

FLORIDA INTERNATIONAL UNIVERSITY

2003-2004 ANNUAL FINANCIAL REPORT



**FIU**  
FLORIDA INTERNATIONAL UNIVERSITY  
*Miami's public research university*

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## From the President

As I reflect on the history of Florida International University, I am struck by the remarkable pace with which we have grown as an institution. The creative, energetic minds of our faculty, students, staff and alumni continue to shape and inform the future of Miami's only public urban research university, ensuring that FIU remains a model of progress. But for all of the changes that have transformed this institution, one thing has remained constant: the encouragement of discovery and exploration across FIU's full range of research programs, academic enterprises and community-based initiatives. Since 1972, members of the FIU community have been leading the effort to effect positive change – on our campuses, in our communities and throughout the world. The year 2004 was no exception.

I am pleased to present the Annual Financial Report of Florida International University, a transparent review of our performance. This report highlights the many achievements of the past fiscal year and reminds us of the boundless opportunities ahead.

Several historic milestones confirmed the growing excellence and recognition of our institution. The FIU College of Law achieved provisional accreditation in the shortest time possible, and graduated its first class in May 2005. *U.S. News & World Report* ranked our Landon School of Business international business programs among the Top 10 in the United States and the international business programs in our Alvah H. Chapman Graduate School of Business in the Top 25. Our university signed an unprecedented agreement with Tianjin University of Commerce to open a new hospitality and tourism management school in China that mirrors our own nationally acclaimed school at our Biscayne Bay Campus. The university also partnered with the governments of Miami-Dade County and Madrid to establish a groundbreaking academic center in the Spanish capital.

On the research front, our faculty attracted more than \$60 million in sponsored research from some of the country's most prestigious agencies. From nanotechnology to biomedical technology, FIU researchers are pushing the frontiers of science, health and technology.

Our students and alumni also achieved laudable success in 2003-2004. Honors College student Kelsey Vaughan, an international relations major, became the first FIU student to be named a Truman Scholar, a prestigious and competitive academic honor given to only two students in the state. While at the university, she traveled to Bolivia to conduct research on that country's child prostitution problem. A team of engineering students broke ground on a fully functional solar house they designed and will build as part of the national Solar Decathlon competition. Dennis Lehane, an alumnus of the university's creative writing program, saw his best-selling novel *Mystic River* become a star-studded Hollywood film directed by Clint Eastwood.

To support the impressive growth of our programs in 2004, the university launched several important capital projects as part of our \$250 million construction initiative. We broke ground on the Patricia and Philip Frost Museum, a stunning contemporary art facility that promises to be a new cultural hub for South Florida. We opened the new wing of the Graham Center where students, faculty and staff can enjoy a variety of new services. And we broke ground on the second of several planned Greek houses, which will further enliven the student life at our University Park campus.

The successes of the past year – and those yet to come – reflect our mission as a top urban public research university with a commitment to serving our community. The innovation of our faculty, students, staff and alumni promises a future of compelling discovery and unbounded creativity.



I am pleased to present  
the Annual Financial Report of  
Florida International University,  
a transparent review of our performance.

This report highlights the many  
achievements of the past fiscal year  
and reminds us that boundless  
opportunities lie ahead.

– Modesto A. Maidique

A handwritten signature in black ink, likely of Modesto A. Maidique.



FIU has assembled a world-class team of researchers with exceptional expertise and research experience in its quest to create a program of national and international recognition.

## Nanotechnology: Forging Innovations Across the Disciplines

“Research being conducted at the university today is forming the foundation for the next generation of scientific discovery. Advancements realized at FIU will improve the quality of life in our communities tomorrow.”

– Vice President for Research George Dambach

Responding to the unique challenges of the 21<sup>st</sup> century, researchers at FIU are spearheading groundbreaking initiatives in the areas of nanotechnology and global information exchange that seemed impossible only 10 years ago.

With nanotechnology – the creation of functional materials and devices that are so small they are invisible to the naked eye – the undisputed future in science and technology, the university is leading the way in Florida's efforts to become an important player in this emerging field.

FIU has assembled a multidisciplinary nanotechnology team that includes experts in molecular physics, chemistry, biology, materials, electronic devices, biomedical sciences, nanofabrication and modeling and simulation. Together the researchers hold more than 80 patent applications, more than 100 patent disclosures and have secured millions of dollars in federal and private funding in support of their vision. Their research has the potential to significantly advance the nation's electronic, information, sensor, health care, defense and environment pollution-control technology bases.

Protein-based storage technology being developed at FIU will change the architecture of computers, making them faster, more powerful and less expensive. A local magnetic resonance imaging (MRI) device has been developed by FIU researchers that is capable of early-stage diagnostics of biological tissue, as well as highly accurate, noninvasive chemical analysis. The size of a hand-held calculator, the device benefits from cutting-edge technological achievements in the magnetic data-storage industry and the latest advancements in health care.

New technologies in development at the university will allow for the creation of nanoscale materials to be used as drug-delivery vehicles and sensors, facilitating more specific drug design. Combining targeted drug delivery and imaging techniques, including magnetically guided nanoparticles attached to certain types of chemotherapy agents, FIU researchers hope to improve current cancer treatment.

In an effort to harness and augment the existing know-how at FIU, the university has built the Motorola Nanofabrication Research Facility. The \$15 million, 10,000-square-foot facility is an integral part of the Advanced Materials Engineering Research Institute, FIU's broader materials research program. The centralized facility is the first of its kind in Florida and provides concept-to-prototype capabilities for students, faculty and industrial researchers engaged in nanotechnology research.

FIU is leading the charge in global information exchange as well. With a \$5 million grant from the National Science Foundation, FIU became one of only five institutions worldwide selected to facilitate increased collaboration between U.S. researchers and their counterparts throughout the world. Specifically, the university is charged with improving network connectivity between scientific communities in the United States and Latin America.

The work being done by FIU's Center for Internet Augmented Research and Assessment as part of this grant affords the university an unprecedented opportunity to leverage high-speed networks to advance its research and educational initiatives. Scientific communities will benefit tremendously from this new infrastructure, which involves installing new fiber-optic cable from San Diego to Tijuana, Mexico, and from Miami to Sao Paulo, Brazil. Opening up doors for university researchers to the rest of the world, the new network will help FIU faculty launch and sustain research initiatives with their colleagues in Latin America.

Through such dynamic collaborations, FIU is enhancing its service to society and improving access to education here at home as well as worldwide.

## Sustaining the Environment

The impact of FIU researchers' efforts to protect and sustain the world's most fragile resources is creating a ripple effect that will be felt for generations to come.

At a time when water resources around the world are more precious – and imperiled – than they have ever been, researchers at FIU are taking the lead in crafting viable solutions to water resource management problems around the world. Through a grant from the U.S. Agency for International Development, Environmental Studies Professor Michael McClain is designing ways to implement water resources management in countries that differ drastically in their physical climates and in their economic and political atmospheres. His research and training of future leaders in this area have vaulted the university to the forefront of national and global water forums.

A similar proactive agenda is reflected in programs throughout the university. Faculty in biology, chemistry, environmental sciences and earth sciences work with FIU's Southeast Environmental Research Center (SERC) researchers on South Florida's environmental challenges, with an emphasis on the Everglades and the Florida Keys. Researchers from SERC work in the lab and in the field for an answer to the timeless question: How can the natural and human communities co-exist in harmony, while depending on the same limited resources for survival?

Researchers at FIU's International Hurricane Research Center (IHRC) are providing real-world solutions to mitigate hurricane damage to people, the economy, and the built and natural environments. IHRC houses four laboratories: the Laboratory for Coastal Research; the Laboratory for Social and Behavioral Research; the Laboratory for Insurance, Financial and Economic Research; and the Laboratory for Structural Mitigation.

Researchers in IHRC's Laboratory for Coastal Research are conducting a windstorm simulation and modeling project for the Federal Emergency Management Agency that will allow experts to predict more accurately where storm-surge flooding will occur. Using an airborne laser system, they are collecting elevation points that can be used to make highly detailed maps of flood zones. These new maps may potentially minimize the number of people who need to evacuate during hurricanes.

Laboratory for Social Science researchers are using their findings on hurricanes' human impacts to educate policy and program decision-makers so that communities can better prepare for and improve their ability to respond to hazards and help them recover from disasters stronger than before.

Researchers with the Laboratory for Insurance, Financial and Economic Research study how hurricanes move and change in intensity to estimate wind-storm hazards and to determine how insurance companies should calculate premiums.

Laboratory for Structural Mitigation researchers made headlines in 2004 with a study that determined that using a simple ring-shank nail in construction could improve a roof's wind resistance by up to 130 percent. The discovery resulted in a stronger Florida building code.

And FIU helped lead the efforts to bring to fruition the National Windstorm Impact Reduction Act of 2004, which authorizes the creation of a new windstorm program that seeks to minimize loss of life and property from hurricanes and tornadoes.

The university's relatively new marine biology program seeks to become the nation's leading center for the study of the coastal environment. The interdisciplinary program complements SERC and IHRC, and initiatives being led by researchers from all three areas are ensuring that our oceans, the Everglades and our community's myriad waterways endure.

