



Item: AF: I-2d

AUDIT AND FINANCE COMMITTEE

Thursday, April 19, 2012

SUBJECT: REVIEW OF AUDITS: REPORT NO. 2012-103, FLORIDA ATLANTIC UNIVERSITY FINANCIAL AUDIT FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

PROPOSED COMMITTEE ACTION

None: for information only.

BACKGROUND INFORMATION

The audit of the financial statements of Florida Atlantic University for the fiscal year ended June 30, 2011, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2011. An understanding of the University's environment was obtained, including its internal control and the risk of material misstatement necessary to plan the audit of the financial statements was assessed. Also examined were various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

The following provides a summary of the findings of our audit of the financial statements of the University:

- The audit disclosed that the University's basic financial statements including its aggregate discretely presented component units were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.
- The audit did not identify any in internal control over financial reporting that we consider to be material weaknesses.

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

Financial Highlights.

The University's assets totaled \$1.03 billion at June 30, 2011. This balance reflects a \$40 million, or 4 percent increase from the 2009-10 fiscal year, resulting from the construction of capital assets on the Boca campus. While assets grew, liabilities decreased by a lesser amount of \$10.5 million, or 5.5 percent, totaling \$180.6 million at June 30, 2011, compared to \$191 million at June 30, 2010. As a result, the University's net assets increased by \$50.5 million, reaching a year-end balance of \$853.3 million.

The University's operating revenues totaled \$218 million for the 2010-11 fiscal year, representing a 7.9 percent increase over the 2009-10 fiscal year due mainly to additional tuition and fees associated with the increased enrollment. Operating expenses totaled \$436.3 million for the 2010-11 fiscal year, representing an increase of 6.3 percent over the 2009-10 fiscal year due mainly to higher compensation and employee benefits costs related to the implementation of the new Medical School, E-Learning and Ocean Engineering grant award as well as additional scholarships and fellowships to enrolled students.

IMPLEMENTATION PLAN/DATE

Not Applicable.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Report No. 2012-103, FAU Financial Audit For the Fiscal Year Ended June 30, 2011.

Presented by: Mr. Dennis Crudele, Senior Vice President-Financial Affairs

Phone: 561-297-3266

FLORIDA ATLANTIC UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2011



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Robert J. Stille, Chair from 1-26-11,
Vice Chair to 1-25-11
Anthony Barbar, Vice Chair from 1-26-11
Nancy W. Blosser to 5-23-11, Chair to 1-25-11 (1)
Dr. William J. Bryant to 1-25-11
David Feder
Dr. Jeffrey P. Feingold
Dr. Angela Graham-West from 5-24-11
Armand Grossman to 1-25-11
Dr. Rajendra P. Gupta to 5-23-11 (1)
Dr. Timothy O. Lenz to 5-23-11 (2)
Ayden Maher (3)
Dr. William McDaniel from 5-24-11 (2)
Abdol Moabery from 5-24-11
Sheridan B. Plymale
Robert S. Rubin
Paul C. Tanner from 1-26-11
Dr. Julius Teske from 5-24-11
Thomas Workman, Jr.

Dr. Mary Jane Saunders, President

Notes: (1) Board member served beyond
the end of term, January 6, 2011.
(2) Faculty Senate president.
(3) Student body president.

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

The audit team leader was Ilene R. Gayle, CPA, and the audit was supervised by Ida Marie Westbrook, 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 ATLANTIC 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 Atlantic 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, 2011. 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. The results of our operational audit of the University are included in our report No. 2012-095.

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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FAX: 850-488-6975

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Atlantic 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, 2011, 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 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 Atlantic University and of its aggregate discretely presented component units as of June 30, 2011, 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 the Florida Atlantic 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 17, 2012

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, 2011, 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 \$1.03 billion at June 30, 2011. This balance reflects a \$40 million, or 4 percent increase from the 2009-10 fiscal year, resulting from the construction of capital assets on the Boca campus. While assets grew, liabilities decreased by a lesser amount of \$10.5 million, or 5.5 percent, totaling \$180.6 million at June 30, 2011, compared to \$191 million at June 30, 2010. As a result, the University's net assets increased by \$50.5 million, reaching a year-end balance of \$853.3 million.

The University's operating revenues totaled \$218 million for the 2010-11 fiscal year, representing a 7.9 percent increase over the 2009-10 fiscal year due mainly to additional tuition and fees associated with the increased enrollment. Operating expenses totaled \$436.3 million for the 2010-11 fiscal year, representing an increase of 6.3 percent over the 2009-10 fiscal year due mainly to higher compensation and employee benefits costs related to the implementation of the new Medical School, E-Learning and Ocean Engineering grant award as well as additional scholarships and fellowships to enrolled students.

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: The Florida Atlantic University Foundation, Inc.; the Florida Atlantic University Research Corporation, Inc.; the Harbor Branch Oceanographic Institution Foundation, Inc.; and the Florida Atlantic University Finance Corporation.

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 Florida Atlantic University Foundation, Inc., and the Harbor Branch Oceanographic Institution Foundation, Inc., report under Financial Accounting Standards Board (FASB) and, as such, do not include an MD&A in their 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 Thousands)

	2011	2010
Assets		
Current Assets	\$ 216,322	\$ 277,791
Capital Assets, Net	799,193	711,002
Other Noncurrent Assets	18,303	5,018
Total Assets	1,033,818	993,811
Liabilities		
Current Liabilities	41,727	54,592
Noncurrent Liabilities	138,826	136,440
Total Liabilities	180,553	191,032
Net Assets		
Invested in Capital Assets, Net of Related Debt	707,751	616,443
Restricted	19,381	67,692
Unrestricted	126,133	118,644
Total Net Assets	\$ 853,265	\$ 802,779

Current assets decreased as a result of a reduction in new capital appropriation authorizations resulting in a decrease in Due from State. Capital assets increased with the construction of several capital projects. The increase in noncurrent assets is associated with higher restricted investments. The decrease in current liabilities is mainly due to less construction contracts payable at the end of the fiscal year.

