

FLORIDA ATLANTIC UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida 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, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statement, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' column. 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, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Florida 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
November 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

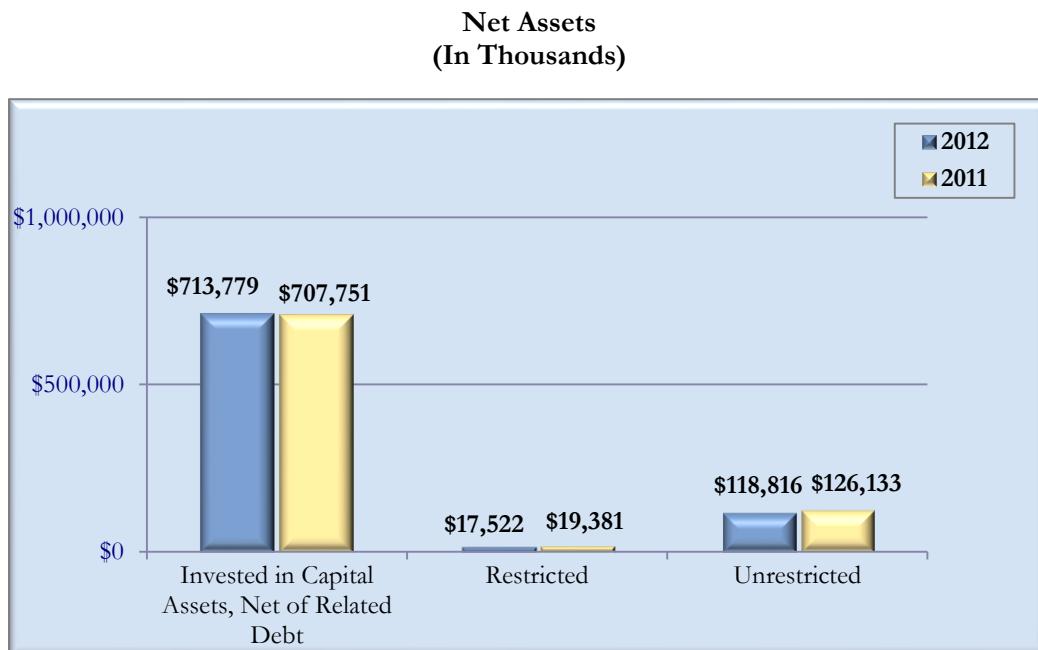
The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting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

FINANCIAL HIGHLIGHTS

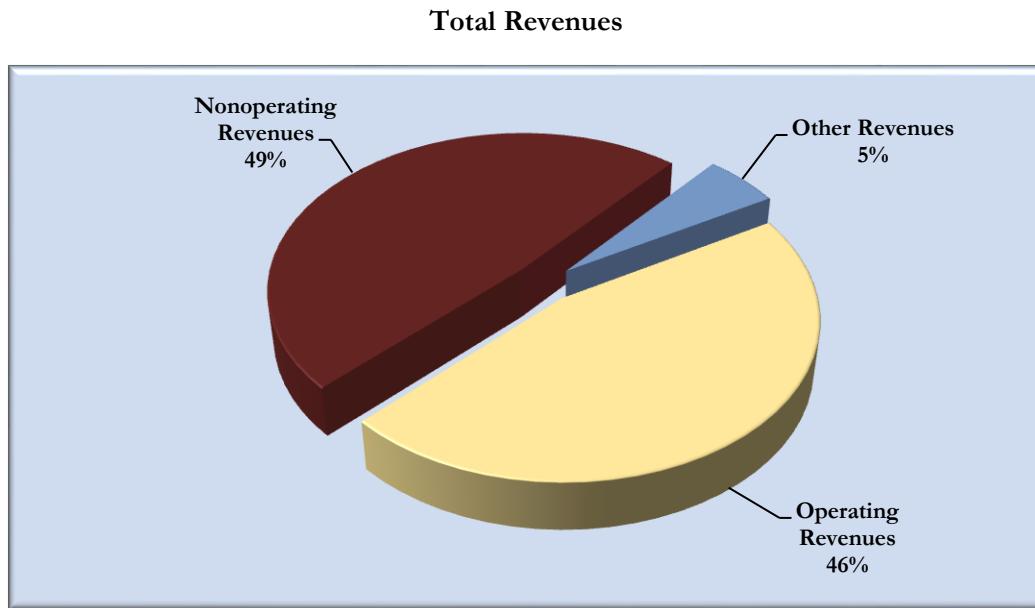
The University's assets totaled \$1.03 billion at June 30, 2012. This balance reflects a \$4.3 million, or 0.4 percent decrease from the 2010-11 fiscal year. While assets decreased, liabilities decreased by a lesser amount of \$1.2 million, or 0.6 percent, totaling \$179.4 million at June 30, 2012, compared to \$180.6 million at June 30, 2011. As a result, the University's net assets decreased by \$3.1 million, resulting in a year-end balance of \$850.1 million.