In 2004, the marine biology program broke ground at the Biscayne Bay Campus on a \$12.7 million marine science center. The three-story, 57,000-square-foot building will house state-of-the-art classrooms, offices and labs. Seawater will be piped into the labs from an 80-foot well reaching beneath the bedrock of Biscayne Bay. The center will be home to a wide range of research initiatives in and beyond the Caribbean region.

Through these and other collaborations, the university community stands poised to offer solutions to some of the world's most important environmental problems.

“This initiative places FIU  
in the lead of a global  
water consortium.

It offers an opportunity to  
engage centers, institutes  
and faculty members  
across campus and around  
the world. This is an  
opportunity like none  
that I know of.”

– Environmental Studies Professor Michael McClain,  
who received a five-year, \$3.75 million grant  
to pilot integrated solutions to troubling  
water-resource dilemmas in  
South America, Africa  
and Asia.

SERC researchers are playing a leading  
role in the restoration of the Everglades  
– the largest environmental restoration  
project in history.



Urgent community needs and a visionary optimism drive FIU's basic sciences, health professions and biomedical engineering programs.

“We are dealing with issues that impact human lives. What drives all of us is the thought that the research we are conducting today will positively affect human life for generations to come.”

— Biomedical Engineering Professor Nikolaos Tsoukias, whose research into the nature and treatment of complicated pathological conditions such as hypertension gives hope to tens of millions of individuals.

## Advancing Health Research

FIU scientists are making advancements in some of the most pressing health challenges of our times as part of a commitment to public service that encompasses all aspects of community well-being. Across the university, biologists, physicists and chemists are pursuing treatments for such devastating diseases as cystic fibrosis, macular degeneration and coronary artery disease. FIU recently achieved a medical milestone in signing its first licensing agreement with a major pharmaceutical company for a novel stroke treatment drug developed at the university. The new therapeutic has undergone extensive testing and could represent the most exciting breakthrough in generations for stroke victims.

To address a critical national shortage of nurses, the FIU School of Nursing has launched a foreign physician-to-nurses program, “New Americans in Nursing,” the only one of its kind in the United States. Additionally, nursing faculty members have more than doubled their research grant dollars in the past two years. This commitment to innovation and discovery is reflected in our nursing graduates, who have an impressive of nearly 90 percent pass rate on the national license exam – well above the national average.

Researchers in the College of Engineering's department of biomedical engineering have secured millions of dollars in grants and established partnerships with health and industry leaders to support promising research into cardiac disease, hypertension and congestive heart failure. They are developing such innovations as a polymer heart valve that combines the best of current options while minimizing risk. New cell transplantation technology in development could one day render obsolete heart transplants and open-heart surgery for congestive heart failure. Research in the Center for Advanced Technology and Education is giving new hope for mobility and communication to those with motor disabilities and visual impairment. Through the work of these researchers and others, FIU is becoming an increasingly compelling player in South Florida's dynamic biomedical engineering industry.

At FIU, hard science is coupled with caring community collaboration in pursuit of solutions to community health issues. University researchers work closely with public health agencies and advocates for those with the greatest needs – underprivileged children, the elderly and the infirm. In the College of Health and Urban Affairs, researchers are working to eradicate lead poisoning among children in neighborhoods including Overtown, Little Havana and Little Haiti. Through FIU's National Resource Center on Nutrition, Physical Activity and Aging, the university is playing a key role in a federal initiative to improve the health of those 65 years of age and older. Professor William Darrow, one of the world's most respected authorities on sexually transmitted disease, is leading a Centers for Disease Control program to curb the transmission of HIV and AIDS in South Florida by examining critical social and educational factors.

The new Health and Life Sciences buildings recently dedicated at the University Park campus reflect FIU's commitment to creating a first-class research system with seamless grant management, cutting-edge technology and state-of-the-art facilities. The buildings are also the cornerstone for a new health research corridor that will be completed with FIU's proposed School of Medicine. This corner of campus will serve as a dynamic hub for scientific discovery and as the training ground for a future generation of doctors.

The university is in the midst of an exciting era of growth and development in science and health research, propelled by a firm belief in the possibilities of science and an unwavering commitment to caring for our community.

## Leading the Way in Global Thinking

Across the disciplines, Florida International University's academic programs emphasize an international perspective that is critical in today's business world. FIU's undergraduate international business program is ranked among the Top 10 in the United States and its graduate program in the Top 25, giving us a solid foundation of international economic and business expertise. The programs train future leaders and cultivate new economic ventures between the South Florida region and promising economies around the world.

The university also has developed expertise in regions around the globe. At the gateway to the Americas, FIU is home to one of the country's foremost academic centers for the study of Latin America. The Latin American and Caribbean Center (LACC) offers a comprehensive graduate program as well as undergraduate and graduate certificates. More than 100 LACC-affiliated faculty members conduct research across the region on issues of pressing importance and historic significance. Through the center, students have opportunities to study abroad in Brazil, Bolivia and Haiti, and all graduates are required to demonstrate foreign-language proficiency.

FIU's growing Asian Studies Institute in the Center for Transnational and Comparative Studies exposes students to the history and culture of China. In addition, LACC and the Asian Studies Institute have joined together to win federal support for a project on Asian Globalization and Latin America. That project has led to the creation of a distinctive certificate program that educates students about both areas of the world.

In the College of Law, the traditional law school education is enhanced by a unique requirement that all students study international law and comparative law. These courses highlight the differences between the U.S. legal system and others around the world so that FIU-educated lawyers will be comfortable in international settings. In addition, FIU offers a joint degree program that allows students to earn a master's degree in Latin American and Caribbean Studies along with either a law degree or an MBA. The knowledge developed in our College of Business Administration and College of Law enables U.S. and Latin American companies to resolve free-trade disputes effectively and expeditiously thereby expanding commerce throughout the hemisphere.

These forward-thinking joint programs reflect the innovative thinking that is propelling FIU into the new millennium. With FIU's Eugenio Pino and Family Global Entrepreneurship Center, the university has been at the forefront of developing cutting-edge research, entrepreneurial leaders and organizations in all areas of the economy. The center exemplifies FIU's innovative spirit by fusing dynamic ideas with solid business principles.

Closer to home, Florida International University recognizes the leadership role our university must play in stimulating and nurturing a vibrant local economy. The university accomplishes that mission by educating a motivated and enterprising workforce able to compete in the global workplace by establishing partnerships with local and international industry and by pushing the frontiers of scientific and technological research. The benefits are realized in every sector of our community, from health care and technology, to trade and law.

Community leaders have taken notice of FIU's contributions. The Beacon Council, Miami-Dade County's economic development agency, honored FIU with a Second Annual Beacon Award for developing and implementing the most innovative new education programs that address the target industries of our community.

With a vast selection of academic majors and research opportunities that focus on international collaboration, FIU continues to grow its reputation as a trendsetter in U.S. higher education.

*“As a business person,  
my view of the world  
is global – we’re all  
about connecting  
worlds – and FIU  
gets that.”*

– Shalni Chandwani, Alvah Chapman Graduate School of Business MBA student and 2004 volunteer business and marketing expert for the FIU Pino Global Entrepreneurship Center's Farmers-to-Farmers Program in Guatemala.



With a large, international metropolitan area for an extended classroom and connections to local companies doing business around the globe, FIU students are encouraged to take advantage of opportunities that would be difficult to secure in a non-urban setting.



University Park campus



AUDITOR GENERAL  
WILLIAM O. MONROE, CPA



FLORIDA INTERNATIONAL UNIVERSITY

AUDITED FINACIAL REPORT

2003 - 2004



# AUDITOR GENERAL

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

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of 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, 2004, as shown on pages 14 through 38. 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 comprise 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 respective financial position of the Florida International University and of its discretely presented component unit as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The MANAGEMENT'S DISCUSSION AND ANALYSIS on pages 17 through 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

William O. Monroe, CPA  
March 10, 2005

## 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, 2004. 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.

### 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

During the 2003-04 fiscal year, the University demonstrated steady growth, reflective of a stronger economy and increased operating budget. The University's 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 2004-05 fiscal year.

In terms of incremental dollars, the Education and General budget for

the 2003-04 fiscal year increased from \$244.4 million to \$250.1 million, an increase of \$5.7 million, or approximately 2.3 percent. The University received an additional \$1.3 million for the College of Law. Salary increases for faculty and support staff were funded at \$1.6 million. Plant operations and maintenance received \$2 million. The increase in tuition fees provided an additional \$7.9 million in the budget. During the 2003-04 fiscal year, the University's net assets increased by \$6.4 million. Detailed analysis of financial data is included in the following paragraphs.

### 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 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, 2004, 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 \$717.8 million at June 30, 2004. This amount is net of accumulated depreciation of \$206.7 million. The 6.2 percent increase in assets was primarily the result of an increase in construction in progress, due to several projects near completion but not yet capitalized. In addition, capital assets increased due to additions to buildings, furniture and equipment, and library resources.