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 2010-11 and 2009-10 fiscal years:

**Condensed Statement of Revenues, Expenses,
and Changes in Net Assets
(In Thousands)**

	2010-11	2009-10
Operating Revenues	\$ 217,956	\$ 201,948
Operating Expenses	436,303	410,634
Operating Loss	(218,347)	(208,686)
Net Nonoperating Revenues	226,072	224,619
Income Before Other Revenues, Expenses, Gains, or Losses	7,725	15,933
Other Revenues, Expenses, Gains, or Losses	42,761	11,464
Net Increase In Net Assets	50,486	27,397
Net Assets, Beginning of Year	802,779	788,789
Adjustments to Beginning Net Assets (1)		(13,407)
Net Assets, Beginning of Year, as Restated	802,779	775,382
Net Assets, End of Year	\$ 853,265	\$ 802,779

Note: (1) The University's beginning net assets were adjusted to reflect a change in reporting bonds payable and certain capital assets.

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2010-11 and 2009-10 fiscal years:

**Operating Revenues
(In Thousands)**

	2010-11	2009-10
Net Tuition and Fees	\$ 115,365	\$ 104,338
Grants and Contracts	45,280	41,134
Sales and Services of Educational Departments	377	412
Sales and Services of Auxiliary Enterprises	44,678	43,369
Other	12,256	12,695
Total Operating Revenues	\$ 217,956	\$ 201,948

The tuition and fees increase is associated with the increase in enrollment and increase in matriculation of 15 percent authorized by the legislature and the University. Local fees also increased by 15 percent.

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 2010-11 and 2009-10 fiscal years:

Operating Expenses (In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
Compensation and Employee Benefits	\$ 257,542	\$ 244,901
Services and Supplies	83,667	82,281
Utilities and Communications	14,086	13,943
Scholarships, Fellowships, and Waivers	53,502	43,624
Depreciation	<u>27,506</u>	<u>25,885</u>
Total Operating Expenses	<u>\$ 436,303</u>	<u>\$ 410,634</u>

Operating expenses totaled \$436.3 million for the 2010-11 fiscal year, representing an increase of 6.3 percent over the 2009-10 fiscal year due mainly to higher compensation and employee benefits costs related to the implementation of the new Medical School, E-Learning and Ocean Engineering grant award as well as additional scholarships and fellowships to enrolled students.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2010-11 and 2009-10 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2010-11</u>	<u>2009-10</u>
State Noncapital Appropriations	\$ 157,951	\$ 153,255
Federal and State Student Financial Aid	60,497	49,594
State Appropriated American Recovery and Reinvestment Act Funds	11,631	12,155
Investment Income	4,256	9,071
Other Nonoperating Revenues	2,826	6,536
Loss on Disposal of Capital Assets	(2,229)	(213)
Interest on Capital Asset-Related Debt	(4,605)	(5,779)
Other Nonoperating Expenses	<u>(4,255)</u>	<u></u>
Net Nonoperating Revenues	<u>\$ 226,072</u>	<u>\$ 224,619</u>

The increased enrollment brought about an increase in Federal and State student financial aid. Nonoperating expenses reflect noncapitalized construction expenses.

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
State Capital Appropriations	\$ 24,991	\$ 10,571
Capital Grants, Contracts, Donations, and Fees	17,770	893
Total	\$ 42,761	\$ 11,464

The University received more funding from State capital appropriations and a capital donation from the Florida Atlantic University Foundation, Inc.

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 2010-11 and 2009-10 fiscal years:

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

	2010-11	2009-10
Cash Provided (Used) by:		
Operating Activities	\$ (194,019)	\$ (173,156)
Noncapital Financing Activities	223,209	225,216
Capital and Related Financing Activities	(29,309)	(16,482)
Investing Activities	1,515	(31,764)
Net Increase in Cash and Cash Equivalents	1,396	3,814
Cash and Cash Equivalents, Beginning of Year	5,183	1,369
Cash and Cash Equivalents, End of Year	\$ 6,579	\$ 5,183

Major sources of funds came from State noncapital appropriations (\$158 million), net student tuition and fees (\$115.4 million), receipt of Federal Direct Student Loans for students (\$95.7), Federal and State student financial aid (\$60.2 million), grants and contracts (\$46.4 million), and sales and services of auxiliary enterprises (\$40 million). Major uses of funds were for payments made to and on behalf of employees totaling \$251.2 million; disbursement of Federal Direct Student Loans to students (\$96.8 million) payments to suppliers totaling \$93.2 million; purchase or construction of Capital Assets totaling \$121.5 million; and payments to and on behalf of students for scholarships totaling \$53.5 million.

