

FLORIDA INTERNATIONAL UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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Notes: (1) Position remained vacant from January 19, 2012, through March 21, 2012.
(2) Faculty Senate Chair.
(3) Student body president.
(4) Position was vacant from July 1, 2011, through September 14, 2011.

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

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

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

FLORIDA INTERNATIONAL UNIVERSITY
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida International University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units columns. Those financial statements were audited by other auditors whose reports thereon has have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida International University and of its aggregate discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

Respectfully submitted,



David W. Martin, CPA
February 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

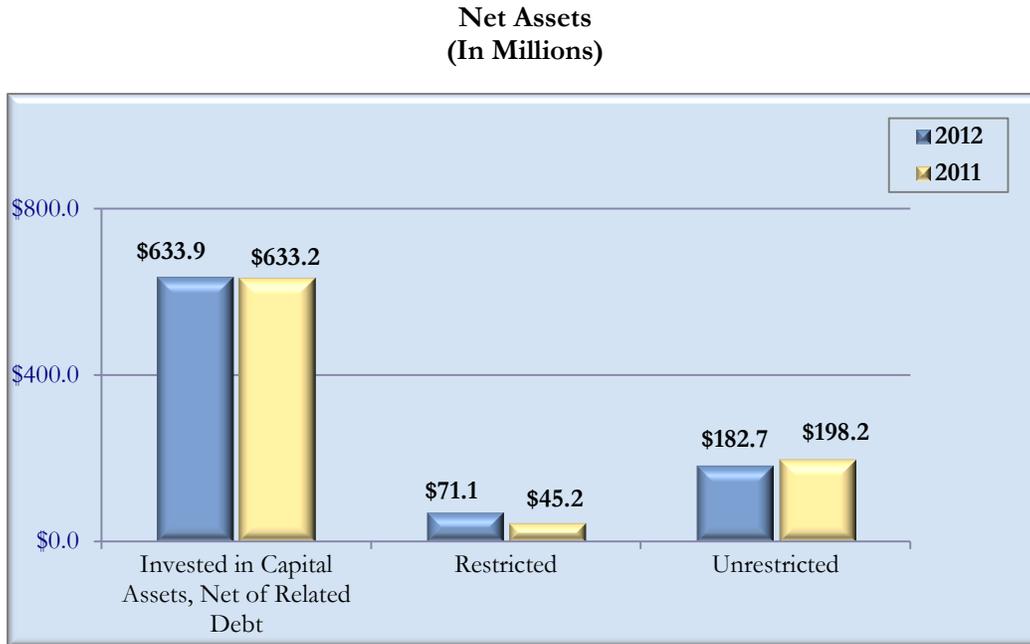
FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.3 billion at June 30, 2012. This balance reflects a \$24.5 million, or 2 percent, increase as compared to the 2010-11 fiscal year. Investments increased \$62.7 million due in part to investment of bond proceeds for the Parkview Housing facility. The amount due from the State decreased by \$28.4 million as funds were drawn down and used for State funded construction projects. In addition, there was a \$5.6 million decrease in net capital assets, resulting from a change in the University's capitalization threshold as further explained in the capital asset section of this MD&A. While assets increased, liabilities increased by a lesser amount of \$13.4 million, or 3.8 percent, totaling \$363.6 million at June 30, 2012, as compared to \$350.2 million at June 30, 2011. A new bond issue increased debt by \$47.5 million and other post employment benefits payable increased \$7.1 million. As a result, the University's net assets increased by \$11.1 million, resulting in a year-end balance of \$887.7 million.

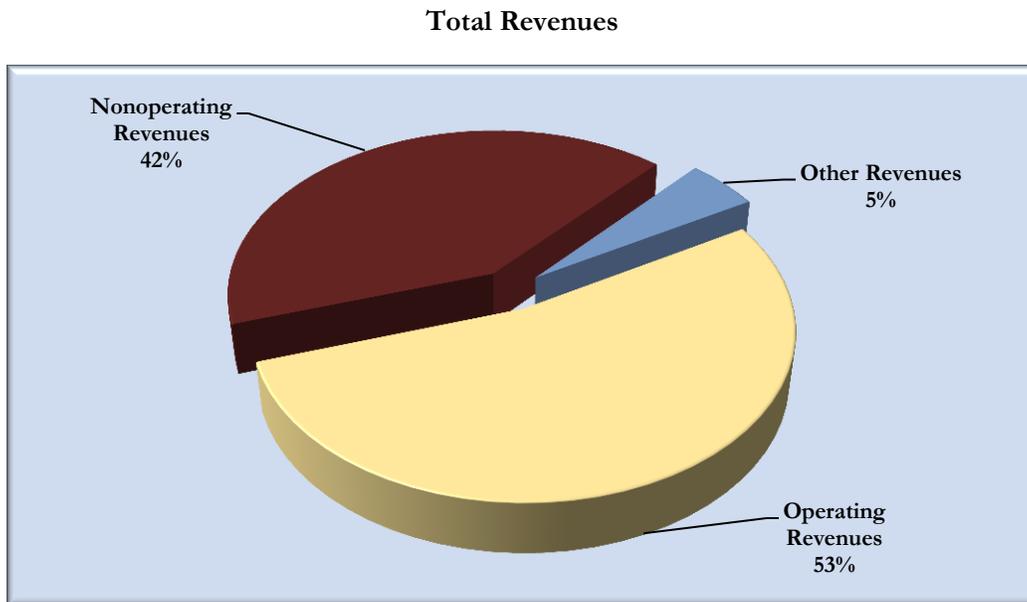
The University's operating revenues totaled \$419 million for the 2011-12 fiscal year, representing a \$42 million, or 11.1 percent, increase over the 2010-11 fiscal year. Major components of operating revenues are student tuition and fees, auxiliary enterprise revenues, and grants and contracts. Student tuition and fees revenues increased \$30.8 million as a result of tuition and fee increases combined with a 4.7 percent increase in student enrollment, auxiliary enterprise revenues increased 7.3 percent as a result of increases in fees for continuing education programs, while grants and contract revenue decreased \$2.2 million. Operating expenses totaled \$738.1 million for the 2011-12 fiscal year, representing an increase of \$42.4 million, or 6.1 percent, over the 2010-11 fiscal year due mainly to an increase in compensation and employee benefits of \$23.2 million and an increase in services and supplies of \$13.9 million.

Net nonoperating revenues and expenses decreased by \$64.8 million in the 2011-12 fiscal year. This decrease was partly due to the termination of American Recovery and Reinvestment Act revenue, which represented \$14.5 million. State noncapital appropriations also decreased \$19.1 million. Additionally, due to the change in the capitalization threshold, there were other nonoperating expenses of \$28 million for noncash, nonrecurring capital assets removed from the accounting records.

Net assets represent the residual interest in the University’s assets after deducting liabilities. The University’s comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:



The following chart provides a graphical presentation of University revenues by category for the 2011-12 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include:

- Florida International University Foundation, Inc. (Foundation) – The purpose of the Foundation is to encourage, solicit, receive, and administer gifts and bequests of property and funds for the advancement of Florida International University and its objectives.
- Florida International University Research Foundation, Inc. (Research Foundation) – The purpose of the Research Foundation, Inc., includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of Florida International University through income from contracts, grants, and other sources, including, but not limited to, income derived from or related to the development and commercialization of University work products.
- FIU Athletics Finance Corporation (Finance Corporation) – The purpose of the Finance Corporation includes the support to the University in matters pertaining to the financing of the FIU football stadium and, subsequently, the managing and operating of the facility.
- Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network) – The purpose of the Health Care Network is to improve and support health education at FIU.
- FIU College of Medicine Self-Insurance Program (Self-Insurance Program) – The purpose of the Self-Insurance Program is to provide professional and general liability protection for the Florida International University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine's faculty, staff, and resident physicians.

Based upon the application of the criteria for determining component units, the Self-Insurance Program is included within the University reporting entity as a blended component unit, and the Foundation, Research Foundation, Finance Corporation, and Health Care Network are included within the University reporting entity as discretely presented component units. Information regarding these component units, including summaries of the discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

THE STATEMENT OF NET ASSETS

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

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

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

	2012	2011
Assets		
Current Assets	\$ 416.5	\$ 441.6
Capital Assets, Net	751.4	757.0
Other Noncurrent Assets	83.4	28.2
Total Assets	<u>1,251.3</u>	<u>1,226.8</u>
Liabilities		
Current Liabilities	102.8	185.8
Noncurrent Liabilities	260.8	164.4
Total Liabilities	<u>363.6</u>	<u>350.2</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	633.9	633.2
Restricted	71.1	45.2
Unrestricted	182.7	198.2
Total Net Assets	<u>\$ 887.7</u>	<u>\$ 876.6</u>

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

The statement of revenues, expenses, and changes in net assets presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
Operating Revenues	\$ 419.0	\$ 377.0
Less, Operating Expenses	738.1	695.7
Operating Loss	(319.1)	(318.7)
Net Nonoperating Revenues	291.2	356.0
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(27.9)	37.3
Other Revenues, Expenses, Gains, or Losses	39.0	33.1
Net Increase In Net Assets	11.1	70.4
Net Assets, Beginning of Year	876.6	806.2
Net Assets, End of Year	<u>\$ 887.7</u>	<u>\$ 876.6</u>