The University's operating revenues totaled \$213.6 million for the 2011-12 fiscal year, representing a 2 percent decrease from the 2010-11 fiscal year due mainly to decreases in State and local grants and contracts received and the end of funding for various grants. Operating expenses totaled \$443.5 million for the 2011-12 fiscal year, representing an increase of 1.6 percent over the 2010-11 fiscal year primarily due to an increase in services and supplies and depreciation expenses.

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



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



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include: the Florida Atlantic University Foundation, Inc.; the Florida Atlantic University Research Corporation, Inc.; the Harbor Branch Oceanographic Institution Foundation, Inc.; the Florida Atlantic University Finance Corporation; the Florida Atlantic University Clinical Practice Organization, Inc.; and the Florida Atlantic University College of Medicine Self-Insurance Program. Based upon the application of the criteria for determining component units, the Florida Atlantic University College of Medicine Self-Insurance Program is included within the University reporting entity as a blended component unit and the Florida Atlantic University Foundation, Inc.; the Florida Atlantic University Research Corporation, Inc.; the Harbor Branch Oceanographic Institution Foundation, Inc.; the Florida Atlantic University Finance Corporation; and the Florida Atlantic University Clinical Practice Organization, Inc., are included within the University reporting entity as discretely presented component units.

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

	2012	2011
Assets		
Current Assets	\$ 222,463	\$ 216,322
Capital Assets, Net	802,667	799,193
Other Noncurrent Assets	4,385	18,303
Total Assets	1,029,515	1,033,818
Liabilities		
Current Liabilities	35,607	41,727
Noncurrent Liabilities	143,791	138,826
Total Liabilities	179,398	180,553
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	713,779	707,751
Restricted	17,522	19,381
Unrestricted	118,816	126,133
Total Net Assets	\$ 850,117	\$ 853,265

The decrease in noncurrent assets is associated with fewer investments of capital projects funds. Current assets change was primarily due to the increase in investments and accounts receivables. Capital assets increased with the completion of several capital projects. Noncurrent liabilities increased as a result of an increase in the other postemployment benefits payable. The decrease in accounts payable was the primary reason for the change in current liabilities.

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

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

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

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

	2011-12	2010-11
Operating Revenues	\$ 213,561	\$ 217,956
Less, Operating Expenses	<u>443,453</u>	<u>436,303</u>
Operating Loss	(229,892)	(218,347)
Net Nonoperating Revenues	<u>201,617</u>	<u>226,072</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(28,275)	7,725
Other Revenues, Expenses, Gains, or Losses	<u>25,127</u>	<u>42,761</u>
Net Increase (Decrease) In Net Assets	(3,148)	50,486
Net Assets, Beginning of Year	<u>853,265</u>	<u>802,779</u>
Net Assets, End of Year	<u>\$ 850,117</u>	<u>\$ 853,265</u>