Liabilities totaled \$260.9 million at June 30, 2004, compared to \$225.7 million at June 30, 2003. Current liabilities increased by \$36 million, primarily due to an increase of \$8.2 million in obligations under securities lending and reverse repurchase agreements, an increase of \$7 million in deferred revenues from Public Education Capital Outlay (PECO) allocations, and settlement of questioned costs totaling \$11.5 million with the United States Department of Energy.

The University's net assets balance of \$456.9 million at June 30, 2004, included \$372.6 million invested in capital assets, net of related debt, \$28.8 million of restricted net assets, and \$55.5 million of unrestricted net assets.

The component unit had total assets of \$114.2 million at June 30, 2004. An increase in contributions receivable and investments caused total assets to increase by \$13.1 million, or 13 percent, when compared to the 2002-03 fiscal year. Total liabilities of \$12.5 million at June 30, 2004, primarily consists of a \$11.6 million notes payable used to fund the construction of the Management Advances Research Center. Net assets increased by \$17.4 million primarily as a result of a \$12.4 million increase in other restricted net assets.

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

| NET ASSETS (in millions)            |                 |                 |                |                        |
|-------------------------------------|-----------------|-----------------|----------------|------------------------|
|                                     | University      |                 | Percent Change | Component Unit 2003-04 |
|                                     | 2003-04         | 2002-03         |                |                        |
| <b>Assets</b>                       |                 |                 |                |                        |
| Current Assets                      | \$ 234.1        | \$ 225.7        | 3.7            | \$ 43.6                |
| Noncurrent Assets:                  |                 |                 |                |                        |
| Capital Assets, Net of Depreciation | 451.8           | 398.3           | 13.4           | 13.3                   |
| Other                               | 31.9            | 52.2            | (38.9)         | 57.3                   |
| <b>Total Assets</b>                 | <u>717.8</u>    | <u>676.2</u>    | <u>6.2</u>     | <u>114.2</u>           |
| <b>Liabilities</b>                  |                 |                 |                |                        |
| Current Liabilities                 | 126.4           | 90.4            | 39.8           | 0.9                    |
| Noncurrent Liabilities              | 134.5           | 135.3           | (0.6)          | 11.6                   |
| <b>Total Liabilities</b>            | <u>260.9</u>    | <u>225.7</u>    | <u>15.6</u>    | <u>12.5</u>            |
| <b>Net Assets</b>                   |                 |                 |                |                        |
| Invested in Capital assets          | 372.6           | 319.8           | 16.5           |                        |
| Restricted for Nonexpendable        |                 |                 |                | 65.9                   |
| Restricted for Expendable           | 28.8            | 53.7            | (46.4)         | 20.7                   |
| Unrestricted                        | 55.5            | 77.0            | (27.9)         | 15.1                   |
| <b>Total Net Assets</b>             | <u>\$ 456.9</u> | <u>\$ 450.5</u> | <u>1.4</u>     | <u>\$ 101.7</u>        |

For more detailed information see the statement of net assets.

At June 30, 2004, the University's net capital assets totaled \$451.8 million compared to \$398.3 million at June 30, 2003. The increase resulted mainly from an increase of \$43.5 million in construction work in progress capitalized during the 2003-04 fiscal year. Also, buildings, furniture and equipment, property under capital leases, and library resources contributed to the increase. 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 the following table:

| NET CAPITAL ASSETS (in millions) |                 |                 |
|----------------------------------|-----------------|-----------------|
|                                  | 2004            | 2003            |
| <b>Capital Assets</b>            |                 |                 |
| Buildings                        | \$ 369.8        | \$ 358.8        |
| Furniture and Equipment          | 113.2           | 108.3           |
| Library Resources                | 71.7            | 66.8            |
| Property Under Capital Leases    | 9.2             |                 |
| Construction in Progress         | 51.7            | 8.2             |
| Land                             | 28.4            | 26.7            |
| Other                            | 14.5            | 13.9            |
| <b>Total</b>                     | <u>658.5</u>    | <u>582.7</u>    |
| Less, Accumulated Depreciation   | 206.7           | 184.4           |
| <b>Net Capital Assets</b>        | <u>\$ 451.8</u> | <u>\$ 398.3</u> |

## 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 \$449.7 million for the 2003-04 fiscal year. This represents a 9.6 percent increase over the 2002-03 fiscal year due to increases in capital appropriations, tuition and fees, and Federal grants and contracts. Education and General Fund's revenue constituted the largest component of revenue (\$250.1 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 \$93.6 million for the 2003-04 fiscal year, as compared to \$89.2 million for the 2002-03 fiscal year.

Expenses totaled \$443.4 million for the 2003-04 fiscal year, representing an increase of 7.7 percent over the 2002-03 fiscal year. This increase was primarily due to an increase in personnel services of \$21.1 million and the settlement with the Federal Government of questioned costs totaling \$11.5 million relating to Federal grants. Beginning this year, several expense classifications were grouped into one main class, services and supplies. This grouping is made up

of contractual services, materials and supplies, repairs and maintenance, and other operating expenses. There was a reduction of \$14.3 million in this category when comparing the 2003-04 fiscal year to 2002-03 fiscal year. Total operating expenses were \$422.6 million. Operating expenses are classified into various categories of which instruction, research, and academic support are the major components. Depreciation expense of \$29.6 million is also included in the total operating expenses.

The component unit's net operating income for the fiscal year ended June 30, 2004, totaled \$7.5 million. This is an increase of \$2.5 million, or 50.3 percent. This was attributed to an additional \$4.5 million in contributions. Nonoperating activities net revenues totaled \$9.9 million. Investment income totaled \$1.7 million and net unrealized investment gains amounted to \$8.2 million.

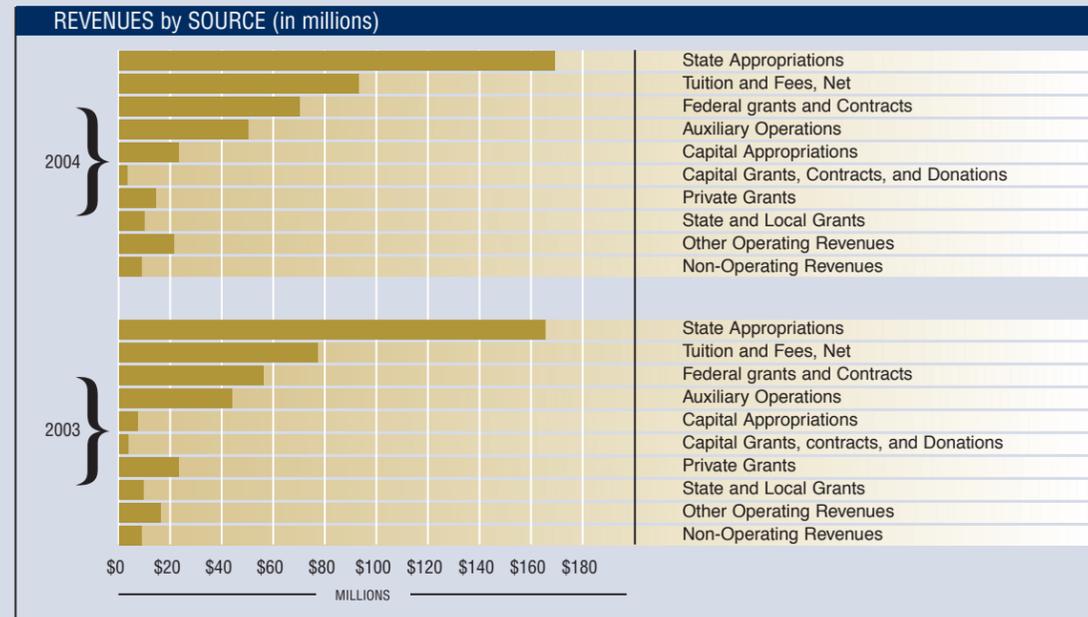
A summary of revenues and expenses of the University and its component unit is presented in the following table:

| OPERATING RESULTS for the YEAR ENDED (in millions)                    |                 |                 |               |                        |
|---|-----------------|-----------------|---------------|------------------------|
|   | University      |                 | Change        | Component Unit 2003-04 |
|   | 2003-04         | 2002-03         |               |                        |
| Operating Revenues  | \$ 249.1        | \$ 228.9        | \$ 20.2       | \$ 19.3                |
| Less, Operating Expenses  | <u>422.5</u>    | <u>406.0</u>    | <u>16.5</u>   | <u>11.8</u>            |
| <b>Total Operating Income (Loss)</b>                                  | (173.4)         | (177.1)         | 3.7           | 7.5                    |
| Net Nonoperating Revenues   | <u>151.3</u>    | <u>167.5</u>    | <u>(16.2)</u> | <u>9.9</u>             |
| <b>Income (Loss) Before Other Revenues, Expenses, Gains or Losses</b> | (22.1)          | (9.6)           | (12.5)        | 17.4                   |
| Capital Appropriations  | 22.3            | 6.1             | 16.2          |                        |
| Capital Grants, Contracts, and Donations                              | <u>6.2</u>      | <u>2.2</u>      | <u>4.0</u>    |                        |
| <b>Change in Net Assets</b>   | 6.4             | (1.3)           | 7.7           | 17.4                   |
| Restated Net Assets, Beginning of Year                                | <u>450.5</u>    | <u>451.8</u>    | <u>(1.3)</u>  | <u>84.3</u>            |
| <b>Net Assets, End of Year</b>  | <u>\$ 456.9</u> | <u>\$ 450.5</u> | <u>\$ 6.4</u> | <u>\$ 101.7</u>        |