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

CAPITAL ASSETS

At June 30, 2011, the University had \$1.1 billion in capital assets, less accumulated depreciation of \$312.8 million, for net capital assets of \$799.2 million. Depreciation charges for the current fiscal year totaled \$27.5 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

	2011	2010
Land	\$ 11,204	\$ 11,204
Buildings	560,964	469,357
Construction in Progress	61,917	79,738
Infrastructure and Other Improvements	51,835	49,633
Furniture and Equipment	56,727	52,884
Library Resources	16,905	16,256
Property Under Capital Leases and Leasehold Improvements	37,783	30,042
Works of Art and Historical Treasures	932	890
Computer Software	926	998
Capital Assets, Net	\$ 799,193	\$ 711,002

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, 2011, were incurred on the following projects: Research Lab II HBOI and the FAU Stadium Project. The University's capital commitments at June 30, 2011, are as follows:

	Amount (In Thousands)
Total Committed	\$ 76,187
Completed to Date	(61,917)
Balance Committed	\$ 14,270

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

DEBT ADMINISTRATION

As of June 30, 2011, the University had \$91.6 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of \$3.5 million, or 3.7 percent, from the prior fiscal year. 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 Thousands)**

	2011	2010
Capital Improvement Debt	\$ 81,956	\$ 85,136
Capital Leases	9,690	10,051
Total	\$ 91,646	\$ 95,187

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 educational and general budget that the Florida Legislature adopted for the 2011-12 fiscal year provided an overall 4.6 percent decrease in State appropriations for State universities with a 6.2 percent decrease for Florida Atlantic University. The decrease was partially due to the end of nonrecurring Federal Stimulus dollars in the State Higher Education Budget. Due to the economic condition of the State of Florida, mirrored nationwide, funding priorities for higher education focused more on the overall stability, rather than a salary program, enrollment growth or other emphases. Florida Atlantic University experienced a 5 percent enrollment growth in 2010-11 and early indications for 2011-12 suggest continued growth. An increase in revenue generated from student tuition and fees, due to the increased enrollment, will offset much of the decline in State 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 Dennis J. Crudele, Vice President for Financial Services, Florida Atlantic University, 777 Glades Road, Boca Raton, Florida 33431.

BASIC FINANCIAL STATEMENTS

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2011**

	<u>University</u>	<u>Component Units</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,574,544	\$ 14,725,547
Cash with Fiscal Agent		42,098,870
Investments	173,169,696	47,515,660
Accounts Receivable, Net	20,512,293	1,088,205
Loans and Notes Receivable, Net	1,677,526	
Due from State	3,700,239	
Due from Component Units/University	10,303,375	865,488
Inventories	77,563	
Net Investments in Direct Financing-Type Lease		335,000
Other Current Assets	307,310	4,859,330
Total Current Assets	<u>216,322,546</u>	<u>111,488,100</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	5,040	26,968,898
Restricted Investments	15,960,251	196,775,124
Net Investments in Direct Financing-Type Lease		9,355,000
Accounts Receivable, Net		2,281,861
Loans and Notes Receivable, Net	1,738,616	186,000
Depreciable Capital Assets, Net	725,811,121	765,817
Nondepreciable Capital Assets	73,381,684	95,195,712
Other Noncurrent Assets	599,440	13,173,814
Total Noncurrent Assets	<u>817,496,152</u>	<u>344,702,226</u>
TOTAL ASSETS	<u>\$ 1,033,818,698</u>	<u>\$ 456,190,326</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 17,343,555	\$ 7,425,044
Construction Contracts Payable	3,768,782	
Salaries and Wages Payable	2,170,752	
Deposits Payable	1,516,207	75,000
Due to Component Units/University	865,488	10,303,375
Deferred Revenue	10,622,089	2,053,745
Other Current Liabilities		5,155,334
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	3,304,784	
Notes Payable		814,650
Certificates of Participation Payable		335,000
Deferred Lease Revenue	400,000	
Capital Leases Payable	335,000	
Compensated Absences Payable	1,400,613	
Total Current Liabilities	<u>41,727,270</u>	<u>26,162,148</u>

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2011**

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 78,651,045	\$
Bonds Payable		169,515,301
Notes Payable		7,499
Certificates of Participation Payable		9,355,000
Deferred Lease Revenue	11,066,667	
Capital Leases Payable	9,355,000	
Compensated Absences Payable	24,336,579	
Other Postemployment Benefits Payable	13,583,000	
Other Noncurrent Liabilities	1,833,748	
	138,826,039	178,877,800
Total Noncurrent Liabilities		
	180,553,309	205,039,948
TOTAL LIABILITIES		
	180,553,309	205,039,948
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	707,750,552	(4,875,865)
Restricted for Nonexpendable:		
Endowment		139,812,438
Restricted for Expendable:		
Loans	2,983,978	
Capital Projects	6,299,619	
Other	10,097,625	108,375,228
Unrestricted	126,133,615	7,838,577
	853,265,389	251,150,378
TOTAL NET ASSETS		
	853,265,389	251,150,378
TOTAL LIABILITIES AND NET ASSETS		
	\$ 1,033,818,698	\$ 456,190,326

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

FLORIDA ATLANTIC 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, 2011

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$40,073,841	\$ 115,365,433	\$
Federal Grants and Contracts	26,863,903	
State and Local Grants and Contracts	9,168,238	3,155,494
Nongovernmental Grants and Contracts	9,247,788	192,935
Sales and Services of Educational Departments	376,701	
Sales and Services of Auxiliary Enterprises	44,677,630	
Interest on Loans and Notes Receivable	131,151	
Gifts and Donations		8,264,439
Other Operating Revenues	<u>12,125,572</u>	<u>4,415,427</u>
Total Operating Revenues	<u>217,956,416</u>	<u>16,028,295</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	257,541,744	5,020,893
Services and Supplies	83,667,156	5,498,699
Utilities and Communications	14,085,429	231,806
Scholarships, Fellowships, and Waivers	53,502,034	4,774,494
Depreciation	27,506,345	369,812
Other Operating Expenses		<u>2,280,002</u>
Total Operating Expenses	<u>436,302,708</u>	<u>18,175,706</u>
Operating Loss	<u>(218,346,292)</u>	<u>(2,147,411)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	157,951,088	
Federal and State Student Financial Aid	60,497,299	
State Appropriated American Recovery and Reinvestment Act Funds	11,630,612	
Investment Income	4,256,087	13,092,567
Net Realized and Unrealized Gain on Investments		27,291,406
Other Nonoperating Revenues	2,825,729	4,116,861
Loss on Disposal of Capital Assets	(2,228,892)	(1,663,258)
Interest on Capital Asset-Related Debt	(4,605,167)	(7,092,115)
Other Nonoperating Expenses	<u>(4,255,306)</u>	<u>(18,448,777)</u>
Net Nonoperating Revenues	<u>226,071,450</u>	<u>17,296,684</u>
Income Before Other Revenues, Expenses, Gains, or Losses	7,725,158	15,149,273
State Capital Appropriations	24,991,080	
Capital Grants, Contracts, Donations, and Fees	<u>17,769,782</u>	
Increase in Net Assets	<u>50,486,020</u>	<u>15,149,273</u>
Net Assets, Beginning of Year	<u>802,779,369</u>	<u>236,001,105</u>
Net Assets, End of Year	<u>\$ 853,265,389</u>	<u>\$ 251,150,378</u>