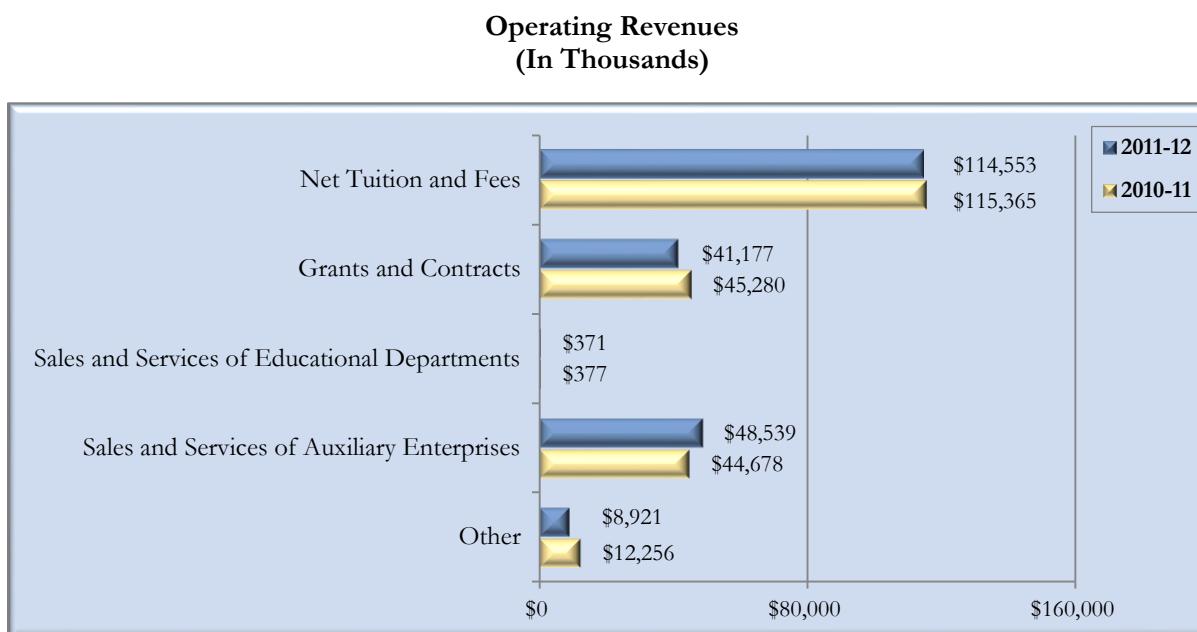
Operating Revenues

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

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

Operating Revenues (In Thousands)	2011-12	2010-11
Net Tuition and Fees	\$ 114,553	\$ 115,365
Grants and Contracts	41,177	45,280
Sales and Services of Educational Departments	371	377
Sales and Services of Auxiliary Enterprises	48,539	44,678
Other	<u>8,921</u>	<u>12,256</u>
Total Operating Revenues	<u>\$ 213,561</u>	<u>\$ 217,956</u>

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



University operating revenue was impacted by a decrease in State and local grants and contracts of \$1.9 million. One time funding in the 2010-11 fiscal year for New Florida Boost resulted in \$0.7 million of this decrease. The remaining \$1.2 million decrease was from various grants closing without additional funding and no new grants awarded in this classification. Nongovernmental grants decreased \$3 million due to changes in the classification of funding received from the Florida Atlantic University Foundation, Inc.