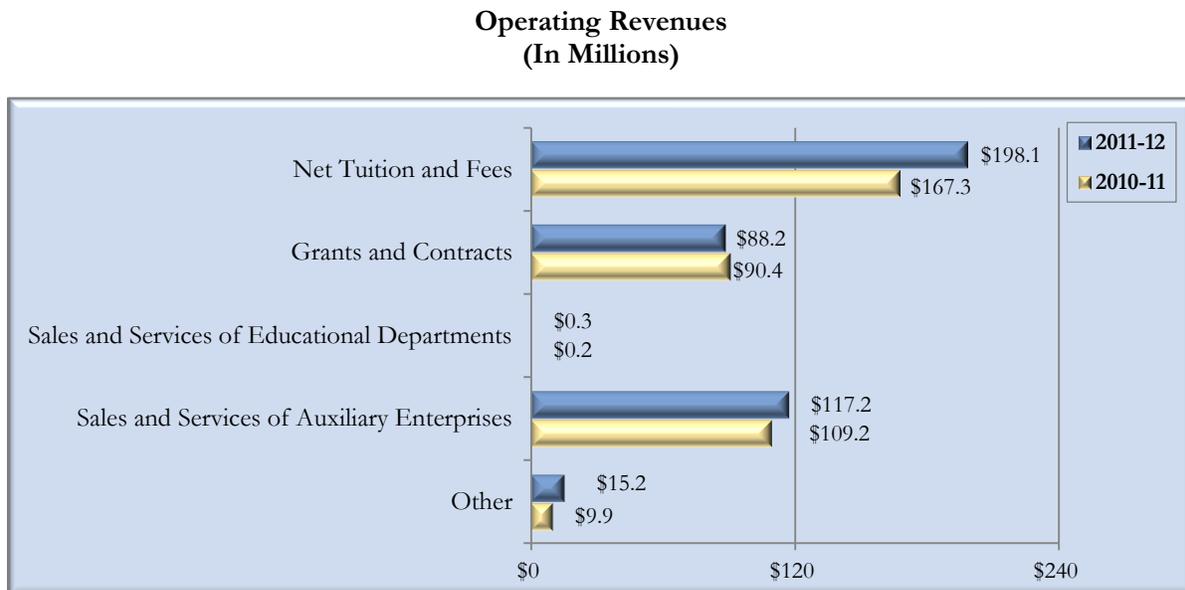
Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2011-12 and 2010-11 fiscal years:

Operating Revenues (In Millions)		
	<u>2011-12</u>	<u>2010-11</u>
Net Tuition and Fees	\$ 198.1	\$ 167.3
Grants and Contracts	88.2	90.4
Sales and Services of Educational Departments	0.3	0.2
Sales and Services of Auxiliary Enterprises	117.2	109.2
Other	15.2	9.9
Total Operating Revenues	<u>\$ 419.0</u>	<u>\$ 377.0</u>

The following chart presents the University’s operating revenues for the 2011-12 and 2010-11 fiscal years:



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

- Student tuition and fees increased \$30.8 million. The increase was primarily due to an 8 percent Statewide tuition increase for undergraduate students and a tuition differential that allowed the University to increase undergraduate tuition up to 15 percent. Additionally, there was a 4.7 percent increase in student enrollment.
- Grants and contracts decreased \$2.2 million. Although Federal Grants increased \$2.3 million, State and Local grants decreased \$4.8 million, as a result of State budget reductions. Less funding was available and the average amount received per grant was lower than prior years.
- Sales and services of auxiliary enterprises increased \$8 million primarily due to increases in fees for continuing education programs.

Operating Expenses

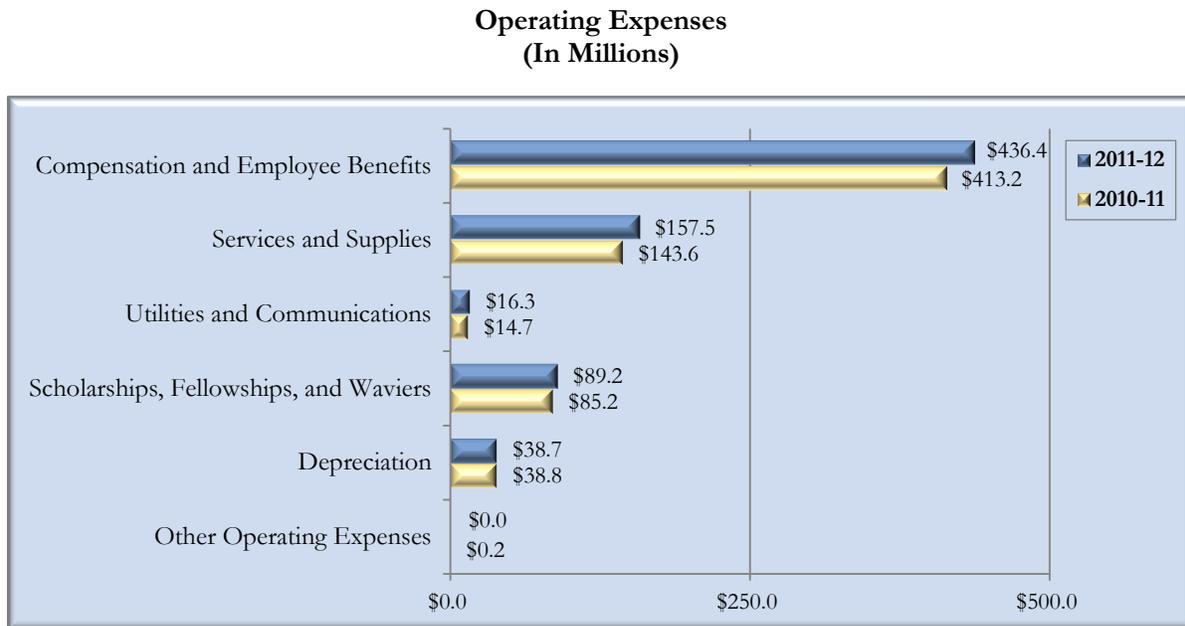
Expenses are categorized as operating or nonoperating. The majority of the University’s expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University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

The following summarizes the operating expenses by natural classifications for the 2011-12 and 2010-11 fiscal years:

**Operating Expenses
For the Fiscal Years
(In Millions)**

	2011-12	2010-11
Compensation and Employee Benefits	\$ 436.4	\$ 413.2
Services and Supplies	157.5	143.6
Utilities and Communications	16.3	14.7
Scholarships, Fellowships, and Waivers	89.2	85.2
Depreciation	38.7	38.8
Other Operating Expenses		0.2
Total Operating Expenses	\$ 738.1	\$ 695.7

The following chart presents the University’s operating expenses for the 2011-12 and 2010-11 fiscal years:



Changes in operating expenses were the result of the following factors:

- Compensation and employee benefits increased \$23.2 million. This increase was due to an increase in employees and was partially offset by decreases in benefits. The primary decrease in benefits was a reduction of retirement benefit costs for employees participating in the State University System Retirement Programs.

- Services and supplies increased \$13.9 million. One factor contributing to the increase was the change in the capitalization threshold limit. In prior years, purchases for qualifying items were capitalized if the cost exceeded \$1,000; during the current year this limit was increased to \$5,000 and, as a result, more capital purchases were expensed. Expenses related to the additional Federal grants and contracts were another factor in increased service and supplies expenses. Furthermore, increased repairs and maintenance costs also contributed to the 2011-12 fiscal year increase.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University’s nonoperating revenues and expenses for the 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses)		
(In Millions)		
	2011-12	2010-11
State Noncapital Appropriations	\$ 195.0	\$ 214.1
Federal and State Student Financial Aid	112.4	109.9
State Appropriated American Recovery and Reinvestment Act Funds		14.5
Investment Income	9.0	23.9
Other Nonoperating Revenues	9.5	1.2
Loss on Disposal of Capital Assets	(0.5)	
Interest on Capital Asset-Related Debt	(6.1)	(6.3)
Other Nonoperating Expenses	(28.1)	(1.3)
Net Nonoperating Revenues	\$ 291.2	\$ 356.0

Net nonoperating revenues decreased by \$64.8 million, or 18.2 percent, from the prior fiscal year due mainly to the following factors:

- There was a decrease of \$19.1 million in State noncapital appropriations and a decrease of \$14.9 million in investment income. The decreases were partially offset by an increase of \$8.3 million in other nonoperating revenue which was the result of increases in amounts reported as contributed by component units to the University.
- The 2010-11 fiscal year was the second and final year the University received State Appropriated American Recovery and Reinvestment income. The termination of this program resulted in a \$14.5 million decrease in revenue.
- Other nonoperating expenses increased \$26.8 million primarily due to the inclusion of a nonrecurring, noncash item, totaling \$28 million, reflecting a change in capitalization threshold, see Note 1, Capital Assets for more details regarding this transaction.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University’s other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 34.3	\$ 31.9
Capital Grants, Contracts, Donations, and Fees	4.7	1.2
Total	<u>\$ 39.0</u>	<u>\$ 33.1</u>

Other revenues, expenses, gains, or losses totaled \$39 million for the 2011-12 fiscal year. This represents a 17.8 percent increase compared to the 2010-11 fiscal year and was due to a \$2.4 million increase in State capital appropriations earned from approved authorized encumbrances for current projects and a \$3.5 million increase in capital donations. The Foundation contributed \$2 million for the construction of a dining hall for the Hospitality and Tourism School and the Finance Corporation contributed \$1.5 million for the football stadium expansion.