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2011

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 115,355,725
Grants and Contracts	46,410,163
Sales and Services of Educational Departments	376,701
Sales and Services of Auxiliary Enterprises	40,041,956
Interest on Loans and Notes Receivable	131,151
Payments to Employees	(251,213,766)
Payments to Suppliers for Goods and Services	(93,248,059)
Payments to Students for Scholarships and Fellowships	(53,502,034)
Loans Issued to Students	(453,399)
Collection on Loans to Students	308,531
Other Operating Receipts	1,773,691
	(194,019,340)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	157,951,088
State Appropriated American Recovery and Reinvestment Act Funds	11,630,612
Federal and State Student Financial Aid	60,161,894
Direct Loan Program Receipts	95,650,000
Direct Loan Program Disbursements	(96,758,676)
Net Change in Funds Held for Others	(6,239,136)
Operating Subsidies and Transfers	2,600,446
Other Nonoperating Expenditures	(1,787,080)
	223,209,148
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	31,345,454
Capital Grants, Contracts, Donations, and Fees	16,921,247
Capital Subsidies and Transfers	51,322,547
Fees and Other Receipts for Capital Projects	387,628
Purchase or Construction of Capital Assets	(121,528,717)
Principal Paid on Capital Debt and Leases	(3,450,976)
Interest Paid on Capital Debt and Leases	(4,306,122)
	(29,308,939)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(2,991,171)
Investment Income	4,506,345
	1,515,174
Net Increase in Cash and Cash Equivalents	1,396,043
Cash and Cash Equivalents, Beginning of Year	5,183,541
Cash and Cash Equivalents, End of Year	\$ 6,579,584

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2011**

	University
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (218,346,292)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	27,506,345
Change in Assets and Liabilities:	
Accounts Receivables, Net	(2,460,981)
Contracts and Grants Receivable	1,130,234
Inventories	(9,259)
Loans and Notes Receivable, Net	(137,566)
Other Assets	413,179
Accounts Payable	(915,020)
Salaries and Wages Payable	67
Deposits Payable	120,453
Compensated Absences Payable	1,830,911
Deferred Revenue	(7,648,411)
Other Postemployment Benefits Payable	4,497,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (194,019,340)

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

Unrealized losses on investments were recognized as a reduction in investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 283,672
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.	\$ (2,228,892)

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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 Atlantic University Foundation, Inc. (Foundation), is a separate corporation operating independently from the University and as such it receives and administers most private support for the University. Any person or organization contributing money, stock, or any other item to be used in support of the general or specific support of the University usually does so through the offices of the Foundation.
- Florida Atlantic University Research Corporation, Inc. (Corporation), was established by Florida Atlantic University in 1990. It has been organized to promote and encourage, and to provide assistance to, the research activities of the University's faculty, staff, and students. The Corporation has been granted rights and responsibilities for the development, protection, and commercial application of defined and selected intellectual property. In consideration of its efforts, the corporation is entitled to a portion of the royalties, license fees, or other revenue for the benefit of

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

the University. The corporation also accepts and administers contracts and grants from private industry, foundations, and other agencies whenever it is required by the granting agency, or when it is in the best interest of the University.

- The Harbor Branch Oceanographic Institution Foundation, Inc. (HBOI Foundation), a separate corporation operating independently from the University, became a provider of funding and support for the research and education in marine sciences and ocean engineering to the Harbor Branch Oceanographic Institute, a research institute within the University. The Foundation receives and administers most private support to the Institute as it increases the understanding of oceans and coastal areas through exploration and scientific investigation.
- Florida Atlantic University Finance Corporation (FAUFC) is a separate corporation operating independently from the University. It has been organized and operated to assist the activities and educational purposes of the University by providing finance and investment-related assistance in connection with the acquisition or construction of capital or other University projects, including but not limited to the structuring of debt relating thereto.

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

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

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Florida Atlantic University Research Corporation, Inc., and the Florida Atlantic University Finance Corporation, follow GASB standards of accounting and financial reporting. The Florida Atlantic University Foundation, Inc., and The Harbor Branch Oceanographic Institution Foundation, Inc., follow FASB standards of accounting and financial reporting for not-for-profit organizations.

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 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 ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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.

Two of the University's component units, Florida Atlantic University Research Corporation, Inc., and Florida Atlantic University Finance Corporation, reported cash and cash equivalents at fair value of \$69,160,949 at June 30, 2011, invested in the State Treasury Special Purpose Investment Account (SPIA), investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 2.13 years at June 30, 2011. The component units rely 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.

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

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 12 to 50 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property under Capital Leases – 5 to 20 years or the term of the lease, whichever is greater
- Leasehold Improvements – 40 years
- Works of Art and Historical Treasures – 50 years
- Computer Software – 3 to 7 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, capital leases payable, deferred lease revenue, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Other noncurrent liabilities consist of amounts due to the Federal government for the Federal Perkins Loan Program – Federal

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Capital Contributions. Capital improvement debt payable 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 refunding debt issues 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.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the State Board of Administration (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.