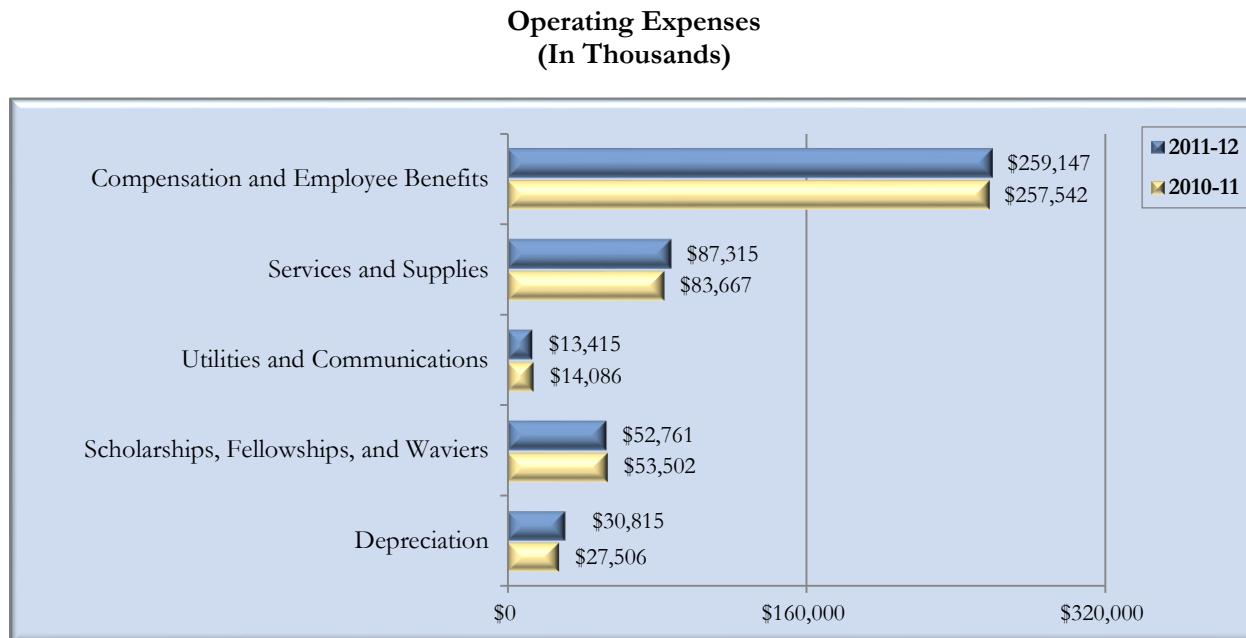
Operating Expenses

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

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

Operating Expenses For the Fiscal Years (In Thousands)		
	2011-12	2010-11
Compensation and Employee Benefits	\$ 259,147	\$ 257,542
Services and Supplies	87,315	83,667
Utilities and Communications	13,415	14,086
Scholarships, Fellowships, and Waivers	52,761	53,502
Depreciation	<u>30,815</u>	<u>27,506</u>
Total Operating Expenses	<u>\$ 443,453</u>	<u>\$ 436,303</u>

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



An increase in service and supplies resulted from additional costs associated with the purchase of previously capitalized items that are now expensed and additional repairs and maintenance of University facilities. For the 2011-12 fiscal year, the threshold for capitalizing assets was increased from \$1,000 to \$5,000, and although assets with a historical cost of \$5,000 or less were written off the property records, there was an increase in depreciation expense due to additional assets capitalized during the fiscal year.

Nonoperating Revenues and Expenses

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

**Nonoperating Revenues (Expenses)
(In Thousands)**

	2011-12	2010-11
State Noncapital Appropriations	\$ 145,092	\$ 157,951
Federal and State Student Financial Aid	62,274	60,497
State Appropriated American Recovery and Reinvestment Act Funds		11,631
Investment Income	4,552	4,256
Other Nonoperating Revenues	13,171	2,826
Loss on Disposal of Capital Assets	(16,469)	(2,229)
Interest on Capital Asset-Related Debt	(4,180)	(4,605)
Other Nonoperating Expenses	<u>(2,823)</u>	<u>(4,255)</u>
Net Nonoperating Revenues	<u>\$ 201,617</u>	<u>\$ 226,072</u>

The net nonoperating revenues decreased mainly due to the cessation of nonrecurring State Appropriated American Recovery and Reinvestment Act Funds, this was offset by an increase in grants and donations the Florida Atlantic

University Foundation, Inc., reported as nonoperating revenue. The increase of \$14.2 million for loss on disposal of capital assets was a result of the change to the capitalization threshold from \$1,000 to \$5,000. Previously capitalized assets costing less than \$5,000 and related accumulated depreciation were written off. Investment income increased in spite of having slightly less assets under investment earning a slightly less average rate of return of 2.28 percent as compared to 2.40 percent in 2010-11. However, this was off-set by an increase in fair market value of investments, which resulted in an increase of \$1.2 million.

Other Revenues, Expenses, Gains, or Losses

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

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

	2011-12	2010-11
State Capital Appropriations	\$ 1,563	\$ 24,991
Capital Grants, Contracts, Donations, and Fees	<u>23,564</u>	<u>17,770</u>
Total	\$ 25,127	\$ 42,761

During the 2011-12 fiscal year, State capital appropriations were cut significantly and there were no new appropriations for major projects or capital renewal or infrastructure. During the fiscal year, the University received capital donations of \$22.2 million for the construction of the new football stadium.