THE STATEMENT OF CASH FLOWS

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

The following summarizes cash flows for the 2011-12 and 2010-11 fiscal years:

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

	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (272.1)	\$ (281.2)
Noncapital Financing Activities	315.5	334.6
Capital and Related Financing Activities	3.5	(59.1)
Investing Activities	<u>(53.7)</u>	<u>7.7</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6.8)	2.0
Cash and Cash Equivalents, Beginning of Year	<u>10.0</u>	<u>8.0</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3.2</u>	<u>\$ 10.0</u>

Major sources of funds came from State noncapital appropriations (\$198.6 million), proceeds from issuance of capital improvement debt (\$75.6 million), net student tuition and fees (\$207.4 million), grants and contracts (\$90.6 million), sales and services of auxiliary enterprises (\$124.7 million), Federal direct student loans (\$243.6 million), proceeds from sales and maturities of investments (\$841.6 million), and Federal and State student financial aid (\$112.2 million). Major uses of funds were for payments made to and on behalf of employees (\$432.5 million), payments to suppliers (\$169.6 million), Federal direct student loans (\$242 million), purchases of investments (\$904.3 million), and payments to and on behalf of students for scholarships (\$89.2 million).

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

CAPITAL ASSETS

At June 30, 2012, the University had \$1.1 billion in capital assets, less accumulated depreciation of \$379.3 million, for net capital assets of \$751.4 million. The 2011-12 fiscal year net capital assets decreased \$5.6 million compared to the 2010-11 fiscal year. This decrease is due to the removal of \$28 million of capital assets from the accounting records as a result of a change in the University’s capitalization threshold. On May 18, 2011, the Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*. The Regulation revised the capitalization threshold to achieve administrative efficiencies and cost savings by increasing the capitalization threshold of University tangible personal property. The decrease was partially offset by the addition of \$18.9 million for buildings and \$2.1 million for infrastructure and other improvements. Depreciation charges for the current fiscal year totaled \$38.7 million. The following table summarizes the University’s capital assets, net of accumulated depreciation, at June 30:

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

	2012	2011
Land	\$ 31.0	\$ 31.0
Works of Art and Historical Treasures	3.0	4.3
Construction in Progress	79.8	80.6
Buildings	552.9	534.0
Infrastructure and Other Improvements	4.1	2.0
Furniture and Equipment	33.6	47.5
Library Resources	45.7	56.1
Property Under Capital Leases and Leasehold Improvements	0.5	0.6
Computer Software	0.8	0.9
Capital Assets, Net	\$ 751.4	\$ 757.0

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2012, were incurred on the following projects: \$18.7 million for the Science Classroom Complex, \$3.2 million for the Parkview Housing, \$2.1 million for the Satellite Chiller Plant and \$2 million for the USCB Arena Expansion. The University’s major capital commitments at June 30, 2012, are as follows:

	Amount (In Millions)
Total Committed	\$ 297.6
Completed to Date	(79.8)
Balance Committed	\$ 217.8

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

DEBT ADMINISTRATION

As of June 30, 2012, the University had \$166.1 million in outstanding capital improvement debt payable and capital leases payable, representing an increase of \$41 million, or 32.8 percent, from the prior fiscal year. During the 2011-12 fiscal year, \$47.5 million of new capital improvement debt was issued to fund the construction of the Parkview Housing facility. In addition, \$29.4 million of 1998 Series and 2000 Series housing capital improvement debt payable was refunded during the 2011-12 fiscal year to take advantage of lower interest rates and achieve interest expense savings for future years. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

**Long-Term Debt, at June 30
(In Millions)**

	2012	2011
Capital Improvement Debt	\$ 165.8	\$ 124.3
Capital Leases	0.3	0.8
Total	\$ 166.1	\$ 125.1

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The slower than anticipated economic recovery in Florida has affected funding at all levels of education and this was particularly evident in the appropriations for the State University System (SUS). The State Legislature approved a nonrecurring reduction of \$300 million to the SUS for the 2012-13 academic year. FIU’s share of the SUS nonrecurring reduction was \$24.3 million. This decline in State noncapital appropriations is offset with incremental tuition revenues, mainly generated from the 15 percent differential tuition increase the Florida Board of Governors approved for undergraduate students, a graduate tuition increase, and university reserves.

The FIU Herbert Wertheim College of Medicine (COM) will welcome its fourth and largest class in August 2012. Nearly 4,000 applications were received and 120 students were accepted. The COM receives line-item appropriations from the Florida Legislature; for the 2012-13 fiscal year State appropriations to the COM increased by \$0.6 million to \$26.9 million. The 2012-13 fiscal year COM budget is aligned with the implementation plan approved by the Florida Board of Governors in 2007.

In the 2012-13 fiscal year, FIU will continue to deliver on core mission and goals investing in initiatives focusing on student success and student access consistent with the long-range Strategic Plan. This has been done through a disciplined allocation of incremental revenues and reserves. FIU is hopeful that the nonrecurring reduction for 2012-13 fiscal year will be restored in the 2013-14 fiscal year. However, should the \$24.3 million not be reinstated, FIU will be prepared to implement budget reductions that are guided by FIU’s Worlds Ahead 2010-15 Strategic Plan and 2013-14 Work Plan. This will encompass exploring cost-savings and efficiency programs along with revenue enhancements in a transparent, accountable, and consistent process.

Overall, the global and national economic situation and the State’s priorities will continue to influence appropriations to higher education. In the State of Florida, there continues to be increased interest in strengthening the efficiency and effectiveness of the higher education system; FIU is closely monitoring possible policy changes and potential impacts to higher education funding.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2012

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,115,987	\$ 5,944,761
Investments	270,227,544	170,255,203
Accounts Receivable, Net	28,112,443	62,177,935
Loans and Notes Receivable, Net	1,002,705	
Due from State	111,622,679	
Due from Component Units/University	947,385	346,050
Inventories	490,524	
Other Current Assets	995,084	2,183,971
Total Current Assets	416,514,351	240,907,920
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	66,596	2,516,656
Restricted Investments	72,734,343	3,061,976
Loans and Notes Receivable, Net	2,118,671	
Depreciable Capital Assets, Net	637,660,930	13,647,071
Nondepreciable Capital Assets	113,763,001	2,500
Due from Component Units/University	6,322,413	
Other Noncurrent Assets	2,154,726	31,412,078
Total Noncurrent Assets	834,820,680	50,640,281
TOTAL ASSETS	\$ 1,251,335,031	\$ 291,548,201
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 13,114,473	\$ 312,951
Construction Contracts Payable	3,225,643	
Salaries and Wages Payable	4,675,127	
Deposits Payable	6,700,155	
Due to State	179,269	
Due to Component Units/University	346,050	947,385
Deferred Revenue	64,803,570	1,585,606
Other Current Liabilities		208,386
Long-Term Liabilities - Current Portion:		
Bonds Payable		636,987
Capital Improvement Debt Payable	7,147,618	
Notes Payable		640,000
Capital Leases Payable	162,571	
Compensated Absences Payable	2,461,037	
Liability for Self-Insured Claims	21,280	
Total Current Liabilities	102,836,793	4,331,315

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012**

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 158,683,325	\$ 32,384,102
Capital Improvement Debt Payable		7,540,000
Notes Payable		
Capital Leases Payable	133,155	
Compensated Absences Payable	30,886,349	
Due to Component Units/University		6,322,413
Other Postemployment Benefits Payable	19,185,000	
Liability for Self-Insured Claims	191,518	
Other Long-Term Liabilities	51,738,141	8,435,274
Total Noncurrent Liabilities	260,817,488	54,681,789
TOTAL LIABILITIES	363,654,281	59,013,104
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	633,863,274	2,772,984
Restricted for Nonexpendable:		
Endowment		181,575,076
Restricted for Expendable:		
Debt Service	2,533,608	
Loans	325,540	
Capital Projects	25,609,706	
Other	42,587,094	33,472,532
Unrestricted	182,761,528	14,714,505
TOTAL NET ASSETS	887,680,750	232,535,097
TOTAL LIABILITIES AND NET ASSETS	\$ 1,251,335,031	\$ 291,548,201

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012**

	University	Component Unit(s)
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$89,722,332	\$ 198,058,478	\$
Federal Grants and Contracts	71,358,734	
State and Local Grants and Contracts	7,084,446	
Nongovernmental Grants and Contracts	9,776,275	
Sales and Services of Educational Departments	278,512	
Sales and Services of Auxiliary Enterprises	117,184,867	
Sales and Services of Component Units		1,432,095
Gift and Donations		32,629,646
Interest on Loans and Notes Receivable	55,864	
Other Operating Revenues	15,163,378	5,710,963
Total Operating Revenues	418,960,554	39,772,704
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	436,424,088	
Services and Supplies	157,463,013	15,252,747
Utilities and Communications	16,328,149	158,739
Scholarships, Fellowships, and Waivers	89,193,592	
Depreciation	38,657,865	560,353
Other Operating Expenses		6,259,963
Total Operating Expenses	738,066,707	22,231,802
Operating Income (Loss)	(319,106,153)	17,540,902
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	195,097,841	
Federal and State Student Financial Aid	112,475,420	
Investment Income (Loss)	8,980,856	(2,288,598)
Other Nonoperating Revenues	9,454,191	
Loss on Disposal of Capital Assets	(523,243)	
Interest on Capital Asset-Related Debt	(6,112,259)	(1,463,952)
Other Nonoperating Expenses	(28,147,676)	
Net Nonoperating Revenues (Expenses)	291,225,130	(3,752,550)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(27,881,023)	13,788,352
State Capital Appropriations	34,319,664	
Capital Grants, Contracts, Donations, and Fees	4,666,039	
Increase in Net Assets	11,104,680	13,788,352
Net Assets, Beginning of Year	876,576,070	218,746,745
Net Assets, End of Year	\$ 887,680,750	\$ 232,535,097