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

The following are graphic illustrations of revenue by source for the University for the 2003-04 and 2002-03 fiscal years:

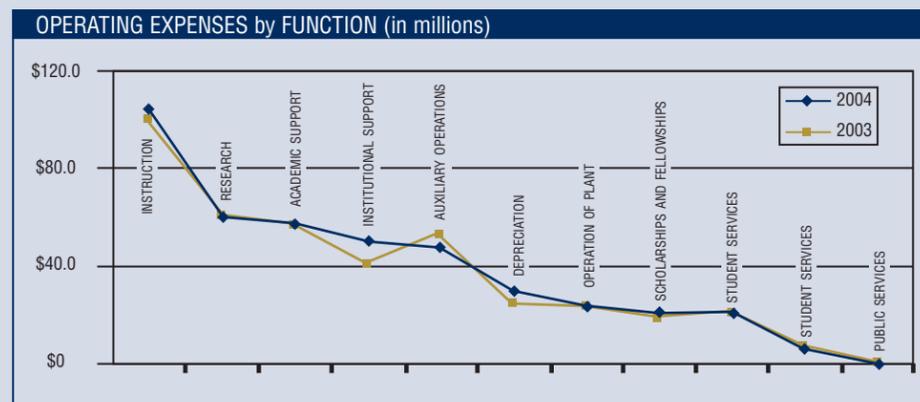
| REVENUES by SOURCE (in millions) |                |                |
|----------------------------------|----------------|----------------|
|                                  | 2004           | 2003           |
| State Appropriations             | \$166.6        | \$163.6        |
| Tuition and Fees, Net            | 87.3           | 79.0           |
| Federal Grants and Contracts     | 68.3           | 57.4           |
| Auxiliary Operations             | 47.4           | 44.4           |
| Capital Appropriations           | 22.3           | 6.1            |
| Capital Grants and Contracts     | 2.0            | 2.2            |
| Private Grants                   | 15.2           | 22.2           |
| State and Local Grants           | 10.1           | 9.6            |
| Other Operating Revenues         | 20.8           | 16.3           |
| Nonoperating Revenues            | <u>9.7</u>     | <u>9.6</u>     |
| <b>Total</b>                     | <u>\$449.7</u> | <u>\$410.4</u> |



**OPERATING EXPENSES by FUNCTION (in millions)**

|                              | 2004            | 2003            |
|------------------------------|-----------------|-----------------|
| Instruction                  | \$ 104.4        | \$ 100.1        |
| Research                     | 60.8            | 60.9            |
| Academic Support             | 57.0            | 56.8            |
| Institutional Support        | 50.6            | 40.5            |
| Auxiliary Operations         | 48.0            | 52.3            |
| Depreciation                 | 29.6            | 24.9            |
| Operation of Plant           | 23.9            | 23.9            |
| Scholarships and Fellowships | 21.1            | 18.6            |
| Student Services             | 20.8            | 20.8            |
| Public Service               | 6.4             | 6.9             |
| Other                        |                 | 0.3             |
| <b>Total</b>                 | <b>\$ 422.6</b> | <b>\$ 406.0</b> |

The following are graphic illustrations of operating expenses by function for the University for the 2003-04 and 2002-03 fiscal years:



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

## 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 decreased by \$40.7 million for the fiscal year ended June 30, 2004, as compared to an increase in the 2002-03 fiscal year of \$17.8 million.

The statement of cash flows reports cash and cash equivalents totaling

\$13 million at June 30, 2004. Cash used for operating activities consisted primarily of amounts paid to employees of \$256.3 million and payments to suppliers of goods and services for \$110.8 million. Cash received for noncapital financing activities included State appropriations of \$166.6 million. Cash received from capital and related financing activities included capital appropriations of \$29.3 million and were impacted by purchases and construction of capital assets totaling \$70.8 million. A summary to the University's cash flows for the fiscal years ended June 30, 2004, and June 30, 2003, is shown in the following table:

**CASH FLOWS (In millions)**

|   | 2004           | 2003           | Change           |
|---|----------------|----------------|------------------|
| <b>Cash Provided (Used) By:</b>                             |                |                |                  |
| Operating Activities  | \$ (142.2)     | \$ (141.9)     | \$ (0.3)         |
| Noncapital Financing Activities                             | 164.9          | 165.2          | (0.3)            |
| Capital and Related Financing Activities                    | (59.3)         | 15.3           | (74.6)           |
| Investing Activities  | (4.1)          | (20.8)         | 16.7             |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | <b>(40.7)</b>  | <b>17.8</b>    | <b>(58.5)</b>    |
| Cash and Cash Equivalents, Beginning of Year                | 53.7           | 35.9           | 17.8             |
| <b>Cash and Cash Equivalents, End of Year</b>               | <b>\$ 13.0</b> | <b>\$ 53.7</b> | <b>\$ (40.7)</b> |

For more detailed information see the statement of cash flows.

## 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 2003-04 fiscal year, funds received from these sources amounted to \$250.1 million, or 55.6 percent of total revenue. Tuition and other registration fees collected from the students totaled \$119.4 million and were reduced by scholarship allowances of \$32.1 million. The undergraduate tuition fees increased six percent for resident and fourteen percent for nonresident students. The graduate and law tuition fees increased fourteen percent for residents and sixteen percent for nonresident students. Moneys in the Student Fee Trust Fund (formerly, Incidental Trust Fund) are 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 2003-04 academic year, the per credit hour fees were as follows:

**CREDIT HOUR FEES**

|             | Undergraduate | Graduate  | Law       |
|-------------|---------------|-----------|-----------|
| Resident    | \$ 88.93      | \$ 201.51 | \$ 225.96 |
| Nonresident | 456.63        | 770.78    | 818.92    |

A health fee of \$54 and an athletic fee of \$10 were also 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 \$7.9 million in revenue over the 2002-03 fiscal year. On February 10, 2005, the University settled questioned costs of \$11.5 million with the United States Department of Energy (USDOE). The questioned costs were determined through Federal audits conducted on USDOE grants awarded to the University's Hemispheric Center for Environmental Technology. See note 18 to the financial statements.

### 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 \$47.4 million from \$44.4 million in the 2002-03 fiscal year. Auxiliary operations accounted for 19 percent of the University's total operating revenues for the 2003-04 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 \$29.3 million during the 2003-04 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, 2004, 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, 2004, totaled approximately \$2.4 million, a decrease of \$1.4 million over the 2002-03 fiscal year.

### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

While the budget for the current 2003-04 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.

