundation). Under this agreement, the Foundation leases from the University the grounds on which a multi-function support complex facility was built on the University Park campus. The consideration required to be paid by the Foundation is \$10 annually. The ground lease will expire on December 31, 2024, or on the date the Foundation makes its final payment under a letter of credit agreement related to the financing of the facility. On December 1, 1999, the former Board of Regents on behalf of the University also entered into a 20 year operating lease agreement with the Foundation for the multi-function support complex facility. Under the terms of the operating lease, the University will pay the Foundation rent in the amount equal to all amounts due and payable by the Foundation under the letter of credit agreement, if any, and loan agreement related to the financing of the facility. The payments also include any costs of operating and maintaining the facility. The lease will terminate on the date on which all amounts due and owing by the Foundation under the letter of credit agreement and loan agreement are paid in full. See note 12.

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 non-cancelable operating lease as of June 30, 2003:

Operating Lease • Fiscal Year Ending June 30	
	Amount
2004	\$ 1,575,000
2005	1,575,000
2006	1,575,000
2007	1,575,000
2008	1,638,000
2009-2013	8,255,520
2014-2018	8,585,741
2019-2023	7,090,480
<b>Total</b>	<b>\$ 31,869,741</b>

## 15. FUNCTIONAL DISTRIBUTION OF EXPENSES

The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classification. Below are those same expenses presented in functional classifications as recommended by NACUBO. The functional classification (instruction, research, public services, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as 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 functional classification of expenses are summarized in the following table:

Functional Classification	Amount
Instruction	\$ 100,066,894
Research	60,855,320
Public Services	6,945,965
Academic Support	56,819,517
Student Services	20,786,049
Institutional Support	40,528,990
Operation and Maintenance of Plant	23,893,138
Scholarships and Fellowships	18,607,534
Auxiliary Operations	52,314,408
<b>Total</b>	<b>\$ 380,817,815</b>
Depreciation Expenses	24,878,024
Loan Operating Expenses	329,416
<b>Total Operating Expenses</b>	<b>\$ 406,025,255</b>

## 16. PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$5 million was made to report the balance due from the Florida Department of Education for a Public

Education Capital Outlay allocation which had been underreported at June 30, 2002. All other nonmaterial adjustments were reported through current operations.

## 17. RISK MANAGEMENT PROGRAMS

In accordance with a program for central insurance purchases adopted by the Florida Cabinet in 1969, the Department of Management Services has the authority to purchase insurance on behalf of all State agencies. This authority is the result of the enactment of Section 287.022, Florida Statutes. Other actions by the Legislature have resulted in the development of State self-insurance funds providing hazard insurance for property and casualty insurance, for State employees workers' compensation, general liability, and fleet automotive liability. The University participates in these programs. Property losses in excess of \$4 million are commercially insured up to \$300 million per loss event. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as provided by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each entity. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

University employees may obtain health care services through participation in the State of Florida's 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 the risks 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 risks of losses covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Division of State Group Insurance in the Department of Management Services.



*FIU's thriving music program includes a student symphony orchestra.*

## Notes to Financial Statements (continued)

## 18. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) for which one or more bonds or other debt instruments (such as certificate of participation) are outstanding. A segment has a revenue stream pledge in support of that debt, and has related revenue, expenses, gains, losses, assets, and liabilities that are required to be accounted for separately. The requirement for separate reporting should be

imposed by a third party (i.e., accounting and reporting set forth in bond indenture). The University reports two segments: The housing facility provides on-campus living accommodations for students and the parking operations provides on-campus parking for faculty, staff, students, and visitors. The following is condensed financial information for the 2002-03 fiscal year for the segments:

Condensed Statement of Net Assets		
	Housing	Parking
<b>Assets</b>		
Current Assets	\$ 3,988,889	\$ 8,598,320
Noncurrent Assets	1,476,323	24,099,487
Capital Assets, Net	61,930,482	16,294,300
Total Assets	<u>\$ 67,395,694</u>	<u>\$ 48,992,107</u>
<b>Liabilities</b>		
Current Liabilities	\$ 2,356,043	\$ 2,242,153
Noncurrent Liabilities	59,045,065	33,641,622
Total Liabilities	<u>\$ 61,401,108</u>	<u>\$ 35,883,775</u>
<b>Net Assets</b>		
Restricted	\$ 2,038,537	\$ 896,193
Unrestricted	2,841,568	8,449,786
Invested in Capital Assets, Net of Related Debt	1,114,481	3,762,353
Total Net Assets	<u>\$ 5,994,586</u>	<u>\$ 13,108,332</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
	Housing	Parking
<b>Operating Income:</b>		
Housing Rental and Parking Fees	\$ 11,519,488	\$ 4,516,404
Depreciation Expense	(1,374,004)	(265,072)
Other Operating Expenses	(5,875,614)	(2,168,915)
Total Operating Income	<u>4,269,870</u>	<u>2,082,417</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment Income	459,525	2,433,923
Interest on Asset Related Debt	(2,552,030)	(1,194,105)
Total Nonoperating Revenues (Expenses)	<u>(2,092,505)</u>	<u>(1,239,818)</u>
Income Before Transfers-out	2,177,365	3,322,235
Transfers-out	(198,487)	(176,361)
Change in Net Assets	1,978,878	3,145,874
Beginning Net Assets	4,015,708	9,962,458
Ending Net Assets	<u>\$ 5,994,586</u>	<u>\$ 13,108,332</u>
Condensed Statement of Cash Flows		
	Housing	Parking
<b>Net Cash Provided (Used) By:</b>		
Operating Activities	\$ 5,456,539	\$ 2,193,886
Capital and Related Financing Activities	(9,672,389)	20,189,843
Investing Activities	2,655,894	(22,200,394)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,559,956)	183,335
Cash and Cash Equivalents, Beginning of Year	4,700,922	66,627
Cash and Cash Equivalents, End of Year	<u>\$ 3,140,966</u>	<u>\$ 249,962</u>

*Notes to Financial Statements (continued)***19. COMPONENT UNIT**

Financial data reported for the University's component unit in the 2001-02 fiscal year financial statements was actually 2000-01 fiscal year data since the component unit 2001-02 fiscal year financial data was not available when the University completed its financial statements. Accordingly, the beginning net assets of \$80,696,612 reported for the component unit in the accompanying financial statements differ from the component unit prior year ending net assets by \$3,688,402.