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

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 207,361,769
Grants and Contracts	90,613,487
Sales and Services of Educational Departments	278,513
Sales and Services of Auxiliary Enterprises	124,688,616
Interest on Loans and Notes Receivable	66,222
Payments to Employees	(432,514,081)
Payments to Suppliers for Goods and Services	(169,624,695)
Payments to Students for Scholarships and Fellowships	(89,193,592)
Loans Issued to Students	(7,700,669)
Collection on Loans to Students	7,393,283
Other Operating Disbursements	(3,491,730)
	(272,122,877)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	198,590,798
Federal and State Student Financial Aid	112,246,793
Federal Direct Loan Program Receipts	243,571,723
Federal Direct Loan Program Disbursements	(242,015,247)
Operating Subsidies and Transfers	(3,061,411)
Net Change in Funds Held for Others	(2,162,532)
Other Nonoperating Receipts	8,321,366
	315,491,490
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt and Leases	75,624,418
State Capital Appropriations	26,445,579
Capital Grants, Contracts, Donations, and Fees	4,391,244
Proceeds from Sale of Capital Assets	57,835
Other Receipts for Capital Projects	1,778,927
Capital Subsidies and Transfers	14,700
Purchase or Construction of Capital Assets	(63,016,906)
Principal Paid on Capital Debt and Leases	(35,424,937)
Interest Paid on Capital Debt and Leases	(6,386,943)
	3,483,917
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	841,556,824
Purchase of Investments	(904,317,146)
Investment Income	9,055,286
	(53,705,036)
Net Decrease in Cash and Cash Equivalents	(6,852,506)
Cash and Cash Equivalents, Beginning of Year	10,035,089
Cash and Cash Equivalents, End of Year	\$ 3,182,583

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (319,106,153)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	38,657,865
Change in Assets and Liabilities:	
Receivables, Net	2,436,308
Inventories	(92,569)
Other Assets	(420,141)
Accounts Payable	4,098,835
Salaries and Wages Payable	(2,370,722)
Deposits Payable	(3,254,974)
Compensated Absences Payable	(822,271)
Deferred Revenue	1,678,913
Liability for Self-Insurance	(30,968)
Other Postemployment Benefits Payable	7,103,000
	\$ (272,122,877)
NET CASH USED BY OPERATING ACTIVITIES	

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND
CAPITAL FINANCING ACTIVITIES**

Unrealized losses on investments were recognized as a reduction to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (101,017)
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (523,243)
The change in the capitalization threshold for tangible personal property was recognized on the statement of revenues, expenses, and changes in net assets as other nonoperating expenses, but are not cash transactions for the statement of cash flows.	\$ (27,951,210)

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 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 are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

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

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

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

- Florida International University Foundation, Inc. (Foundation) – Encourages, solicits, receives, and administers gifts and bequests of property and funds for the advancement of the University and its objectives.

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

- Florida International University Research Foundation, Inc. (Research Foundation) – Promotes, encourages, and assists research and training activities of faculty, staff, and students of the University through income from contracts, grants, and other sources, including, but not limited to, income derived from or related to the development and commercialization of University work products.
- FIU Athletics Finance Corporation (Finance Corporation) – Supports the University in matters pertaining to the financing of the University’s football stadium and subsequent managing and operating of the facility.
- The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network) – Improves and supports health education at FIU.

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

Basis of Presentation. The University’s accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The University's blended and discretely presented component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Florida International University Foundation, Inc., follows FASB standards of accounting and financial reporting for not-for-profit organizations. The Florida International University Research Foundation, Inc., the FIU Athletics Finance Corporation, and the FIU Academic Health Center Health Care Network Faculty Group Practice, Inc., and the blended component unit follow the GASB standards of accounting and financial reporting because they meet the criteria regarding the popular election of officers or appointment of a controlling majority of the members of the organization's governing body by one or more State or local governments.

The University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has elected to apply those FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

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

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

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

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

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

Concentration of Credit Risk – Component Units

Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash in banks. The Foundation places substantially all of its cash with high quality financial institutions which the Foundation believes limits this risk. At June 30, 2012, the Foundation did not exceed these limits. Cash and cash equivalents held with the Foundation's brokerage account at Merrill Lynch are insured by the Securities Investor Protector Corp. The balance of this account was \$100 as of June 30, 2012.

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

Financial instruments that potentially subject the Finance Corporation to concentration of credit risk consist principally of cash in banks.

In February 2012, the Research Foundation opened a bank account in Burkina Faso in West Africa to support the operations pertaining to the West Africa Water Supply, Sanitation and Hygiene (WA-WASH) Program under a U.S. Agency for International Development (USAID) grant. The balance in this account of \$90,138 as of June 30, 2012, is not FDIC insured and is subject to foreign exchange risk. The Research Foundation maintains its cash balances with high quality financial institutions, which the Research Foundation believes limits these risks.

Capital Assets. University capital assets consist of land; works of art and historical treasures; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; computer software; and property under capital leases and leasehold improvements. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

The Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*, effective July 1, 2011, revising the capitalization threshold for tangible personal property. The revision to the regulation was designed to achieve administrative efficiencies and cost savings by increasing the capitalization threshold of University tangible personal property from \$1,000 to \$5,000 and library resources from \$25 to \$250. Previously capitalized tangible personal property costing between \$1,000 and \$5,000 and library resources costing between \$25 to \$250 and related accumulated depreciation amounts as of June 30, 2011, were written off during the 2011-12 fiscal year. The adjustment column in the capital assets note disclosure shows the change by category resulting from the increase in the threshold.

The change in the capitalization threshold resulted in \$27,951,210 other nonoperating expense in the statement of revenues, expenses, and changes in net assets. This is a nonrecurring, noncash item and has been reported as a supplemental disclosure of noncash investing and capital financing activities in the statement of cash flows.

The University has a capitalization threshold of \$5,000 for tangible personal property and \$50,000 for buildings, leasehold improvements and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 15 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 5 years
- Leasehold Improvements – Various based on lease terms
- Computer Software – 5 years

Depreciable assets of the Foundation are stated at cost and are net of accumulated depreciation of \$3,302,069. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Depreciable assets of the Health Care Network are stated at cost and are net of accumulated depreciation of \$165,793. Depreciation is provided using the straight-line method over the estimated useful lives from 5 to 15 years for the assets.

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University's investments at June 30, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 68,679,810
State Board of Administration Florida PRIME	395
State Board of Administration Fund B Surplus Funds Trust Fund	8,896
State Board of Administration Debt Service Accounts	4,651,901
Mutual Funds:	
Limited Partnerships	30,880,261
Equities	72,252,794
Fixed Income and Bond Mutual Funds	107,196,845
Commodities	24,178,165
Money Market Mutual Funds	<u>35,112,820</u>
Total University Investments	<u>\$ 342,961,887</u>

External Investment Pools

State Treasury Special Purpose Investment Account

The University reported investments at fair value totaling \$68,679,810 at June 30, 2012, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

State Board of Administration Florida PRIME

At June 30, 2012, the University reported investments totaling \$395 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The University's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, at June 30, 2012, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 38 days as of June 30, 2012. A portfolio's WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2012, the University reported investments at fair value of \$8,896 in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2012. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The University reported investments totaling \$4,651,901 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Fixed Income and Bond Mutual Funds

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(6), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due. The future maturities of the securities held in the fixed income and bond mutual funds at June 30, 2012, are as follows:

University Debt Investment Maturities

Type of Investment	Investment Maturities (In Years)				
	Fair Market Value	Less Than 1	1-5	6-10	More Than 10
Fixed Income Mutual Fund	\$ 64,190,865	\$ 8,909,692	\$ 30,034,906	\$ 11,560,775	\$ 13,685,492
TIPS Index Fund	20,817,959	59,293	7,364,392	7,001,080	6,393,194
High Yield Bond Mutual Fund	22,188,021	3,683,212	7,042,478	10,197,615	1,264,716
Total	\$ 107,196,845	\$ 12,652,197	\$ 44,441,776	\$ 28,759,470	\$ 21,343,402

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2012, the securities held in the fixed income and bond mutual funds had credit quality ratings by a nationally-recognized rating agency (i.e., Standard & Poor's or Moody's), as follows:

University Debt Investment Credit Quality Ratings

Type of Investment	Fair Value	AAA / Aaa	AA / Aa	A	BBB / Baa to Not Rated
Fixed Income Mutual Fund	\$ 64,190,865	\$ 39,060,142	\$ 1,598,353	\$ 9,249,904	\$ 14,282,466
TIPS Index Fund	20,817,959	20,812,793			5,166
High Yield Bond Mutual Fund	22,188,021	643,453		1,393,408	20,151,160
Total	\$ 107,196,845	\$ 60,516,388	\$ 1,598,353	\$ 10,643,312	\$ 34,438,792

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy addresses the issue of concentration of credit risk by establishing the following restrictions:

- Maximum position in an individual security (excluding Government securities) must not exceed 5 percent of the account market value.
- Maximum position in any one issuer (excluding Government securities) must not exceed 5 percent of the account market value.