AS OF JUNE 30, 2004

FINANCIAL STATEMENTS

FLORIDA INTERNATIONAL UNIVERSITY

A COMPONENT UNIT  
OF THE STATE OF FLORIDA

## STATEMENT OF NET ASSETS

|  | University            | Component Unit        |
|--|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |
| Current Assets:  |                       |                       |
| Cash and Cash Equivalents  | \$ 4,484,395          | \$ 5,004,293          |
| Investments with State   | 124,074,577           |                       |
| Other Investments  |                       | 19,637,644            |
| Accounts Receivable, Net   | 20,450,764            | 18,567,803            |
| Due From State   | 83,183,152            |                       |
| Notes Receivable, Net  | 592,329               |                       |
| Inventories  | 504,637               |                       |
| Other Assets   | 793,896               | 389,149               |
| <b>Total Current Assets</b>  | <b>234,083,750</b>    | <b>43,598,889</b>     |
| Noncurrent Assets:   |                       |                       |
| Restricted Cash and Cash Equivalents                                 | 8,518,112             | 7,514,890             |
| Restricted Investments with the State                                | 21,126,524            |                       |
| Other Restricted Investments   | 162                   | 49,756,095            |
| Loans and Notes Receivable, Net                                      | 1,953,214             |                       |
| Depreciable Capital Assets, Net                                      | 369,013,882           | 12,594,154            |
| Land and Other Nondepreciable Capital Assets                         | 82,774,204            | 702,500               |
| Other Assets   | 317,435               |                       |
| <b>Total Noncurrent Assets</b>                                       | <b>483,703,533</b>    | <b>70,567,639</b>     |
| <b>TOTAL ASSETS</b>  | <b>\$ 717,787,283</b> | <b>\$ 114,166,528</b> |
| <b>LIABILITIES</b>   |                       |                       |
| Current Liabilities:   |                       |                       |
| Accounts Payable   | \$ 3,074,118          | \$ 304,633            |
| Accrued Salaries and Wages   | 8,177,522             |                       |
| Construction Contracts Payable                                       | 4,499,689             |                       |
| Due to State   | 76,518                |                       |
| Due to Federal Government  | 11,500,000            |                       |
| Deferred Revenue   | 59,358,667            | 159,031               |
| Deposits Payable   | 3,138,504             |                       |
| Obligations under Security Lending and Reverse Repurchase Agreements | 28,655,725            |                       |
| Long-Term Liabilities - Current Portion:                             |                       |                       |
| Bonds and Revenue Certificates Payable                               | 3,519,518             |                       |
| Notes Payable  | 1,170,943             | 425,000               |
| Capital Leases Payable   | 2,102,537             |                       |
| Compensated Absences Payable   | 1,136,401             |                       |
| <b>Total Current Liabilities</b>                                     | <b>126,410,142</b>    | <b>888,664</b>        |
| Noncurrent Liabilities:  |                       |                       |
| Bonds and Revenue Certificates Payable                               | 89,238,428            |                       |
| Notes Payable  | 19,583,345            | 11,195,000            |
| Capital Leases Payable   | 3,028,024             |                       |
| Compensated Absences Payable   | 22,670,877            |                       |
| Other Long-Term Liabilities  |                       | 400,130               |
| <b>Total Noncurrent Liabilities</b>                                  | <b>134,520,674</b>    | <b>11,595,130</b>     |
| <b>TOTAL LIABILITIES</b>   | <b>260,930,816</b>    | <b>12,483,794</b>     |
| <b>NET ASSETS</b>  |                       |                       |
| Invested in Capital Assets, Net of Related Debt                      | \$ 372,588,073        |                       |
| Restricted:  |                       |                       |
| Nonexpendable:   |                       |                       |
| Endowment  |                       | 65,948,739            |
| Expendable:  |                       |                       |
| Endowment  |                       |                       |
| Loans  | 4,860,903             |                       |
| Capital Projects   | 5,441,579             |                       |
| Debt Service   | 370,622               |                       |
| Other Restricted Net Assets  | 18,136,329            | 20,670,833            |
| Unrestricted   | 55,458,961            | 15,063,162            |
| <b>Total Net Assets</b>  | <b>456,856,467</b>    | <b>101,682,734</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                              | <b>\$ 717,787,283</b> | <b>\$ 114,166,528</b> |

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

## STATEMENT OF OF REVENUES, EXPENSES, AND CHANGES IN ASSETS

|   | University            | Component Unit        |
|---|-----------------------|-----------------------|
| <b>REVENUES</b>   |                       |                       |
| Operating Revenues:   |                       |                       |
| Student Tuition and Fees, Net of Scholarship Allowances of \$32,068,465 | \$ 87,283,814         | \$                    |
| Federal Grants and Contracts  | 68,293,863            |                       |
| State and Local Grants and Contracts                                    | 10,072,834            |                       |
| Nongovernmental Grants and Contracts                                    | 15,195,661            |                       |
| Sales and Services of Auxiliary Enterprises                             | 47,355,127            |                       |
| Gifts and Donations   |                       | 15,983,391            |
| Interest on Loans Receivable  | 79,020                |                       |
| Other Operating Revenues  | 20,828,279            | 3,297,451             |
| <b>Total Operating Revenues</b>   | <b>249,108,598</b>    | <b>19,280,842</b>     |
| <b>EXPENSES</b>   |                       |                       |
| Operating Expenses:   |                       |                       |
| Compensation and Employee Benefits                                      | 261,912,514           |                       |
| Services and Supplies   | 100,804,640           |                       |
| Utilities   | 11,458,522            |                       |
| Scholarships and Fellowships  | 18,756,833            |                       |
| Depreciation Expense  | 29,624,685            |                       |
| Other Operating Expenses  |                       | 11,830,536            |
| <b>Total Operating Expenses</b>   | <b>422,557,194</b>    | <b>11,830,536</b>     |
| <b>Operating Income (Loss)</b>  | <b>(173,448,596)</b>  | <b>7,450,306</b>      |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                                 |                       |                       |
| State Appropriations  | 166,595,904           |                       |
| Investment Income   | 3,207,440             | 1,730,568             |
| Other Nonoperating Revenue  | 2,385,529             |                       |
| Interest on Asset-Related Debt  | (5,820,100)           |                       |
| Other Nonoperating Expenses   | (15,042,348)          |                       |
| Net Unrealized Gains on Investments                                     |                       | 8,207,512             |
| <b>Net Nonoperating Revenue</b>   | <b>151,326,425</b>    | <b>9,938,080</b>      |
| <b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>  | <b>(22,122,171)</b>   | <b>17,388,386</b>     |
| Capital Appropriations  | 22,291,385            |                       |
| Capital Grants, Contracts and Donations                                 | 6,149,910             |                       |
| <b>Total Other Revenues</b>   | <b>28,441,295</b>     |                       |
| <b>Increase in Net Assets</b>   | <b>6,319,124</b>      | <b>17,388,386</b>     |
| Net Assets, Beginning of Year   | 450,537,343           | 88,012,313            |
| Adjustment to Beginning Net Assets                                      |                       | (3,717,965)           |
| <b>Restated Net Assets, Beginning of Year</b>                           | <b>450,537,343</b>    | <b>84,294,348</b>     |
| <b>Net Assets, End of Year</b>  | <b>\$ 456,856,467</b> | <b>\$ 101,682,734</b> |

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

## STATEMENT OF CASH FLOWS

|  | University              |
|--|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                         |
| Tuition and Fees   | \$ 84,685,034           |
| Grants and Contracts   | 91,626,902              |
| Sales and Services of Auxiliary Enterprises  | 46,604,920              |
| Interest on Loans Receivable   | 224,603                 |
| Other Operating Receipts   | 20,565,905              |
| Payments to Employees  | (256,261,227)           |
| Payments to Suppliers for Goods and Services   | (110,795,337)           |
| Payments for Scholarships and Fellowships  | (18,756,833)            |
| Net Loans Issued to Students   | (50,498)                |
| <b>Net Cash Used by Operating Activities</b>   | <b>(142,156,531)</b>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                         |
| State Appropriations   | 166,595,904             |
| Operating Subsidies and Transfers  | 349,090                 |
| Funds Held for Others  | (1,366,330)             |
| Other Expenses   | (712,714)               |
| <b>Net Cash Provided by Noncapital Financing Activities</b>                                      | <b>164,865,950</b>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                  |                         |
| Capital Grants and Contracts   | 2,049,910               |
| Capital Appropriations   | 29,322,116              |
| Capital Subsidies and Transfers  | (7,850,971)             |
| Other Receipts for Capital Projects  | 179,182                 |
| Purchases of Capital Assets  | (70,808,324)            |
| Principal Paid on Capital Debt and Leases  | (6,403,703)             |
| Interest Paid on Capital Debt and Leases   | (5,774,028)             |
| <b>Net Cash Used by Capital and Related Financing Activities</b>                                 | <b>(59,285,818)</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                         |
| Purchases of Investments   | (80,914,949)            |
| Sales of Investments   | 68,371,213              |
| Investment Income  | 8,407,034               |
| <b>Net Cash Used by Investing Activities</b>   | <b>(4,136,702)</b>      |
| <b>Net Decrease in Cash and Cash Equivalents</b>   | <b>(40,713,101)</b>     |
| Cash and Cash Equivalents, Beginning of Year   | 53,715,608              |
| <b>Cash and Cash Equivalents, End of Year</b>  | <b>\$ 13,002,507</b>    |
| <b>RECONCILIATION OF NET OPERATING REVENUES</b>  |                         |
| Operating Loss   | \$ (173,448,596)        |
| Operating Activities   |                         |
| Depreciation Expense   | 29,624,685              |
| Changes in Assets and Liabilities:   |                         |
| Receivables, Net   | (5,354,409)             |
| Inventories  | (286,572)               |
| Loans and Notes Receivable, Net  | (50,498)                |
| Other Assets   | (79,365)                |
| Accounts Payable   | 1,833,763               |
| Salaries and Wages Payable   | 4,520,819               |
| Deposits Payable   | (46,826)                |
| Compensated Absences   | 1,130,468               |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>   | <b>\$ (142,156,531)</b> |
| <b>SUPPLEMENTAL DISCLOSURE ON NONCASH CAPITAL FINANCING ACTIVITIES</b>                           |                         |
| The University acquired data processing equipment totalling \$ 9,248,513 through capital leases. |                         |
| The University received, as a donation, title to a building and land valued at \$ 4.1 million.   |                         |

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

FOR THE PERIOD ENDING JUNE 30, 2004

FLORIDA INTERNATIONAL UNIVERSITY

A COMPONENT UNIT  
OF THE STATE OF FLORIDA

FISCAL YEAR ENDED JUNE 30, 2004

FLORIDA INTERNATIONAL UNIVERSITY

A COMPONENT UNIT  
OF THE STATE OF FLORIDA

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by the Florida International University are described below to enhance the usefulness of the financial statements.

**Reporting Entity.** The University is a separate public instrumentality that is part of a State university system of public universities. A constitutional amendment effective January 7, 2003, created a board of governors to be responsible for the management of the State university system. A separate board of trustees shall administer each public university.