External Investment Pools

The University reported investments at fair value totaling \$189,129,947 at June 30, 2011, in the SPIA investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 2.13 years at June 30, 2011. 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.

Component Units Investments

Investments reported by the University's component units at June 30, 2011, are those held by Florida Atlantic University Foundation, Inc., and the Harbor Branch Oceanographic Institution Foundation, Inc., and are reported at fair market value as follows:

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

<u>Investment Type</u>	<u>Amount</u>
United States Stocks and Bonds	\$ 74,175,767
International Stocks and Bonds	41,098,736
Fixed Income Securities	58,774,344
Hedge Funds	43,659,411
Other Investments	<u>23,476,093</u>
Subtotal	241,184,351
Funds Held in Trust by Others	<u>3,106,433</u>
Total Investments	<u><u>\$ 244,290,784</u></u>

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, 2011, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 4,940,868
Student Tuition and Fees	14,920,636
Other	<u>650,789</u>
Total Accounts Receivable	<u><u>\$ 20,512,293</u></u>

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. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$5,910,582 and \$462,359, respectively, at June 30, 2011. No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

4. DUE FROM STATE

This amount consists of \$3,700,239 of Public Education Capital Outlay allocations due from the State to the University for construction of University facilities.

5. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The \$865,488 reported as due to component units consists of amounts owed by the University to the Florida Atlantic University Foundation, Inc. (Foundation), pursuant to an agreement to support the Foundation’s

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

operations. The amount \$10,303,375 due from component units consists of amounts owed to the University by the Foundation for scholarships and student aid and by the Florida Atlantic University Finance Corporation for the education, finance, and investment-related activities and by the Florida Atlantic University Research Corporation, Inc. The Foundation receives funds from the Harbor Branch Oceanographic Institution Foundation, Inc., to support the activities of the Harbor Branch Oceanographic Institute.

6. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally 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 reported on the statement of net assets, and are valued at cost using either the moving average method or the first-in, first-out, method.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 11,203,803	\$	\$	\$ 11,203,803
Works of Art and Historical Treasures	168,280	120,400	27,500	261,180
Construction in Progress	79,737,543	57,271,979	75,092,821	61,916,701
Total Nondepreciable Capital Assets	\$ 91,109,626	\$ 57,392,379	\$ 75,120,321	\$ 73,381,684
Depreciable Capital Assets:				
Buildings	\$ 612,563,603	\$ 106,268,725	\$ 436,960	\$ 718,395,368
Infrastructure and Other Improvements	72,184,576	6,579,153	2,585,432	76,178,297
Furniture and Equipment	127,994,207	7,386,337	14,767,053	120,613,491
Library Resources	73,222,755	6,959,882	4,109,502	76,073,135
Property Under Capital Leases and Leasehold Improvements	33,986,568	8,530,214	109,861	42,406,921
Works of Art and Historical Treasures	800,929	60,275	94,320	766,884
Computer Software	4,370,152	320,910	548,670	4,142,392
Total Depreciable Capital Assets	925,122,790	136,105,496	22,651,798	1,038,576,488
Less, Accumulated Depreciation:				
Buildings	143,206,543	14,225,033		157,431,576
Infrastructure and Other Improvements	22,551,566	2,422,503	630,577	24,343,492
Furniture and Equipment	75,110,096	6,786,704	18,010,927	63,885,873
Library Resources	56,965,954	2,934,165	732,379	59,167,740
Property Under Capital Leases and Leasehold Improvements	3,943,993	775,537	95,235	4,624,295
Works of Art and Historical Treasures	79,529	16,784		96,313
Computer Software	3,372,528	345,619	502,069	3,216,078
Total Accumulated Depreciation	305,230,209	27,506,345	19,971,187	312,765,367
Total Depreciable Capital Assets, Net	\$ 619,892,581	\$ 108,599,151	\$ 2,680,611	\$ 725,811,121

8. DEFERRED REVENUE

Deferred revenue consists mainly of, student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2011, the University reported the following amounts as deferred revenue:

Description	Amount
Student Tuition and Fees	\$ 8,942,707
Contracts and Grants	837,838
Capital Projects	5,239
Athletic	836,305
Total Deferred Revenue	\$ 10,622,089

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2011, include capital improvement debt payable, capital leases payable, deferred lease revenue, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	\$ 85,135,613	\$	\$ 3,179,784	\$ 81,955,829	\$ 3,304,784
Capital Leases Payable	10,051,064		361,064	9,690,000	335,000
Deferred Lease Revenue	12,000,000		533,333	11,466,667	400,000
Compensated Absences Payable	23,906,281	3,048,241	1,217,330	25,737,192	1,400,613
Other Postemployment Benefits Payable	9,086,000	5,867,000	1,370,000	13,583,000	
Other Noncurrent Liabilities	1,833,748			1,833,748	
Total Long-Term Liabilities	\$ 142,012,706	\$ 8,915,241	\$ 6,661,511	\$ 144,266,436	\$ 5,440,397

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2011:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2003 Student Housing	\$ 35,285,000	\$ 26,442,128	3.75 - 4.875	2033
2006A Student Housing	27,640,000	25,034,388	4.0 - 4.625	2036
2006B Student Housing	21,775,000	19,654,857	4.0 - 4.375	2030
Total Student Housing Debt	84,700,000	71,131,373		
Parking Garage Debt:				
2001 Parking Facility	7,990,000	4,795,000	3.9 - 4.8	2021
2002 Parking Facility	8,995,000	6,029,456	3.25 - 4.35	2023
Total Parking Garage Debt	16,985,000	10,824,456		
Total Capital Improvement Debt	\$ 101,685,000	\$ 81,955,829		