Component Units Investments

The Foundation's investments at June 30, 2012, are reported at fair value as follows:

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<u>Investment Type</u>	<u>Amount</u>
Domestic Common Stocks and Equity Funds	\$ 87,337,046
Fixed Income Securities and Funds	39,591,721
Hedge Funds and Interest in Private Equity Partnerships and Limited Liability Companies	33,581,817
International Equity Securities	<u>7,635,585</u>
Subtotal	168,146,169
Plus Accrued Income	<u>368,417</u>
Total	<u><u>\$ 168,514,586</u></u>

Concentration of Credit Risk: The Foundation maintains certain investment accounts with financial institutions which are not insured by the FDIC. These funds may be subject to insurance by Securities Investor Protection Corporation, subject to various limitations. At June 30, 2012, \$168,514,586 was held in these accounts. The Foundation believes that the number, diversity, and financial strength of the issuers mitigates the credit risks associated with all investments.

The Finance Corporation investments are made in accordance with the trust indenture dated April 1, 2007. The investments at June 30, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Board of Administration:	
Fund B Surplus Funds Trust Fund	\$ 574,230
Money Market Funds	<u>4,228,363</u>
Total	<u><u>\$ 4,802,593</u></u>

Concentration of Credit Risk: The Finance Corporation maintains investment accounts with financial institutions that are not insured by FDIC. Fund shares are not guaranteed by the United States government. Current and future portfolio holdings are subject to risk. At June 30, 2012, \$4,802,593 was held in these accounts. The Finance Corporation believes that the number, diversity, and financial strength of the issuers mitigate the credit risks associated with all investments.

At June 30, 2012, the Finance Corporation reported investments in a Federated Government Obligations Fund at fair value of \$4,228,363. This is a money market mutual fund seeking to provide current income consistent with stability of principle by investing in a portfolio of short-term, U.S. treasury and government securities. The Fund prices of fixed-income securities generally fall when interest rates rise. Interest rate changes have a greater effect on the price of fixed-income securities with longer maturities. The money market mutual fund WAM at June 30, 2012, is 42 days while the WAL is 76 days. The fund is rated AAAM by Standard & Poor's, Aaa-mf by Moody's and AAAMmf by Fitch. The fund complies with the requirements of Rule 2a-7 under the 1940 Act, which sets forth portfolio quality and diversification restrictions for money market mutual funds.

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3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable.

As of June 30, 2012, the University reported the following amounts as accounts receivable:

Description	Amount
Student Tuition and Fees	\$ 20,256,414
Contracts and Grants	7,602,078
Other	253,951
Total Accounts Receivable, Net	\$ 28,112,443

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

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Student tuition and fees receivable, contracts and grants receivable, other receivables, and loans and notes receivable, are reported net of allowances of \$19,489,241, \$1,074,231, \$473,842 and \$1,384,160, respectively, at June 30, 2012.

4. DUE FROM STATE

This amount consists of \$111,622,679 of Public Education Capital Outlay funds due from the State for the construction of University facilities.

5. INVENTORIES

Inventories have been categorized into the following two types:

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

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

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Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 30,989,550	\$	\$	\$	\$ 30,989,550
Works of Art and Historical Treasures	4,280,494	(1,484,235)	225,392	36,182	2,985,469
Construction in Progress	80,559,266		41,943,386	42,714,670	79,787,982
Total Nondepreciable Capital Assets	\$ 115,829,310	\$ (1,484,235)	\$42,168,778	\$42,750,852	\$ 113,763,001
Depreciable Capital Assets:					
Buildings	\$ 743,907,869	\$	\$40,300,712	\$ 187,298	\$ 784,021,283
Infrastructure and Other Improvements	14,676,851		2,414,958		17,091,809
Furniture and Equipment	180,786,730	(63,878,734)	14,772,595	22,557,445	109,123,146
Library Resources	116,940,310	(19,862,899)	7,202,810		104,280,221
Property Under Capital Leases and Leasehold Improvements	2,940,122		394,288	2,696,758	637,652
Computer Software	2,751,656	(743,444)	499,961	681,878	1,826,295
Total Depreciable Capital Assets	1,062,003,538	(84,485,077)	65,585,324	26,123,379	1,016,980,406
Less, Accumulated Depreciation:					
Buildings	209,860,306		21,318,647	29,468	231,149,485
Infrastructure and Other Improvements	12,703,292		320,476	1,947	13,021,821
Furniture and Equipment	133,228,905	(46,780,594)	7,816,989	18,804,944	75,460,356
Library Resources	60,820,067	(10,720,039)	8,445,692		58,545,720
Property Under Capital Leases and Leasehold Improvements	2,367,472		474,395	2,696,758	145,109
Computer Software	1,833,344	(517,469)	281,666	600,556	996,985
Total Accumulated Depreciation	420,813,386	(58,018,102)	38,657,865	22,133,673	379,319,476
Total Depreciable Capital Assets, Net	\$ 641,190,152	\$ (26,466,975)	\$26,927,459	\$ 3,989,706	\$ 637,660,930

Note: (1) The adjustment to capital assets is the result of a change in the capitalization threshold for tangible personal property from \$1,000 to \$5,000, effective July 1, 2011.

7. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay (PECO) and Capital Improvement Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2012, to spend the funds, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. In addition, deferred revenue also includes prepaid stadium rental income received from the Finance Corporation, contracts and grants payments received in advance, nonrefundable admission fees, student housing fees, athletic revenues and student trust fund fees received prior to fiscal year-end related to subsequent accounting periods.

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As of June 30, 2012, the University reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Capital Appropriations	\$56,708,742
Contracts and Grants	4,327,076
Admission Fees	1,675,812
Stadium Rental Income	1,221,959
Student Housing Fees	821,434
Athletic Revenues	44,747
Student Trust Fund Fees	3,800
Total Deferred Revenue	<u><u>\$64,803,570</u></u>

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2012, include capital improvement debt payable, capital leases payable, compensated absences payable, other postemployment benefits payable, liability for self-insured claims, and other long-term liabilities. Other long-term liabilities consist of the long-term portion of deferred revenues and Federal advances payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable	\$124,242,506	\$ 77,510,117	\$ 35,921,680	\$165,830,943	\$ 7,147,618
Capital Leases Payable	824,866	55,796	584,936	295,726	162,571
Compensated Absences Payable	34,169,658	1,862,921	2,685,193	33,347,386	2,461,037
Other Postemployment Benefits Payable	12,082,000	8,561,000	1,458,000	19,185,000	
Liability for Self-Insured Claims	243,766	55,785	86,753	212,798	21,280
Other Long Term Liabilities	2,572,065	49,239,496	73,420	51,738,141	
Total Long-Term Liabilities	<u><u>\$174,134,861</u></u>	<u><u>\$137,285,115</u></u>	<u><u>\$ 40,809,982</u></u>	<u><u>\$270,609,994</u></u>	<u><u>\$ 9,792,506</u></u>

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2012:

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Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2004A Student Apartments	\$ 53,915,000	\$ 38,472,623	4.00 - 5.00	2034
2011A Student Apartments Refunding	22,210,000	23,276,571	3.00 - 5.00	2025
2012A Student Apartments	53,655,000	54,188,883	3.00 - 4.25	2041
Total Student Housing Debt	<u>129,780,000</u>	<u>115,938,077</u>		
Parking Garage Debt:				
1995 Parking Garage	7,780,000	2,274,440	5.375	2016
1999 Parking Garage	7,530,000	3,580,916	5.25 - 5.625	2019
2002 Parking Garage	22,915,000	13,732,036	3.50 - 4.60	2022
2009 Parking Garage A&B	32,000,000	30,305,474	2.00 - 6.875	2039
Total Parking Garage Debt	<u>70,225,000</u>	<u>49,892,866</u>		
Total Capital Improvement Debt	<u>\$ 200,005,000</u>	<u>\$ 165,830,943</u>		

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

The University has pledged a portion of future housing rental revenues, parking fees, and an assessed transportation fee per student to repay \$200,005,000 in capital improvement (housing, parking, etc.) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing rental income, parking fees, and assessed transportation fees per student and are payable through 2041. The University has committed to appropriate each year from the housing rental income, parking fees, and assessed transportation fees per student amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$264,571,064, and principal and interest paid for the current year totaled \$12,827,890. During the 2011-12 fiscal year, housing rental income, traffic and parking fees, and assessed transportation fees totaled \$25,059,246, \$4,833,571, and \$8,216,137, respectively.

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

- On December 21, 2011, the Florida Board of Governors issued \$22,210,000 of Capital Improvement Housing Revenue Refunding Bonds, Series 2011A. The University's portion of the refunding bonds \$22,210,000 was used to defease \$23,215,000 of outstanding Capital Improvement Housing Revenue Bonds, Series 1998 and 2000. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net assets. As a result of the refunding, the University reduced its capital improvement debt service requirement by \$3,607,328 over the next 14 years and obtained an economic gain of \$2,982,190. At June 30, 2012, there was no outstanding balance of the defeased debt.