The University Board of Trustees (Trustees) consists of thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University also are members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provides governance in accordance with Florida law, State Board of Education rules, and the Board of Governors. The Trustees select the University President and the State Board of Education must ratify the candidate selected. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida and its financial activity is reported in the State's Comprehensive Annual Financial Report by discrete presentation.

**Discretely Presented Component Unit.** Based on the application of the criteria for determining component units, the Florida International University Foundation, Inc., is included within the University's reporting entity as a discretely presented component unit. The University further categorizes this component unit as a direct-support organization.

**Direct-Support Organization.** The University's direct-support organization, as provided for in Section 1004.28, Florida Statutes, and State Board of Education Rule 6C-9.011, Florida Administrative Code, is considered a component unit of the University and therefore the latest audited financial statements of this organization is included in the financial

statements of the University by discrete presentation. 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. 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. An annual audit of the organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. Additional information on the University's component unit, including copies of audit reports, is available by contacting the University Controller's Office.

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

In November 1999, the GASB issued 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 University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

The University is a component unit of the State of Florida for financial reporting purposes. The financial balances and activities included in these financial statements are, therefore, also included in the State's Comprehensive Annual Financial Report.

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

Interdepartmental transactions of auxiliary service departments have been accounted for as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities plus administration, operation and maintenance of plant assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, investment income, and funding for capital construction projects. Interest on asset-related debts is a nonoperating expense.

The University follows FASB 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 noncurrent 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 scholarship 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.

JUNE 30, 2004

FLORIDA INTERNATIONAL UNIVERSITY

A COMPONENT UNIT  
OF THE STATE OF FLORIDA

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 Nonexpendable Trust Funds*.

**Capital Assets.** University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital leases, library resources, works of art and historical treasures, construction in progress, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at 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 expended as incurred. The University has a capitalization threshold of \$1,000 for all movable equipment items. Depreciation is computed on the straight-line basis over the estimated useful life of the related assets.

The following ranges of estimated useful lives were used to determine depreciation expense:

- Buildings and Improvements – 20 to 50 Years, Depending on Construction
- Infrastructure and Other Improvements – 15 Years
- Furniture and Equipment:
  - Equipment (Nonoffice) – 10 to 20 Years
  - Computer Equipment – 3 to 7 Years
  - Moveable Equipment – 3 to 20 Years
- Library Resources – 10 Years
- Property Under Capital Leases – 5 Years

## 2. CASH AND CASH EQUIVALENTS

The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and cash held in the State Board of Administration and State Treasury. Cash in demand accounts are held in banks qualified as a public depository in accordance with the provisions of Chapter 280, Florida Statutes. All such accounts are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital or other restricted assets are classified as restricted.

## 3. 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. The investments conform with the guidelines established by Section 215.47, Florida Statutes, and are reported at market value of \$145,201,101.

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 investment pools managed by the State Treasury and the State Board of Administration cannot be categorized 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 securities lending and reverse repurchase agreements. A securities lending agreement is a loan of securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. 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. As required by generally accepted accounting principles, the University has reported investments and an offsetting current liability of \$28,655,725 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 component unit included equity, debt, Federal agency securities, limited partnerships, and mutual funds. These investments are presented on the financial statements at fair value of \$69,393,739, and are not classified as to risk category.

## 4. RECEIVABLES

**Accounts Receivable.** Accounts receivable reported in the statement of net assets represent amounts for student fees and various student services provided by the University, various auxiliary services provided to students and third parties, grant reimbursements from third parties, and interest accrued on investments. Accounts receivable are reported net of an allowance of \$6,674,682.

**Loans and Notes Receivable.** Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs. Loans and notes receivable are reported net of an allowance for uncollectible loans and notes of \$1,202,968.

**Allowances for Uncollectible Receivables.** The University provides allowances for uncollectible accounts and loans and notes receivable based upon management's best estimate of uncollectible accounts and notes at fiscal year-end, considering type, age, collection history of receivables, and any other factors as considered appropriate.

## 5. DUE FROM STATE

This receivable includes \$77,434,917 of Public Education Capital Outlay allocations for construction of University facilities.

## 6. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expended when purchased and, therefore, are not reported on the statement of net assets.

- Merchandise Inventories – Those inventories maintained which are available for resale to individuals and other University departments, and are not expended at the time of purchase. These inventories are reported on the statement of net assets, and are valued at cost using either the average cost method or the last invoice cost, which approximates the first-in, first-out method of inventory valuation.

## 7. CAPITAL ASSETS

The activity of the University's major classes of capital assets for the 2003-04 fiscal year is presented in the following table:

| Description                                  | Beginning Balance     | Additions            | Deletions           | Ending Balance        |
|--|-----------------------|----------------------|---------------------|-----------------------|
| <b>NonDepreciable Capital Assets:</b>        |                       |                      |                     |                       |
| Land   | \$ 26,652,805         | \$ 1,750,000         | \$                  | \$ 28,402,805         |
| Construction in Progress                     | 8,241,808             | 51,256,271           | 7,780,662           | 51,717,417            |
| Works of Art and Historical Treasures        | 2,324,081             | 329,901              |                     | 2,653,982             |
| <b>Total Nondepreciable Capital Assets:</b>  | <b>37,218,694</b>     | <b>53,336,172</b>    | <b>7,780,662</b>    | <b>82,774,204</b>     |
| <b>Depreciable Capital Assets</b>            |                       |                      |                     |                       |
| Buildings                                    | 358,765,758           | 11,022,662           |                     | 369,788,420           |
| Infrastructure and Other Improvements        | 10,063,920            |                      |                     | 10,063,920            |
| Furniture and Equipment                      | 108,344,355           | 12,293,616           | 7,435,081           | 113,202,890           |
| Property Under Capital Leases                |                       | 9,248,513            |                     | 9,248,513             |
| Library Resources                            | 66,784,172            | 4,939,869            | 7,397               | 71,716,644            |
| Other Capital Assets                         | 1,522,886             | 193,916              | 17,493              | 1,699,309             |
| <b>Total Depreciable Capital Assets</b>      | <b>545,481,091</b>    | <b>37,698,576</b>    | <b>7,459,971</b>    | <b>575,719,696</b>    |
| <b>Less, Accumulated Depreciation</b>        |                       |                      |                     |                       |
| Buildings                                    | 81,998,724            | 7,211,805            |                     | 89,210,529            |
| Infrastructure and Other Improvements        | 7,226,078             | 670,928              |                     | 7,897,006             |
| Furniture and Equipment                      | 73,128,227            | 13,158,658           | 6,638,023           | 79,648,862            |
| Property Under Capital Leases                |                       | 3,702,540            |                     | 3,702,540             |
| Library Resources                            | 20,964,604            | 4,027,604            |                     | 24,992,208            |
| Other Capital Assets                         | 1,057,493             | 200,375              | 3,199               | 1,254,669             |
| <b>Total Accumulated Depreciation</b>        | <b>184,375,126</b>    | <b>28,971,910</b>    | <b>6,641,222</b>    | <b>206,705,814</b>    |
| <b>Total Depreciable Capital Assets, Net</b> | <b>361,105,965</b>    | <b>8,726,666</b>     | <b>818,749</b>      | <b>369,013,882</b>    |
| <b>Total Capital Assets, Net</b>             | <b>\$ 398,324,659</b> | <b>\$ 62,062,838</b> | <b>\$ 8,599,411</b> | <b>\$ 451,788,086</b> |

Depreciation expense reported on the statement of revenues, expenses, and changes in net assets includes net losses on disposition of capital assets and other minor adjustments totaling \$652,775.

**8. DUE TO FEDERAL GOVERNMENT**

The University's Hemispheric Center for Environmental Technology (HCET) was the subject of four Federal audits and investigations, all related to HCET's administration of the United States Department of Energy grants and other awards during the period of approximately 1995-2003. The audits were conducted by the Office of Audit Services of the Office of Inspector General, Department of Health and Human Services. The University Board of Trustees approved a settlement on February 10, 2005, between the University and the Federal Government whereby all audit claims were settled and the University agreed to pay \$11.5 million to the Federal Government. The University contends in the settlement that its conduct was appropriate under its approved policies, applicable law and regulation, and the terms of its sponsored agreements. The settlement amount of \$11.5 million is reported as a due to Federal government and a nonoperating expense on the financial statements. The University paid \$2 million to the Federal government on February 14, 2005. The remaining unpaid balance of the settlement amount, \$9.5 million, shall accrue simple interest at the Federal funds

rate from the date of the settlement agreement until the settlement amount is fully paid. The entire settlement amount, plus any interest accrued on the remaining balance, shall be paid in full no later than July 1, 2005. According to University management, the settlement leaves intact the University's favorable standing as a recipient of Federal research funds.

**9. DEFERRED REVENUES**

Deferred revenues include amounts received prior to the end of the fiscal year but related to subsequent accounting periods. As of June 30, 2004, the University reported \$59,358,667 of deferred revenues relating to Public Education Capital Outlay allocations.