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, traffic and parking fees, and various student fee assessments to repay \$81,955,829 in capital improvement (housing and parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing rental income, traffic and parking fees, and special student fee assessments and are payable

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

through 2036. The University has committed to appropriate each year from the housing rental income, traffic and parking fees, and special student fee assessments, amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$127,368,166, and principal and interest paid for the current year totaled \$7,014,660. During the 2010-11 fiscal year, housing rental income, traffic and parking fees, and special student fee assessments totaled \$17,310,050, \$2,361,570, and \$2,228,359, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2011, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,390,000	\$ 3,633,085	\$ 7,023,085
2013	3,525,000	3,504,105	7,029,105
2014	3,660,000	3,366,989	7,026,989
2015	3,800,000	3,224,370	7,024,370
2016	3,955,000	3,071,839	7,026,839
2017-2021	22,450,000	12,724,447	35,174,447
2022-2026	16,080,000	8,285,656	24,365,656
2027-2031	16,900,000	4,574,600	21,474,600
2032-2036	9,970,000	1,253,075	11,223,075
Subtotal	83,730,000	43,638,166	127,368,166
Less: Net Discounts and Premiums	<u>(1,774,171)</u>		<u>(1,774,171)</u>
Total	<u>\$ 81,955,829</u>	<u>\$ 43,638,166</u>	<u>\$ 125,593,995</u>

Bonds Payable – Component Unit. The Florida Atlantic University Finance Corporation had the following bonds payable outstanding at June 30, 2011:

<u>Bonds Payable</u>	<u>Amount of Original Debt</u>	<u>Amount Outstanding (1)</u>	<u>Interest Rates (Percent)</u>	<u>Maturity Date To</u>
Series 2010A, Tax Exempt	\$ 8,475,000	\$ 9,195,301	2.18 - 3.44	2021
Series 2010A, Taxable BAB Bonds	112,455,000	112,455,000	5.48 - 6.45	2041
Series 2010B, Taxable Bonds	3,365,000	3,365,000	7.39	2036
Series 2010, Taxable Bonds	44,500,000	44,500,000	5.78	2040
Total Bonds Payable	<u>\$ 168,795,000</u>	<u>\$ 169,515,301</u>		

Note: (1) Amount outstanding includes unamortized premiums.

Annual requirements to amortize the outstanding notes as of June 30, 2011, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$	\$ 11,754,857	\$ 11,754,857
2013		11,490,502	11,490,502
2014	2,535,000	11,456,032	13,991,032
2015	2,970,000	11,334,525	14,304,525
2016	3,455,000	11,175,299	14,630,299
2017-2021	19,965,000	52,808,767	72,773,767
2022-2026	24,425,000	46,027,203	70,452,203
2027-2031	30,450,000	36,823,591	67,273,591
2032-2036	38,215,000	24,958,781	63,173,781
2037-2041	46,780,000	10,012,239	56,792,239
Subtotal	168,795,000	227,841,796	396,636,796
Add: Unamortized Premium	720,301		720,301
Total	<u>\$ 169,515,301</u>	<u>\$ 227,841,796</u>	<u>\$ 397,357,097</u>

Notes Payable – Component Unit. Notes payable as of June 30, 2011, for the Florida Atlantic University Foundation, Inc., are as follows:

<u>Description</u>	<u>Amount</u>
Notes Payable to Bank in Semiannual Installments of \$400,000 Plus Interest at 4.20 Percent until May 2012	\$ 800,000
Notes Payable to Bank in Quarterly Installments of \$3,793 Plus Interest at 3.15 Percent until October 2012	22,149
Total	<u>\$ 822,149</u>

Future debt principal payments in the aggregate are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 814,650	\$ 26,192	\$ 840,842
2013	7,499	89	7,588
Total	<u>\$ 822,149</u>	<u>\$ 26,281</u>	<u>\$ 848,430</u>

Deferred Lease Revenue. The University leased land to the Florida Atlantic University Finance Corporation (FAUFC) under a noncancelable agreement dated March 4, 2010, with terms extending through July 2040. The lease was prepaid in March 2010 by the FAUFC to the University for the sum of \$12,000,000, which is being amortized over the life of the agreement. The amount held by the University totaled \$11,466,667 at June 30, 2011, of which \$400,000 was reported as current.

Capital Leases Payable. The University entered into a capital lease agreement in connection with Certificates of Participation issued by Florida Atlantic University Foundation, Inc., to build dormitory buildings on the John D. MacArthur campus in Jupiter, Florida. The University, in exchange for use of the

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buildings, makes lease payments sufficient to cover all amounts due under the Certificates of Participation. At June 30, 2011, the amount reported by the University as capital leases payable included \$9,690,000, representing the total future minimum payments remaining under the Certificates of Participation.