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- On May 3, 2012, the Florida Board of Governors issued \$53,655,000 of Capital Improvement Housing Revenue Bonds, Series 2012A. A portion of the capital improvement debt proceeds was used to defease the remaining \$6,220,000 of outstanding Capital Improvement Housing Revenue Bonds, Series 1998, with the remaining portion used to finance the construction of a housing facility on the main campus of the University. A portion of the proceeds will be placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University’s statement of net assets. As a result of the refunding, the University reduced its capital improvement debt service requirement by \$646,260 over the next 17 years and obtained an economic gain of \$432,709. At June 30, 2012, there was no outstanding balance of the defeased debt.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,790,000	\$ 7,456,451	\$ 14,246,451
2014	8,095,000	7,180,382	15,275,382
2015	8,430,000	6,855,999	15,285,999
2016	8,780,000	6,487,368	15,267,368
2017	6,430,000	6,097,542	12,527,542
2018-2022	34,440,000	26,076,276	60,516,276
2023-2027	29,075,000	19,251,583	48,326,583
2028-2032	25,510,000	12,891,838	38,401,838
2033-2037	22,620,000	6,701,387	29,321,387
2038-2041	13,910,000	1,492,238	15,402,238
Subtotal	164,080,000	100,491,064	264,571,064
Plus: Net Bond Discounts, Premiums, and Losses on Bond Refundings	1,750,943		1,750,943
Total	<u>\$ 165,830,943</u>	<u>\$ 100,491,064</u>	<u>\$ 266,322,007</u>

Capital Leases Payable. Food service equipment and vehicles in the amount of \$960,415 are being acquired under capital lease agreements. The stated interest rates range from 3.45 to 5.50 percent.

Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 174,817
2014	66,402
2015	66,403
2016	12,390
2017	2
Total Minimum Payments	320,014
Less, Amount Representing Interest	(24,288)
Present Value of Minimum Payments	<u>\$ 295,726</u>

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Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$33,347,386. The current portion of the compensated absences liability, \$2,461,037, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 369 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,458,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,194,000.

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

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The following table shows the University's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 4,803,000
Amortization of Unfunded Actuarial Accrued Liability	3,367,000
Interest on Normal Cost and Amortization	<u>327,000</u>
Annual Required Contribution	8,497,000
Interest on Net OPEB Obligation	483,000
Adjustment to Annual Required Contribution	<u>(419,000)</u>
Annual OPEB Cost (Expense)	8,561,000
Contribution Toward the OPEB Cost	<u>(1,458,000)</u>
Increase in Net OPEB Obligation	7,103,000
Net OPEB Obligation, Beginning of Year	<u>12,082,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 19,185,000</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 5,521,000	24.6%	\$ 8,240,000
2010-11	5,222,000	26.4%	12,082,000
2011-12	8,561,000	17.0%	19,185,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$101,015,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$101,015,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$280,051,835 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36.1 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the University's 2011-12 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Healthcare cost trend rates were 7.24, 8.38, and 8.57 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.81, 3.11, and 8.42 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.5 percent in the fourth year, grading identically to 5.0 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

Other Long-Term Liabilities. This amount includes the long-term portion of deferred revenues (\$49,239,496), related to PECO and Capital Improvement Trust Fund appropriations and prepaid stadium rental income received from the Finance Corporation, and of Federal advances payable (\$2,498,645) provided to fund the University's Federal Perkins Loan Program.

9. COMPONENT UNIT DEBT ISSUES

Notes Payable – Florida International University Foundation, Inc.

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

The bonds are secured by an irrevocable letter of credit issued by a commercial bank as described below. The Foundation will finance the payments to the Authority under the loan agreement with lease payments received from the University under an operating lease (see note 13). The \$13 million original principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The variable rate on 50 percent of the original issue, \$6.5 million, has been synthetically fixed at 4.63 percent through February 1, 2015, by way of an interest rate swap agreement with a commercial bank (see note 10). The bond proceeds are being used to acquire, construct, and equip a multi-function support complex located on the Modesto A. Maidique campus and to pay issuance costs. As of June 30, 2012, the outstanding principal balance due under this note payable was \$8.18 million. For the year ended June 30, 2012, total interest incurred and paid was \$351,171.

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On December 1, 1999, the Foundation entered into a letter of credit agreement with a commercial bank that permitted the Foundation to borrow up to \$13 million through December 15, 2004, bearing interest at the prime rate plus 2 percent. On November 29, 2004, this agreement was extended, with the same terms and conditions, through December 15, 2009. There were two additional extensions subsequent to that date through July 30, 2010. The Foundation must pay an annual commitment fee of 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 certain debt covenants with which they are in compliance.

The bonds were repurchased by the Trustee under the SunTrust Bank letter of credit due to the diminishing ability to remarket the variable rate demand bonds in the public marketplace. On July 30, 2010, the commercial bank converted the variable rate demand bonds into a five year tax exempt qualified loan. After the initial five year period, the bank would have the right to require the Foundation to refinance the bank qualified loan or could agree to extend the maturity date for an additional five year period. The Foundation agrees to pay interest at a rate of 67 percent of one month London Interbank Offered Rate (LIBOR) plus 1.68 percent. The bond maturity date of May 1, 2022, remains unchanged as does the swap agreement. On July 30, 2010, the Foundation paid \$52,213 in refinancing fees to complete this transaction. Since the terms remained substantially the same and the present value of the cash outflows is not substantially different, this is not considered an exchange of debt instruments.

The aggregate maturities of the notes payable, as of June 30, 2012, are shown in the following table:

Fiscal Year Ending June 30	Amount
2013	\$ 640,000
2014	670,000
2015	705,000
2016	745,000
2017	785,000
Thereafter	4,635,000
Total	\$ 8,180,000

Notes Payable – The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.

On June 1, 2009, the Health Care Network entered into a loan agreement totaling \$100,000 with FIU in order to fund startup costs associated with the operations. This agreement was amended on January 25, 2010, reducing the total principal payment due to \$51,100. Interest on the loan accrues at 3.25 percent and the loan is scheduled to mature on May 31, 2013.

On August 27, 2010, the Health Care Network entered into a loan agreement totaling \$5,321,198 with the University in order to provide working capital and build out capital to fund the expansion of the faculty practice plan and the establishment of the ambulatory care center and other University clinical activities. Interest on the loan accrues at 2 percent simple interest and the loan is scheduled to mature on June 1, 2030. Draw downs on

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the loan for the fiscal year ended June 30, 2012, totaled \$3,587,313, of which \$1,636,001 were expended for construction leasehold improvements to the site at PG 5 Market Station and related furniture and equipment to make the site operational. Furthermore, \$1,710,266 of these drawdowns were related to expenses paid directly by the University on behalf of the Health Care Network. The loan also includes approximately \$29,000 of accrued interest as of June 30, 2012. Payments on the loan are scheduled to begin on June 1, 2015, at which time draw downs on the loan will be completed and a final amortization schedule will be available.

Estimated principal and interest payments for the life of the amounts due to the University based on the balances as of June 30, 2012, are due as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 27,674	\$ 77,347	\$ 105,021
2014		77,977	77,977
2015		77,977	77,977
2016		77,977	77,977
2017		77,977	77,977
2018-2022	1,355,009	342,410	1,697,419
2023-2027	1,496,040	195,682	1,691,722
2028-2030	971,363	40,691	1,012,054
Total	\$ 3,850,086	\$ 968,038	\$ 4,818,124

Bonds Payable – FIU Athletics Finance Corporation

On December 1, 2009, the Finance Corporation issued \$30,000,000 of Miami-Dade County Industrial Development Authority Revenue Bonds Series 2009A and \$5,310,000 of Miami-Dade County Industrial Development Authority Taxable Revenue Bonds Series 2009B.

These bonds were issued and secured under and pursuant to the Trust Indenture. Repayments of the bonds will be payable from pledged revenues, which are all operating and nonoperating revenues. Principal payments for the bonds began March 1, 2010. Interest payments are made on a quarterly basis. The interest rate on the Series 2009A Bonds is equal to the sum of 63.7 percent of three-month LIBOR plus 1.90 percent. The interest rate on the Series 2009B Bonds shall be at a rate equal to three-month LIBOR plus 2.65 percent. The total proceeds from the new bond issue were used solely to retire and refund the outstanding Series 2007 A and B bonds and pay costs of issuance of the bonds and other refinancing costs. The bonds are secured by operating and nonoperating revenues as well as University athletic fees, not to exceed 5 percent of the total athletic fees collected. Total principal due at June 30, 2012, was \$33,385,910.

The Finance Corporation has funded a debt service reserve fund in accordance with the bond indenture requirement of maintaining an amount equal to the maximum allowable debt service on the bond in the current and any future fiscal year. This debt service reserve fund currently totals \$3,061,976 and is presented in restricted investments.

The Finance Corporation is required to maintain minimum deposits of \$2,500,000 with Regions Bank. The deposit is to be held in an interest-bearing additional reserve fund and is presented in restricted cash.

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The interest rate on these bonds is both fixed and variable and is subject to a swap agreement (see note 10) that was entered into to reduce the exposure to market risks from changing interest rates. Interest is computed on the basis of the actual number of days elapsed over a year of 365 or 366 days.