**10. LONG-TERM LIABILITIES**

Long-term liabilities of the University include bonds and revenue certificates, notes, capital leases, and compensated absences. The following table presents the University's long-term liabilities activity for the fiscal year ended June 30, 2004:

| Description                            | Beginning Balance     | Additions            | Reductions          | Ending Balance        | Current Portion     |
|--|-----------------------|----------------------|---------------------|-----------------------|---------------------|
| Bonds and Revenue Certificates Payable | \$ 96,133,030         | \$                   | \$ 3,375,084        | \$ 92,757,946         | \$ 3,519,518        |
| Notes Payable                          | 21,825,232            |                      | 1,070,944           | 20,754,288            | 1,170,943           |
| Capital Leases Payable                 |                       | 7,042,166            | 1,911,605           | 5,130,561             | 2,102,537           |
| Compensated Absences Liability         | 22,676,810            | 3,297,986            | 2,167,518           | 23,807,278            | 1,136,401           |
| <b>Total Long-Term Liabilities</b>     | <b>\$ 140,635,072</b> | <b>\$ 10,340,152</b> | <b>\$ 8,525,151</b> | <b>\$ 142,450,073</b> | <b>\$ 7,929,399</b> |

| Type and Series                                     | Amount of Original Issue | Amount Outstanding   | Interest Rate (Percent) | Annual Maturity To |
|---|--------------------------|----------------------|-------------------------|--------------------|
| <b>Student Housing and Parking:</b>                 |                          |                      |                         |                    |
| 1995  | \$ 7,780,000             | \$ 5,538,320         | 4.70 - 5.375            | 2016               |
| 1998  | 26,525,000               | 24,410,997           | 4.30 - 6.30             | 2028               |
| 1999  | 7,530,000                | 6,376,962            | 4.40 - 5.625            | 2019               |
| 2000  | 14,605,000               | 13,712,527           | 4.40 - 5.75             | 2025               |
| 2002  | 22,915,000               | 21,724,014           | 2.60 - 4.60             | 2022               |
| <b>Academic and Student Services Facilities:</b>    |                          |                      |                         |                    |
| 1997  | 2,936,719                | 2,353,972            | 5.00 - 5.60             | 2022               |
| 1997A   | 4,360,924                | 4,029,600            | 4.25 - 5.00             | 2016               |
| 1998  | 5,643,367                | 4,726,955            | 4.00 - 5.00             | 2023               |
| 2001  | 5,566,922                | 5,162,932            | 4.00 - 5.00             | 2026               |
| 2003A   | 5,049,124                | 4,721,667            | 4.00 - 5.00             | 2013               |
| <b>Total Bonds and Revenue Certificates Payable</b> | <b>\$ 102,912,056</b>    | <b>\$ 92,757,946</b> |                         |                    |

**Bonds and Revenue Certificates Payable.**

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. The building fee and capital improvement fee, collected as a part of tuition and remitted to the State Board of Education, is used to retire the revenue certificates for the academic and student service facilities.

A summary of pertinent information related to the University's bond indebtedness is presented in the table on the left.

Principal and interest requirements on the bonded debt outstanding as of June 30, 2004, are presented in the following table:

| Fiscal Year Ending June 30 | Principal            | Interest             | Total                 |
|----------------------------|----------------------|----------------------|-----------------------|
| 2005                       | \$ 3,544,542         | \$ 4,343,426         | \$ 7,887,968          |
| 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                       | 4,218,713            | 3,672,658            | 7,891,371             |
| 2010-2014                  | 23,543,051           | 15,395,070           | 38,938,121            |
| 2015-2019                  | 23,549,059           | 9,759,672            | 33,308,731            |
| 2020-2024                  | 19,073,429           | 4,383,048            | 23,456,477            |
| 2025-2028                  | 7,982,997            | 820,164              | 8,803,161             |
| <b>Subtotal</b>            | <b>93,507,141</b>    | <b>50,437,261</b>    | <b>143,944,402</b>    |
| Bond Discounts             | (1,015,606)          |                      | (1,015,606)           |
| Bond Premium               | 436,510              |                      | 436,510               |
| Deferred Loss              | (170,099)            |                      | (170,099)             |
| <b>Total</b>               | <b>\$ 92,757,946</b> | <b>\$ 50,437,261</b> | <b>\$ 143,195,207</b> |

**Notes Payable - University.** 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 the Florida

International University Foundation, Inc., for 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, 2004, consist of the following:

| Type and Series                   | Amount of Original Issue | Amount Outstanding | Interest Rates (Percent) | Annual Maturity To |
|-----------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| Student Housing and Parking: 1993 | \$ 29,345,000            | \$ 20,754,288      | 4.50 - 5.125             | 2017               |

| Fiscal Year Ending June 30 | Principal            | Interest            | Total                |
|----------------------------|----------------------|---------------------|----------------------|
| 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                       | 1,440,000            | 770,962             | 2,210,962            |
| 2010-2014                  | 8,370,000            | 2,645,200           | 11,015,200           |
| 2015-2017                  | 6,120,000            | 469,000             | 6,589,000            |
| <b>Subtotal</b>            | <b>21,055,000</b>    | <b>7,620,180</b>    | <b>28,675,180</b>    |
| Less, Unamortized Discount | 300,712              |                     | 300,712              |
| <b>Total</b>               | <b>\$ 20,754,288</b> | <b>\$ 7,620,180</b> | <b>\$ 28,374,468</b> |

Annual requirements to amortize the notes payable as of June 30, 2004, are shown in the table to the left:

**Capital Leases Payable.** The University is acquiring data processing equipment totaling \$9,248,513 under capital leases. Principal and interest requirements on the capital leases outstanding as of June 30, 2004, are presented in the following table:

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|-----------------------------------|---------------------|-------------------|---------------------|
| 2005                              | \$ 2,102,537        | \$ 161,282        | \$ 2,263,819        |
| 2006                              | 1,841,357           | 90,492            | 1,931,849           |
| 2007                              | 834,396             | 26,247            | 860,643             |
| 2008                              | 352,271             | 4,282             | 356,553             |
| <b>Total</b>                      | <b>\$ 5,130,561</b> | <b>\$ 282,303</b> | <b>\$ 5,412,864</b> |

The stated interest rates range from 2.25 to 4.83 percent.

**Compensated Absences Liability.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to State Board of Education Rule 6C-5.920, Florida Administrative Code, and pursuant to bargaining agreements between the Florida Board of Education and 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' vested right to receive compensation for future absences when certain conditions are met, whereas 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, 2004, the total estimated liability for annual and sick leave, which includes the University's share of the Florida Retirement System and FICA contributions, was \$13,665,670 and \$10,141,608, respectively. The current portion of the compensated absences liability is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability. The University's total net assets balance at June 30, 2004, of \$456,856,467 would have been \$480,663,745 had the liability for compensated absences not been applied against it.

### 11. NOTES PAYABLE – COMPONENT UNIT

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. 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, 2004, the outstanding principal balance due under this note payable was \$11,620,000.

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, 2004, are shown in the following table:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>        |
|-----------------------------------|----------------------|
| 2005                              | \$ 425,000           |
| 2006                              | 450,000              |
| 2007                              | 470,000              |
| 2008                              | 495,000              |
| 2009                              | 520,000              |
| Thereafter                        | 9,260,000            |
| <b>Total</b>                      | <b>\$ 11,620,000</b> |

### 12. 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.

The facility under the above operating lease is not recorded as an asset on the statement of net assets; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred. The following schedule by years presents management's best estimate of future minimum rental payments for this noncancelable operating lease as of June 30, 2004:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>        |
|-----------------------------------|----------------------|
| 2005                              | \$ 1,575,000         |
| 2006                              | 1,575,000            |
| 2007                              | 1,575,000            |
| 2008                              | 1,638,000            |
| 2009                              | 1,638,000            |
| 2010-2014                         | 8,321,040            |
| 2015-2019                         | 8,653,882            |
| 2020-2023                         | 5,314,983            |
| <b>Total Remaining Commitment</b> | <b>\$ 30,290,905</b> |

| <u>Project Name</u>                             | <u>Current Commitment</u> | <u>Expenses</u>      | <u>Commitment Balance</u> |
|---|---------------------------|----------------------|---------------------------|
| Law School Building                             | \$ 31,774,112             | \$ 893,083           | \$ 30,881,029             |
| Health and Life Sciences Expansion - Phase II   | 19,746,830                | 11,546,115           | 8,200,715                 |
| Graduate School of Business - Office/Classroom  | 18,094,823                | 378,618              | 17,716,205                |
| Marine Biology Building - BBC Science/Classroom | 13,100,000                | 597,490              | 12,502,510                |
| Parking Garage IV                               | 12,912,963                | 11,462,276           | 1,450,687                 |
| Parking Garage III                              | 12,778,182                | 9,985,234            | 2,792,948                 |
| Art Museum                                      | 11,597,903                | 422,567              | 11,175,336                |
| Recreation Center, Phase I                      | 8,983,721                 | 3,901,867            | 5,081,854                 |
| University Park Central Utility Plant           | 8,982,630                 | 1,409,474            | 7,573,156                 |
| Graham Center Expansion                         | 6,543,145                 | 5,079,819            | 1,463,326                 |
| Wolfe University Center Expansion               | 3,666,872                 | 170,133              | 3,496,739                 |
| <b>Total</b>                                    | <b>\$ 148,181,181</b>     | <b>\$ 45,846,676</b> | <b>\$ 102,334,505</b>     |

### 13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

| <u>Function</u>                     | <u>Amount</u>         |
|-------------------------------------|-----------------------|
| Instruction                         | \$ 104,385,593        |
| Research                            | 60,806,562            |
| Public Service                      | 6,438,615             |
| Academic Support                    | 56,982,082            |
| Student Services                    | 20,759,676            |
| Institutional Support               | 50,561,814            |
| Operations and Maintenance of Plant | 23,902,375            |
| Scholarships and Fellowships        | 21,078,364            |
| Auxiliary Operations                | 47,971,166            |
| Loan Operating Expenses             | 46,262                |
| Depreciation                        | 29,624,685            |
| <b>Total Operating Expenses</b>     | <b>\$ 422,557,194</b> |

### 14. CONSTRUCTION COMMITMENTS

A summary of major construction commitments (\$3 million or more) at June 30, 2004, is presented in the following table:

## 15. 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. Participating employers include all State departments, counties, district school boards, universities and community colleges. Many municipalities and special districts have elected to be participating employers. Essentially, all regular employees of participating employers are eligible to enroll as members of the Plan.