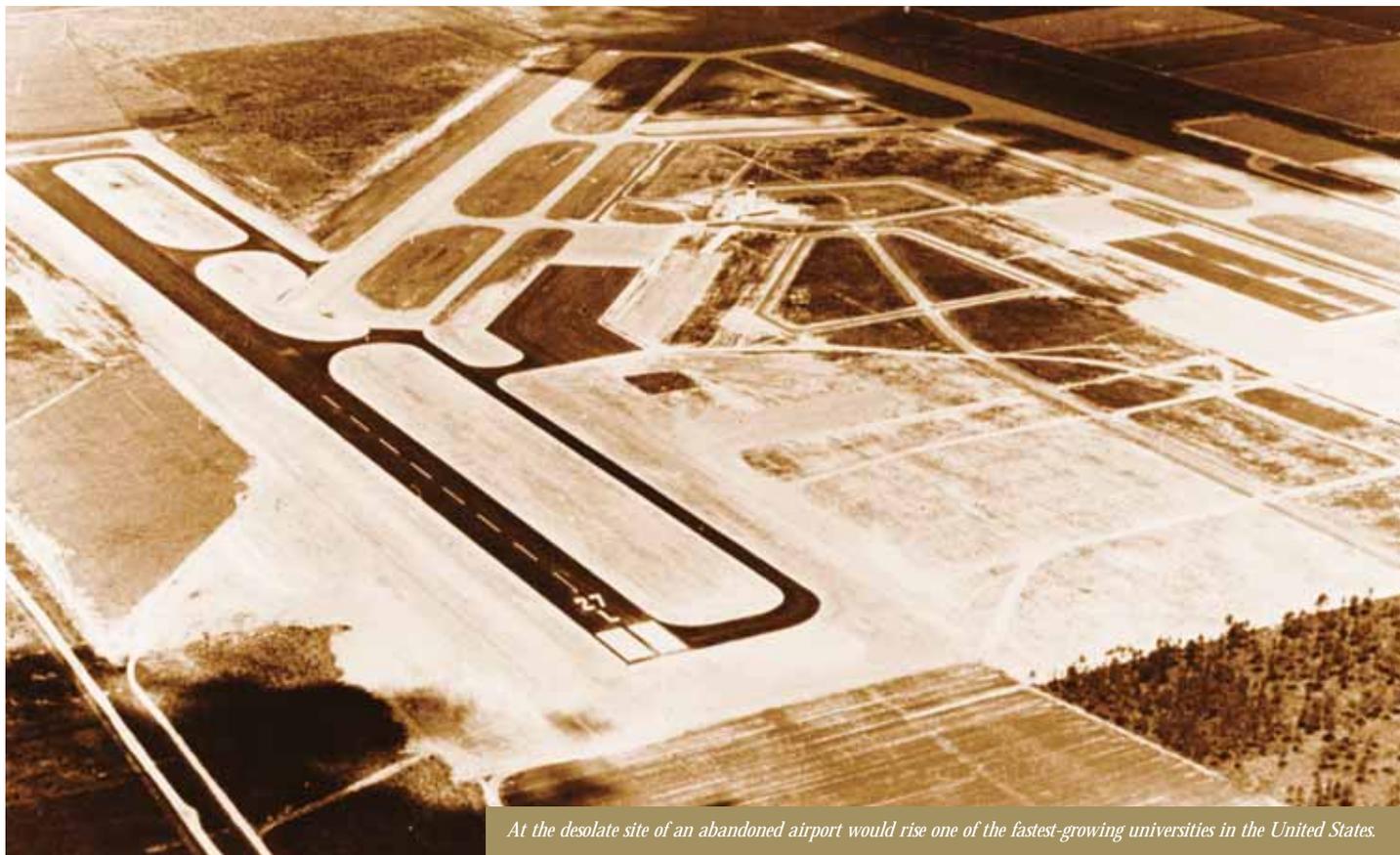
**20. FUTURE COMMITMENTS**

As a result of the new governance structure of the State University System, the universities were mandated to purchase their own accounting and payroll systems with the goal of ceasing to use the State services for these functions. The University purchased three systems from a private vendor to handle its student administration, financial, and human resources functions. The student administration system and financial system are currently being implemented. The implementation of the human resources system is scheduled to commence during the 2004-05 fiscal year. The total cost of implementing these systems is estimated at \$38 million. Expenses related to the implementation of these systems during the 2002-03 fiscal year totaled approximately \$6.1 million.

**21. CONTINGENCY**

The University's Hemispheric Center for Environmental Technology (HCET) is currently the subject of four Federal audits and investigations, all related to HCET's administration of the United States Department of Energy (USDOE) grants and other awards during the period of approximately 1993-2000. The audits were conducted by the Office of Audit Services of the Office of Inspector General, Department of Health and Human Services (DHHS). The draft DHHS audit report related to HCET's core USDOE grant recommended disallowances of approximately \$4.5 million and that approximately \$20 million in project costs be set aside for discussion with USDOE. The recommended disallowances and set-asides in the other three audit reports totaled approximately \$3.5 million.

The University is contesting many of the findings of the audit reports, and has provided USDOE with a formal response to each report. The University is currently in discussions with the Federal government in an effort to resolve all audit findings and any related liability for refunds and penalties or interest associated with the audits and investigations. It is expected that the process of resolving the audit findings with the Federal government will continue over the next several months.



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