The aggregate maturities of these bonds as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 636,987	\$ 1,627,027	\$ 2,264,014
2014	656,479	1,677,592	2,334,071
2015	676,567	1,719,051	2,395,618
2016	697,270	1,684,647	2,381,917
2017	1,090,035	1,649,191	2,739,226
2018-2022	7,121,429	7,232,351	14,353,780
2023-2027	8,885,714	5,136,675	14,022,389
2028-2032	11,085,714	2,521,878	13,607,592
2033	2,535,715	136,308	2,672,023
Subtotal	33,385,910	23,384,720	56,770,630
Less: Amount Deferred on Refunding	(364,821)		(364,821)
Total	\$ 33,021,089	\$ 23,384,720	\$ 56,405,809

10. DERIVATIVE FINANCIAL INSTRUMENTS – COMPONENT UNITS

The Foundation and the Finance Corporation entered into derivative instruments (i.e., interest rate swap agreements) to reduce their exposure to market risks from changing interest rates. For interest rate swap agreements, the differential to be paid or received is accrued and recognized as interest expense and may change as market interest rates change. These interest rate swap agreements, and a related Letter of Credit agreement entered into by the Finance Corporation, are discussed below.

Florida International University Foundation, Inc.

On February 1, 2000, the Foundation entered into an interest rate swap agreement with a commercial bank on a notional amount of \$6,500,000 which represents 50 percent of the principal amount of the bond issue, as described in note 9. Under the original interest rate swap agreement, the Foundation agreed to pay a fixed rate of 5.03 percent per annum and receive variable rates based on 67 percent of the one-month U.S. Dollar London Interbank Offered Rate (LIBOR). Effective October 1, 2005, the Foundation renegotiated the interest rate swap agreement reducing the interest rate swap to 4.63 percent per annum. The renegotiated interest rate swap agreement expires on February 1, 2015. The derivative liability at June 30, 2012, was \$432,872.

FIU Athletics Finance Corporation

Objectives. As a means to lower its borrowing costs and increase its savings, the Finance Corporation entered into an interest rate swap agreement in connection with its \$30,000,000 2009A Miami-Dade County Industrial Development Authority Revenue Bond issuance. The intention of the interest rate swap agreement was to

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effectively change the Finance Corporation's variable interest rate on the bonds to a synthetic fixed rate of 5.50 percent, which is the fixed rate payable by the Finance Corporation under the interest rate swap agreement of 3.60 percent plus 1.90 percent.

Terms. On December 22, 2009, the Finance Corporation entered into an interest rate swap agreement to hedge the floating rate on \$21,000,000 of the principal amount of the 2009A Bonds. This represents the fixed portion of the tax exempt bonds payable mentioned above. Under the interest rate swap agreement, the Finance Corporation agrees to pay a synthetic fixed rate of 5.50 percent and receive a variable rate equal to 63.7 percent of three-month LIBOR. The interest rate swap agreement has a maturity date of March 1, 2033.

Fair Value. As of June 30, 2012, the Finance Corporation interest rate swap agreement has a derivative liability of \$5,960,658 as reported in the statement of net assets. The negative fair value was determined using Mark-to-Market Value and represents the closing mid-market values.

As of June 30, 2012, the fair value of the Series 2007A ineffective interest rate swap agreement was \$2,009,534. This interest rate swap agreement was not terminated when the bonds were refunded in December 2009. The interest rate on the refunded Series 2009 bonds reflects a higher rate due to not terminating this interest rate swap agreement. Accordingly, the fair value of \$2,009,534 of the ineffective Series 2007A interest rate swap agreement is being amortized to interest expense over the remaining life of the refunded Series 2009A bond.

The synthetic instrument method evaluates the effectiveness by quantitative approach. The synthetic instrument method evaluates effectiveness by combining the hedgeable item and the potential hedging derivative instrument to simulate a third synthetic instrument. A potential hedging derivative instrument is effective if its total variable cash flows substantially offset the variable cash flows of the hedgeable item. The Finance Corporation determined that it met the criteria of the synthetic instrument method. Therefore, the change in the fair value of the effective interest rate swap agreement is presented in the component unit column of the statement of net assets as an other noncurrent asset in the amount of \$3,951,124.

Credit Risk: As of June 30, 2012, the Finance Corporation was not exposed to credit risk because the interest rate swap agreement had a negative fair value. However, should interest rates change and the fair value of the interest rate swap agreement become positive, the Finance Corporation would be exposed to credit risk in the amount of the derivative's fair value. The interest rate swap agreement counterparty (Regions Bank) was rated Ba2 by Moody's Investors Service, BBB- by Standard & Poor's and BBB- by Fitch Ratings.

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

Termination Risk. The derivative contract uses the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes an "additional termination event". That is, the interest rate swap agreement may be terminated if: (i) the loan or other indebtedness in connection with which a transaction entered into by the Finance Corporation for the purpose or with the effect of altering the net combined payment from a floating to

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fixed or a fixed to floating rate basis is repaid, whether upon acceleration of principal, at maturity, or otherwise, or for any other reason ceases to be an obligation of the Finance Corporation, with or without the consent of the counterparty (Regions Bank); or (ii) any credit support document expires, terminates or ceases to be of full force and effect. Also, the interest rate swap agreement may be terminated or assigned by the Finance Corporation if the counterparty's (Regions Bank) long-term, senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below at least two of the following: a) "Baa3" as determined by Moody's; or b) "BBB-" as determined by Standard & Poor's; or c) "BBB-" as determined by Fitch.

Swap Payments and Associated Debt. Using rates as of June 30, 2012, debt service requirements of the variable-rate portion of the debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

Fiscal Year Ending June 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2013	\$	\$ 399,617	\$ 755,383	\$ 1,155,000
2014		399,617	755,383	1,155,000
2015		399,617	755,383	1,155,000
2016		399,617	755,383	1,155,000
2017	260,000	399,617	755,383	1,415,000
2018-2022	4,985,000	1,792,186	3,387,714	10,164,900
2023-2027	6,220,000	1,272,874	2,406,076	9,898,950
2028-2032	7,760,000	624,924	1,181,276	9,566,200
2033	1,775,000	33,777	63,848	1,872,625
Total	\$ 21,000,000	\$ 5,721,846	\$ 10,815,829	\$ 37,537,675

Note: As rates vary, variable-rate bond interest payments and net swap payments will vary.

11. RETIREMENT PROGRAMS

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after

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25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.

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

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The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$8,493,631, \$9,998,061, and \$7,113,640, respectively, which were equal to the required contributions for each fiscal year.

There were 436 University participants in the Investment Plan during the 2011-12 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled \$1,511,468, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes, on behalf of the participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 2,597 University participants during the 2011-12 fiscal year. The University's contributions to the Program totaled \$13,325,757 and employee contributions totaled \$9,169,959 for the 2011-12 fiscal year.

12. CONSTRUCTION COMMITMENTS

The University's major construction commitments at June 30, 2012, are as follows:

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Project Description	Total Commitment	Completed to Date	Balance Committed
Parkview Housing	\$ 51,805,661	\$ 3,176,624	\$ 48,629,037
Science Classroom Complex	57,763,409	21,283,256	36,480,153
Mixed-use Auxiliary Building	29,575,000	411,605	29,163,395
Robert Stempel College of Public Health and Social Science	23,300,000	1,690,053	21,609,947
Student Academic Support Center	20,146,976	305,934	19,841,042
International Hurricane Center	15,000,000	474,320	14,525,680
FIU Ambulatory Care Center	10,040,500	71,248	9,969,252
Satellite Chiller Plant	7,610,000	2,095,363	5,514,637
USCB Arena Expansion	7,592,137	2,030,231	5,561,906
Football Stadium Expansion	4,820,322	771,103	4,049,219
Utilities/Infrastructure/Capital Renewal	7,259,960	3,396,667	3,863,293
Subtotal	234,913,965	35,706,404	199,207,561
Projects with Balance Committed Under \$3 Million	62,683,796	44,081,578	18,602,218
Total	<u>\$ 297,597,761</u>	<u>\$ 79,787,982</u>	<u>\$ 217,809,779</u>

13. OPERATING LEASE COMMITMENTS

The University leased building space under operating leases, which expire in 2027. These leased assets and the related commitments are not reported on the University’s statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations.

Future minimum lease commitments for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 3,829,071
2014	4,235,782
2015	3,274,324
2016	3,349,790
2017	3,463,257
2018-2022	16,374,983
2023-2027	<u>1,515,000</u>
Total Minimum Payments Required	<u>\$ 36,042,207</u>

14. OPERATING LEASE COMMITMENTS – RELATED PARTY TRANSACTIONS

Florida International University Foundation Inc.

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 Foundation. Under this agreement, the Foundation leases from the University the grounds on which a multi-function support complex facility was built on the Modesto A. Maidique campus. The consideration required to be paid by the Foundation is

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\$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. Total amounts paid to the Foundation under this agreement were \$1,327,862 and \$1,270,027 for the years ended June 30, 2012, and 2011, respectively.

On December 1, 1999, the former Board of Regents on behalf of the University also entered into a 20-year operating lease agreement with the Foundation for the facility. Under the terms of the operating lease, the University will pay the Foundation rent in the amount equal to all amounts due and payable by the Foundation under the letter of credit agreement, if any, and loan agreement related to the financing of the facility. The payments also include any costs of operating and maintaining the facility, in addition to amounts necessary to pay any unanticipated and extraordinary costs. The lease commenced during August 2002 when the facility became operational. The lease will terminate on May 1, 2022, which is the date of maturity of the loan agreement.

The facility under the above operating lease is not recorded as an asset on the statement of net assets; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred.