Certificates of Participation – Component Unit. The Florida Atlantic University Foundation, Inc., issued in 1999 and 2001, the 1999 and 2000 Certificates of Participation (the Certificates) for \$6,230,000 and \$6,300,000, respectively. These funds were used to build dormitory buildings on the John D. MacArthur Campus in Jupiter, Florida. The stated interest rates on the 1999 certificates range from 3.5 to 5 percent, while interest rates on the 2000 Certificates range from 4.7 to 5.875 percent. At June 30, 2011, certificates of Participation payable are as follows:

<u>COP Series</u>	<u>Amount of Issues</u>	<u>Total Retired</u>	<u>Outstanding Principal</u>	<u>Outstanding Interest</u>	<u>Interest Rates</u>	<u>Maturity Date</u>
1999	\$ 6,230,000	\$1,650,000	\$4,580,000	\$2,325,780	4.375 - 5.0	2028
2000	6,300,000	1,190,000	5,110,000	3,404,714	5.0 - 5.875	2030
Total	<u>\$12,530,000</u>	<u>\$2,840,000</u>	<u>\$9,690,000</u>	<u>\$5,730,494</u>		

The Foundation entered into Master Lease agreements with the former Board of Regents (the Board) whereby they are obligated to pay the Board \$1 per year for each property. The Foundation also entered into agreements with the University, whereby the University was allowed use of the buildings in exchange for the University paying all amounts due under the Certificates.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2011, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$25,737,192. The current portion of the compensated absences liability is the amount to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those fiscal years' total compensated absences 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

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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 2010-11 fiscal year, 392 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,370,000 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 \$2,182,000.

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. 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:

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 3,258,000
Amortization of Unfunded Actuarial Accrued Liability	2,326,000
Interest on Normal Cost and Amortization	223,000
Annual Required Contribution	5,807,000
Interest on Net OPEB Obligation	363,000
Adjustment to Annual Required Contribution	(303,000)
Annual OPEB Cost (Expense)	5,867,000
Contribution Toward the OPEB Cost	(1,370,000)
Increase in Net OPEB Obligation	4,497,000
Net OPEB Obligation, Beginning of Year	9,086,000
Net OPEB Obligation, End of Year	\$ 13,583,000

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, 2011, and for the two preceding years, were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008-09	\$ 3,326,000	39.1%	\$ 4,215,000
2009-10	6,237,000	21.9%	9,086,000
2010-11	5,867,000	23.4%	13,583,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$72,617,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$72,617,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$165 million for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 44 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.

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

The University’s OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the University’s 2010-11 fiscal year annual required contributions. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University’s expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates were 10.32 percent, and was 8.84 percent, and 7 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 10 percent for the first two and 7 percent for the third year years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.6 percent in the fourth year grading identically to 5.1 percent over 70 years. The unfunded actuarial accrued liability is

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being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 26 years.

Other Noncurrent Liabilities. The University participates in the Federal Perkins Loan Program. Under this program, the University receives Federal capital contributions which must be returned to the Federal Government if the program has excess cash or the University ceases to participate in the program. Federal capital contributions held by the University totaled \$1,833,748 at June 30, 2011.

10. RETIREMENT PROGRAMS

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

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

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	10.77
Florida Retirement System, Senior Management Service	0.00	14.57
Florida Retirement System, Special Risk	0.00	23.25
Teachers Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.25
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 Public Employee Optional Retirement Program.

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

The University’s liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University’s contributions for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$5,845,447, \$5,750,007, and \$6,399,485, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 355 University participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$1,497,541.

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.

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

There were 1,418 University participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$10,101,057 and employee contributions totaled \$4,789,335.

11. CONSTRUCTION COMMITMENTS

The University’s major construction commitments at June 30, 2011, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Research Lab II HBOI	\$ 14,649,482	\$ 13,032,901	\$ 1,616,581
FAU Stadium Project	56,088,277	43,434,359	12,653,918
Subtotal	70,737,759	56,467,260	14,270,499
Other Project Expenses (1)	5,449,441	5,449,441	
Total	\$ 76,187,200	\$ 61,916,701	\$ 14,270,499

Note: (1) Other project expenses represent costs associated with construction projects that do not have contractual agreements.

12. OPERATING LEASE COMMITMENTS

The University leased various copiers under operating leases, which expire in 2014. 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>
2012	\$ 143,653
2013	26,433
2014	15,401
Total Minimum Payments Required	\$ 185,487

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13. 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 2010-11 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 \$58.75 million for named windstorm and flood losses through February 14, 2011, and increased to \$61 million starting February 15, 2011. 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 \$100,000 per person, and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

14. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

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Functional Classification	Amount
Instruction	\$ 141,102,144
Research	25,733,748
Public Services	6,523,286
Academic Support	39,962,493
Student Services	16,768,461
Institutional Support	43,326,578
Operation and Maintenance of Plant	20,038,418
Scholarships and Fellowships	50,741,927
Depreciation	27,506,345
Auxiliary Enterprises	64,599,308
Total Operating Expenses	\$ 436,302,708

15. 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 Traffic and Parking Services, facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Assets

	Housing	Traffic and Parking Services
Assets		
Current Assets	\$ 11,417,222	\$ 7,540,870
Capital Assets, Net	90,249,475	18,499,618
Total Assets	101,666,697	26,040,488
Liabilities		
Current Liabilities	791,188	122,206
Noncurrent Liabilities	80,821,373	10,880,000
Total Liabilities	81,612,561	11,002,206
Net Assets		
Invested in Capital Assets, Net of Related Debt	9,428,102	7,619,618
Unrestricted	10,626,034	7,418,664
Total Net Assets	\$ 20,054,136	\$ 15,038,282

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

	Housing	Traffic and Parking Services
Operating Revenues	\$ 17,398,124	\$ 5,856,229
Depreciation Expense	(2,448,868)	(488,003)
Other Operating Expenses	(6,815,429)	(3,271,686)
Operating Income	8,133,827	2,096,540
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	363,729	140,113
Interest Expense	(3,929,172)	(484,027)
Other Nonoperating Expense	(683,890)	(1,611,223)
Net Nonoperating Expenses	(4,249,333)	(1,955,137)
Increase in Net Assets	3,884,494	141,403
Net Assets, Beginning of Year	16,169,642	14,896,879
Net Assets, End of Year	\$ 20,054,136	\$ 15,038,282