THE STATEMENT OF CASH FLOWS

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

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

Condensed Statement of Cash Flows
(In Thousands)

	2011-12	2010-11
Cash Provided (Used) by:		
Operating Activities	\$ (194,350)	\$ (194,019)
Noncapital Financing Activities	218,460	223,209
Capital and Related Financing Activities	(30,850)	(29,309)
Investing Activities	10,019	1,515
Net Increase in Cash and Cash Equivalents	3,279	1,396
Cash and Cash Equivalents, Beginning of Year	6,579	5,183
Cash and Cash Equivalents, End of Year	\$ 9,858	\$ 6,579

Major sources of funds came from State noncapital appropriations (\$145.1 million), net student tuition and fees (\$114.6 million), Federal direct student loans (\$109.1 million), Federal and State student financial aid (\$60.2 million), sales and services of auxiliary enterprises (\$49.8 million), and grants and contracts (\$39.9 million). Major uses of funds were for payments made to and on behalf of employees (\$251.1 million), disbursement of Federal direct student loans (\$109.1 million), payments to suppliers (\$100.6 million), purchase or construction of capital assets (\$60.2 million), and payments to students for scholarships and fellowships (\$52.8 million).

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

CAPITAL ASSETS

At June 30, 2012, the University had \$1.1 billion in capital assets, less accumulated depreciation of \$317.8 million, for net capital assets of \$802.7 million. Depreciation charges for the current fiscal year totaled \$30.8 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

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

	2012	2011
Land	\$ 11,204	\$ 11,204
Construction in Progress	1,738	61,917
Buildings	630,927	560,964
Infrastructure and Other Improvements	60,818	51,835
Furniture and Equipment	41,949	56,727
Library Resources	14,782	16,905
Property Under Capital Leases and Leasehold Improvements	39,419	37,783
Works of Art and Historical Treasures	973	932
Computer Software	857	926
Capital Assets, Net	\$ 802,667	\$ 799,193

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2012, were incurred on the following project: A 600-bed residence hall at the Boca Raton Campus. The residence hall construction costs will be reimbursed by the Florida Atlantic University Finance Corporation, Inc. (FAUFC) during the 2012-13 fiscal year and the asset will be reported on FAUFC's 2012-13 fiscal year financial statements. The University's major capital commitments at June 30, 2012, are as follows:

	Amount <u>(In Thousands)</u>
Total Committed	<u>\$ 34,012</u>
Completed to Date	<u>(1,738)</u>
Balance Committed	<u>\$ 32,274</u>

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

DEBT ADMINISTRATION

As of June 30, 2012, the University had \$89.5 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of \$2.2 million, or 2.4 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 (In Thousands)	
	2012	2011
Capital Improvement Debt	\$ 78,651	\$ 81,956
Capital Leases	<u>10,813</u>	<u>9,690</u>
Total	<u>\$ 89,464</u>	<u>\$ 91,646</u>

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 budget that the Florida Legislature adopted for the 2012-13 fiscal year provided a 1.2 percent decrease in the Educational and General Budget allocation for State universities. Due to economic conditions of the State of Florida, funding priorities for higher education focused on efforts to maintain a stable funding environment, rather than an incremental salary program, recognition of specific programmatic initiatives, or enrollment increase support. The University expects that the increase in revenue from student tuition and fees, because of increased enrollment, will assist in mitigating State budget reductions that affected the University overall.