The following schedule by years presents management’s best estimate of future minimum rental payments for this noncancelable operating lease as of June 30, 2012:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 1,260,000
2014	1,260,000
2015	1,260,000
2016	1,260,000
2017	1,260,000
Thereafter	<u>5,040,000</u>
Total Minimum Payments Required	<u><u>\$ 11,340,000</u></u>

FIU Athletics Finance Corporation

The University and the Finance Corporation entered into two 25-year ground sublease agreements dated April 1, 2007, rendering the rights to the Finance Corporation to issue a series of capital improvement bonds of which a portion of the proceeds, along with contributions from the University, was to finance a stadium improvement project located on University premises. Under this agreement the Finance Corporation prepaid to the University for rental of the premises the sum of \$31,937,211.

The following schedule by years represents management’s best estimate of future minimum rental expense that will be recognized for these sublease agreements:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 1,304,083
2014	1,304,083
2015	1,304,083
2016	1,304,083
2017	1,304,083
2018-2022	6,520,416
2023-2027	6,520,416
2028-2032	6,520,416
2033	<u>1,195,410</u>
Total	<u>\$ 27,277,073</u>
 Reconciliation of Statement of Net Assets to the Lease Commitment	
Other Current Assets	\$ 1,319,900
Other Noncurrent Assets	25,972,990
Less: Other Current Assets	<u>(15,817)</u>
Total Lease Commitments	<u>\$ 27,277,073</u>

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

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

On July 1, 1997, the Foundation entered into a gift agreement (Agreement) with Mitchell Wolfson, Jr., the Wolfsonian, and the University, whereby Mitchell Wolfson, Jr., agreed to donate all rights, title, and interest in and to all objects constituting the Mitchell Wolfson, Jr., Collection of Decorative and Propaganda Arts to the Foundation, subject to a loan agreement made and entered into by the Wolfsonian and Mr. Wolfson, Jr., dated July 29, 1991. The loan agreement was extended through to July 2021.

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

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assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

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

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

The most significant of the obligations under the Agreement is for the University to provide the Wolfsonian with the same financial support from its general budget, as provided to other departments, and to continue the museum and educational activities and operations of the Wolfsonian. The University provided support of approximately \$1.9 million during the 2011-12 fiscal year for Wolfsonian expenses which included salaries, equipment, administrative expenses, insurance premiums for the art collection, and building security. In addition, the University provided support of approximately \$169,000 during the 2011-12 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

16. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2011-12 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$61 million for named windstorm and flood losses through February 14, 2012, and decreased to \$50 million starting February 15, 2012. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

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

The University is protected for losses that are subject to Section 768.28, Florida Statutes, to the extent of the waiver of sovereign immunity as described in Section 768.28(5), Florida Statutes. The Self-Insurance Program also provides: \$1,000,000 per legislative claims bills inclusive of payments made pursuant to Section 768.28, Florida Statutes; \$300,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; \$300,000 per claim protection for participants who engage in approved community service and act as Good Samaritans; and student protections of \$100,000 for a claim arising from an occurrence for any one person, \$300,000 for all claims arising from an occurrence and professional liability required by a hospital or other health care facility for educational purposes not to exceed per occurrence limit of \$1,000,000.

The Self-Insurance Program’s estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported.

Changes in the balances of claims liability for the Self-Insurance Program during the 2011-12 fiscal year and the two preceding fiscal years are presented in the following table:

Fiscal Year Ended	Claims Liabilities Beginning of Year	Current Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
June 30, 2010	\$	\$ 83,688	\$ (8,429)	\$ 75,259
June 30, 2011	75,259	182,510	(14,003)	243,766
June 30, 2012	243,766	55,785	(86,753)	212,798

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

17. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 229,017,423
Research	77,924,672
Public Services	8,860,439
Academic Support	79,192,578
Student Services	49,795,378
Institutional Support	46,689,588
Operation and Maintenance of Plant	66,423,001
Scholarships, Fellowships, and Waivers	89,193,592
Depreciation	38,657,865
Auxiliary Enterprises	52,298,722
Loan Operations	<u>13,449</u>
Total Operating Expenses	<u>\$ 738,066,707</u>

18. SEGMENT INFORMATION

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

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Condensed Statement of Net Assets

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
	<u> </u>	<u> </u>
Assets		
Current Assets	\$ 21,603,809	\$ 9,252,622
Capital Assets, Net	85,439,696	71,843,742
Other Noncurrent Assets	<u>47,807,640</u>	<u>3,439,620</u>
Total Assets	<u>154,851,145</u>	<u>84,535,984</u>
Liabilities		
Current Liabilities	5,520,019	3,176,993
Noncurrent Liabilities	<u>111,786,402</u>	<u>47,254,554</u>
Total Liabilities	<u>117,306,421</u>	<u>50,431,547</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	15,143,695	22,577,495
Restricted - Expendable	2,773,448	2,845,412
Unrestricted	<u>19,627,581</u>	<u>8,681,530</u>
Total Net Assets	<u>\$ 37,544,724</u>	<u>\$ 34,104,437</u>

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

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
	<u> </u>	<u> </u>
Operating Revenues	\$ 25,060,118	\$ 13,049,708
Depreciation Expense	(2,890,780)	(2,142,548)
Other Operating Expenses	<u>(14,684,558)</u>	<u>(7,181,127)</u>
Operating Income	<u>7,484,780</u>	<u>3,726,033</u>
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	219,150	128,434
Interest Expense	(3,202,061)	(2,883,276)
Other Nonoperating Expense	<u>(162,621)</u>	<u>(125,584)</u>
Net Nonoperating Expenses	<u>(3,145,532)</u>	<u>(2,880,426)</u>
Income Before Transfers	4,339,248	845,607
Net Transfers	1,933,861	(993,889)
Capital Grants		<u>642,310</u>
Increase in Net Assets	6,273,109	494,028
Net Assets, Beginning of Year	<u>31,271,615</u>	<u>33,610,409</u>
Net Assets, End of Year	<u>\$ 37,544,724</u>	<u>\$ 34,104,437</u>

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Condensed Statement of Cash Flows

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:		
Operating Activities	\$ 10,423,610	\$ 7,922,329
Noncapital Financing Activities	9,305	
Capital and Related Financing Activities	36,241,295	(5,596,168)
Investing Activities	(48,510,610)	(2,426,863)
Net Decrease in Cash and Cash Equivalents	(1,836,400)	(100,702)
Cash and Cash Equivalents, Beginning of Year	2,493,864	352,061
Cash and Cash Equivalents, End of Year	\$ 657,464	\$ 251,359

19. COMPONENT UNITS

The University has four discretely presented component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements.

The following financial information is from the most recently available audited financial statements for the component units:

**FLORIDA INTERNATIONAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

	Direct-Support Organizations				Total
	Florida International University Foundation, Inc.	Florida International University Research Foundation, Inc.	FIU Athletics Finance Corporation	FIU Academic Health Center Health Care Network Faculty Group Practice, Inc.	
Condensed Statement of Net Assets					
Assets:					
Current Assets	\$ 235,777,831	\$ 436,183	\$ 4,313,715	\$ 380,191	\$ 240,907,920
Capital Assets, Net	12,174,915			1,474,656	13,649,571
Other Noncurrent Assets	122,590		36,868,120		36,990,710
Total Assets	<u>248,075,336</u>	<u>436,183</u>	<u>41,181,835</u>	<u>1,854,847</u>	<u>291,548,201</u>
Liabilities:					
Current Liabilities	2,530,105	247,165	1,424,817	129,228	4,331,315
Noncurrent Liabilities	8,866,317		41,993,060	3,822,412	54,681,789
Total Liabilities	<u>11,396,422</u>	<u>247,165</u>	<u>43,417,877</u>	<u>3,951,640</u>	<u>59,013,104</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	2,772,984				2,772,984
Restricted	215,047,608				215,047,608
Unrestricted	18,858,322	189,018	(2,236,042)	(2,096,793)	14,714,505
Total Net Assets	<u>\$ 236,678,914</u>	<u>\$ 189,018</u>	<u>\$ (2,236,042)</u>	<u>\$ (2,096,793)</u>	<u>\$ 232,535,097</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets					
Operating Revenues	\$ 35,839,013	\$ 70,000	\$ 3,542,338	\$ 321,353	\$ 39,772,704
Operating Expenses	(17,984,472)	(23,219)	(2,060,249)	(2,163,862)	(22,231,802)
Operating Income (Loss)	17,854,541	46,781	1,482,089	(1,842,509)	17,540,902
Net Nonoperating Expenses	(2,331,640)		(1,392,280)	(28,630)	(3,752,550)
Increase (Decrease) in Net Assets	15,522,901	46,781	89,809	(1,871,139)	13,788,352
Net Assets, Beginning of Year	221,156,013	142,237	(2,325,851)	(225,654)	218,746,745
Net Assets, End of Year	<u>\$ 236,678,914</u>	<u>\$ 189,018</u>	<u>\$ (2,236,042)</u>	<u>\$ (2,096,793)</u>	<u>\$ 232,535,097</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 48,762,000	\$ 48,762,000	0%	\$ 223,494,966	21.8%
7/1/2009		72,099,000	72,099,000	0%	239,559,653	30.1%
7/1/2011		101,015,000	101,015,000	0%	280,051,835	36.1%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$101,015,000 was significantly higher than the July 1, 2009, liability of \$72,099,000 as a result of changes in the methodology used by the actuary to calculate this liability. The most significant modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and the passage of the Patient Protection and Affordable Care Act.



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

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

We have audited the financial statements of Florida International University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Our **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*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 25, 2013