The Florida Legislature has reduced the vesting period from 10 to 6 years of service. Any member employed in a regularly established position on July 1, 2001, with a total of 6 or more years of creditable service will be considered vested. Former members who are not employed with a participating Plan employer on July 1, 2001, must return to covered employment for one year to become eligible for the six-year vesting provision. An exception to this one-year requirement applies to former members who are within one year of vesting under the pre-2001 vesting requirements. These members will only be required to work the lesser of one year or the amount of time it would have taken to vest in their class of membership prior to July 1, 2001. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before 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 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 Florida Department of Management Services, Division of Retirement in Tallahassee, Florida.

The State of Florida establishes contribution rates for Plan members. The following table presents the contribution rates for the employer during the 2003-04 fiscal year:

| Class or Plan   | Percent of Gross Salary |                 |
|---|-------------------------|-----------------|
|   | Employee                | Employer<br>(A) |
| Florida Retirement System,<br>Regular   | 0.00                    | 7.39            |
| Florida Retirement System,<br>Senior Management Service   | 0.00                    | 9.37            |
| Florida Retirement System,<br>Special Risk  | 0.00                    | 18.53           |
| Teachers' Retirement System,<br>Plan E  | 6.25                    | 11.35           |
| Deferred Retirement Option Program -<br>Applicable to Members from<br>All of the Above Classes or Plans | 0.00                    | 9.11            |
| Florida Retirement System,<br>Reemployed Retiree  | (B)                     | (B)             |

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement and .10 percent for administrative costs of the Public Employee Optional Retirement Program.  
(B) Contribution rates are dependent upon the retirement class in which reemployed.

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 total contributions made to the Plan (none from employees) for fiscal years ended June 30, 2002, June 30, 2003, and June 30, 2004, totaled \$5,568,117, \$4,441,483, and \$5,412,463, 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 (Program) 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 those employees who are not expected to remain in the Florida Retirement System for six or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions

can make an irrevocable election to participate in the Program rather than the 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 an amount equal to 10.43 percent of the participant's gross monthly compensation. A small amount 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 deduction an amount not to exceed the percentage contributed by the University to the participant's annuity account.

There were 1,423 University participants during the 2003-04 fiscal year. Required contributions made to the Program totaled \$9,836,664, including \$3,752,358 from employee contributions.

**Public Employee Optional Retirement Program.** Pursuant to Section 121.4501, Florida Statutes, effective June 1, 2002, the Florida Legislature created a Public Employee Optional Retirement Program (PEORP), also known as the Florida Retirement System (FRS) Investment Program. The PEORP is a defined contribution plan, sponsored by the State of Florida, available as an option to the FRS, and is self-directed by the employee. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. With each pay period, the University contributes a percentage (same as FRS Rate) of the participating employees' earnings to an annuity plan. Pension benefits are determined by the dollars in the account at the time of retirement.

There were 108 University participants during the 2003-04 fiscal year. Required contributions made to the PEORP totaled \$225,367.

## 16. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2003-04 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 15.

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 2003-04 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.

## 17. RISK MANAGEMENT PROGRAMS

**State Self-Insurance Fund.** In accordance with a program for central insurance purchases adopted by the Florida Cabinet in 1969, the Department of Management Services has authority to purchase insurance on behalf of all State agencies. This authority was granted with 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 \$2 million are commercially insured up to \$200 million per loss event. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculations of premiums consider the cash needs of the program and the amount of risk exposure for each participant. 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'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 risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance in Tallahassee, Florida.

## 18. CONTINGENT LIABILITIES

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 attorney and management, should not materially affect future operations and the financial condition of the University.

## 19. PRIOR PERIOD ADJUSTMENT – COMPONENT UNIT

Adjustments to beginning net assets were reported only when amounts were considered material in accordance with Accounting Principles Board Opinions Nos. 9 and 20 and FASB Statement No. 16. All other nonmaterial adjustments were reported through current year operations. The total adjustment to beginning net assets reported in the statement of revenues, expenses, and changes in net assets was \$ 3,717,965 to decrease the Component Unit's beginning net asset balance for the Transfer of Title of the Wolfsonian Museum Building and Land to the Board of Trustees of Internal Improvement Trust Fund of Florida.

## 20. SEGMENT INFORMATION

A segment is an identifiable activity (or grouping of activities), that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities 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 2003-04 fiscal year for the segments:

### CONDENSED STATEMENT OF NET ASSETS

|   | Housing              | Parking              |
|---|----------------------|----------------------|
| <b>Assets</b>                                   |                      |                      |
| Current Assets                                  | \$ 11,007,243        | \$ 10,662,557        |
| Capital Assets, Net                             | 60,608,063           | 36,120,441           |
| Other Noncurrent Assets                         | 1,631,289            | 2,543,529            |
| <b>Total Assets</b>                             | <b>73,246,595</b>    | <b>49,326,527</b>    |
| <b>Liabilities</b>                              |                      |                      |
| Current Liabilities                             | 5,154,970            | 4,393,843            |
| Noncurrent Liabilities                          | 56,969,820           | 32,156,586           |
| <b>Total Liabilities</b>                        | <b>62,124,790</b>    | <b>36,550,429</b>    |
| <b>Net Assets</b>                               |                      |                      |
| Restricted                                      | 2,195,482            | 173,669              |
| Unrestricted                                    | 7,196,072            | 7,732,381            |
| Invested in Capital Assets, Net of Related Debt | 1,730,251            | 4,870,048            |
| <b>Total Net Assets</b>                         | <b>\$ 11,121,805</b> | <b>\$ 12,776,098</b> |

### CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

|  | Housing              | Parking              |
|--|----------------------|----------------------|
| Operating Income:                              |                      |                      |
| Housing Rental and Parking Fees                | \$ 12,604,569        | \$ 5,377,032         |
| Depreciation Expenses                          | (1,384,224)          | (438,245)            |
| Other Operating Expenses                       | (4,890,960)          | (2,783,733)          |
| <b>Net Operating Income</b>                    | <b>6,329,385</b>     | <b>2,155,054</b>     |
| Nonoperating Revenues (Expenses):              |                      |                      |
| Investment Income                              | 272,194              | 672,610              |
| Other Nonoperating Revenues                    | 2,685,846            | 10,885               |
| Interest on Asset-Related Debt                 | (2,989,245)          | (1,522,194)          |
| Other Nonoperating Expenses                    | (55,442)             | (1,518,229)          |
| <b>Net Nonoperating Expenses</b>               | <b>(86,647)</b>      | <b>(2,356,928)</b>   |
| <b>Income (Loss) Loss Before Transfers-Out</b> | <b>6,242,738</b>     | <b>(201,874)</b>     |
| Transfers-Out                                  | (1,115,519)          | (130,360)            |
| <b>Change in Net Assets</b>                    | <b>5,127,219</b>     | <b>(332,234)</b>     |
| Net Assets, Beginning of Year                  | 5,994,586            | 13,108,332           |
| <b>Net Assets, End of Year</b>                 | <b>\$ 11,121,805</b> | <b>\$ 12,776,098</b> |

### CONDENSED STATEMENT OF CASH FLOWS

|  | Housing            | Parking          |
|--|--------------------|------------------|
| <b>Net Cash Provided (used) by:</b>              |                    |                  |
| Operating Activities                             | \$ 7,759,757       | \$ 2,315,678     |
| Capital and Related Financing Activities         | (3,629,868)        | (25,625,738)     |
| Investing Activities                             | (7,175,855)        | 23,099,398       |
| <b>Net Decrease in Cash and Cash Equivalents</b> | <b>(3,045,966)</b> | <b>(210,662)</b> |
| Cash and Cash Equivalents, Beginning of Year     | 3,140,966          | 249,962          |
| <b>Cash and Cash Equivalents, End of Year</b>    | <b>\$ 95,000</b>   | <b>\$ 39,300</b> |



Biscayne Bay Campus



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