Condensed Statement of Cash Flows

	Housing	Traffic and Parking Services
Net Cash Provided (Used) by:		
Operating Activities	\$ 3,368,073	\$ 2,094,691
Noncapital Financing Activities	(7,646,493)	(1,611,223)
Capital and Related Financing Activities	(7,731,036)	(2,014,917)
Investing Activities	11,380,623	1,940,029
Net Increase (Decrease) in Cash and Cash Equivalents	(628,833)	408,580
Cash and Cash Equivalents, Beginning of Year	3,310,333	1,837,638
Cash and Cash Equivalents, End of Year	\$ 2,681,500	\$ 2,246,218

16. COMPONENT UNITS

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

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	Direct-Support Organizations				Total
	Florida Atlantic University Foundation, Inc.	Florida Atlantic University Research Corporation, Inc.	Florida Atlantic University HBOI Foundation, Inc.	Florida Atlantic University Finance Corporation	
Condensed Statement of Net Assets					
Assets:					
Current Assets	\$ 19,584,535	\$ 539,466	\$ 49,082,932	\$ 42,281,167	\$ 111,488,100
Capital Assets, Net	8,873,907	3,651	2,595,340	84,488,631	95,961,529
Other Noncurrent Assets	199,452,710		9,535,136	39,752,851	248,740,697
Total Assets	<u>227,911,152</u>	<u>543,117</u>	<u>61,213,408</u>	<u>166,522,649</u>	<u>456,190,326</u>
Liabilities:					
Current Liabilities	8,755,888	192,494	249,489	16,964,277	26,162,148
Noncurrent Liabilities	9,362,499			169,515,301	178,877,800
Total Liabilities	<u>18,118,387</u>	<u>192,494</u>	<u>249,489</u>	<u>186,479,578</u>	<u>205,039,948</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	8,873,907	3,651	2,595,340	(16,348,763)	(4,875,865)
Nonexpendable	139,812,438				139,812,438
Restricted	55,137,648		53,237,580		108,375,228
Unrestricted	5,968,772	346,972	5,130,999	(3,608,166)	7,838,577
Total Net Assets	<u>\$ 209,792,765</u>	<u>\$ 350,623</u>	<u>\$ 60,963,919</u>	<u>\$ (19,956,929)</u>	<u>\$ 251,150,378</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets					
Operating Revenues	\$ 9,961,890	\$ 221,660	\$ 5,844,745	\$	\$ 16,028,295
Operating Expenses	10,973,948	206,468	6,530,395	464,895	18,175,706
Operating Income (Loss)	(1,012,058)	15,192	(685,650)	(464,895)	(2,147,411)
Net Nonoperating Revenues (Expenses)	29,213,998	10,752	6,838,152	(18,766,218)	17,296,684
Increase (Decrease) in Net Assets	28,201,940	25,944	6,152,502	(19,231,113)	15,149,273
Net Assets, Beginning of Year	181,590,825	324,679	54,811,417	(725,816)	236,001,105
Net Assets, End of Year	<u>\$ 209,792,765</u>	<u>\$ 350,623</u>	<u>\$ 60,963,919</u>	<u>\$ (19,956,929)</u>	<u>\$ 251,150,378</u>

17. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Statement of Current Unrestricted Funds Net Assets

Assets

Current Assets:

Cash and Cash Equivalents	\$ 1,304,795
Investments	164,588,900
Receivables, Net	10,219,180
Other Current Assets	<u>1,508,451</u>

Total Assets 177,621,326

Liabilities

Current Liabilities:

Accounts Payable	3,389,014
Salary and Wages Payable	67
Deposits Payable	150,882
Deferred Revenue	8,627,556
Compensated Absences Payable	<u>1,400,613</u>

Total Current Liabilities 13,568,132

Noncurrent Liabilities:

Compensated Absences Payable	24,336,579
Other Postemployment Benefits Payable	<u>13,583,000</u>

Total Liabilities 51,487,711

Total Net Assets \$ 126,133,615

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

**Statement of Current Unrestricted Funds Revenues,
Expenses, and Changes in Net Assets**

Revenues

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$40,073,841	\$ 110,809,012
Sales and Services of Auxiliary Enterprises	44,677,596
Other Operating Revenues	<u>9,443,494</u>

Total Operating Revenues 164,930,102

Expenses

Operating Expenses:

Compensation and Employee Benefits	228,777,051
Services and Supplies	65,913,530
Utilities	13,861,492
Scholarships, Fellowships, and Waivers	<u>1,691,232</u>

Total Operating Expenses 310,243,305

Operating Loss (145,313,203)

Nonoperating Revenues (Expenses)

State Noncapital Appropriations	157,951,088
State Appropriated American Recovery and Reinvestment Act Funds	11,630,612
Investment Income	4,042,790
Other Nonoperating Revenues	500,000
Other Nonoperating Expenses	<u>(1,714)</u>

Net Nonoperating Revenues 174,122,776

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

	28,809,573
Transfers to Other Funds	<u>(21,320,606)</u>

Increase in Net Assets 7,488,967

Net Assets, Beginning of Year 118,644,648

Net Assets, End of Year \$ 126,133,615

**FLORIDA ATLANTIC 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	\$	\$ 48,429,000	\$ 48,429,000	0%	\$ 159,400,000	30.4%
7/1/2009	\$	\$ 72,617,000	\$ 72,617,000	0%	\$ 157,000,000	46.2%

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$72,617,000 was significantly higher than the July 1, 2007, liability of \$48,429,000 as a result of changes in methodology used by the actuary to calculate this liability. The most significant of these modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and changes in the rates of decrement and mortality and the amortization factor.



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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 the Florida Atlantic 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, 2011, 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*.

We noted certain matters that we reported to University management in our operational audit report No. 2012-095.

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

Respectfully submitted,



David W. Martin, CPA
February 17, 2012