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, Senior 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, 2012**

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 9,853,692	\$ 6,432,275
Cash with Fiscal Agent		18,310,495
Investments	181,841,245	62,112,412
Accounts Receivable, Net	25,988,692	1,708,636
Loans and Notes Receivable, Net	1,877,893	
Due from State	5,239	
Due from Component Units/University	2,232,905	1,802,587
Inventories	112,156	10,000
Net Investments in Direct Financing-Type Leases		350,000
Other Current Assets	551,389	4,646,599
Total Current Assets	222,463,211	95,373,004
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,977	15,313,249
Restricted Investments	2,048,021	185,789,549
Net Investments in Direct Financing-Type Leases		9,005,000
Accounts Receivable, Net		3,550,049
Loans and Notes Receivable, Net	1,760,042	186,000
Depreciable Capital Assets, Net	789,465,779	96,834,644
Nondepreciable Capital Assets	13,201,230	12,794,092
Other Noncurrent Assets	571,587	12,731,732
Total Noncurrent Assets	807,051,636	336,204,315
TOTAL ASSETS	\$ 1,029,514,847	\$ 431,577,319
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 10,228,032	\$ 7,519,579
Construction Contracts Payable	117,920	
Salaries and Wages Payable	2,675,014	
Deposits Payable	4,920,795	
Due to Component Units/University	1,802,587	2,232,905
Deferred Revenue	9,907,749	1,606,563
Other Current Liabilities		4,755,211
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	3,439,784	
Certificates of Participation Payable		350,000
Deferred Lease Revenue	400,000	
Capital Leases Payable	558,553	
Compensated Absences Payable	1,556,438	
Total Current Liabilities	35,606,872	16,464,258

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

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 75,211,261	\$
Bonds Payable	168,795,000	
Certificates of Participation Payable	9,005,000	
Deferred Lease Revenue	10,666,667	
Capital Leases Payable	10,254,708	
Federal Advance Payable	1,833,748	
Compensated Absences Payable	24,215,769	
Other Postemployment Benefits Payable	21,609,000	
Other Non-Current Liabilities	695,174	
Total Noncurrent Liabilities	143,791,153	178,495,174
TOTAL LIABILITIES	179,398,025	194,959,432
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	713,779,267	(25,849,054)
Restricted for Nonexpendable:		
Endowment	141,515,877	
Restricted for Expendable:		
Loans	3,484,433	
Other	14,037,113	114,010,113
Unrestricted	118,816,009	6,940,951
TOTAL NET ASSETS	850,116,822	236,617,887
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,029,514,847</u>	<u>\$ 431,577,319</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 REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$46,600,821	\$ 114,553,254	\$
Federal Grants and Contracts	27,678,987	
State and Local Grants and Contracts	7,291,672	2,902,802
Nongovernmental Grants and Contracts	6,206,599	103,332
Sales and Services of Educational Departments	370,907	
Sales and Services of Auxiliary Enterprises (\$8,883,271 Pledged for Housing Facility Revenue Bonds and \$6,729,036 Pledged for the Parking System Revenue Bonds)	48,538,721	23,045,697
Gifts and Donations		6,627,966
Interest on Loans and Notes Receivable	144,923	
Other Operating Revenues	8,776,377	620,374
Total Operating Revenues	213,561,440	33,300,171
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	259,147,025	4,731,909
Services and Supplies	87,315,068	5,577,922
Utilities and Communications	13,415,754	
Scholarships, Fellowships, and Waivers	52,761,207	3,247,111
Depreciation	30,814,788	3,274,664
Other Operating Expenses		13,706,121
Total Operating Expenses	443,453,842	30,537,727
Operating Income (Loss)	(229,892,402)	2,762,444
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	145,091,785	
Federal and State Student Financial Aid	62,273,887	
Investment Income	4,552,451	7,126,616
Net Realized and Unrealized Loss on Investments		(2,466,507)
Other Nonoperating Revenues	13,170,904	4,476,133
Loss on Disposal of Capital Assets	(16,468,793)	
Interest on Capital Asset-Related Debt	(4,180,399)	(5,791,301)
Other Nonoperating Expenses	(2,822,681)	(22,660,909)
Net Nonoperating Revenues (Expenses)	201,617,154	(19,315,968)
Loss Before Other Revenues, Expenses, Gains, or Losses	(28,275,248)	(16,553,524)
State Capital Appropriations	1,563,172	
Capital Grants, Contracts, Donations, and Fees	23,563,509	2,021,033
Decrease in Net Assets	(3,148,567)	(14,532,491)
Net Assets, Beginning of Year	853,265,389	251,150,378
Net Assets, End of Year	\$ 850,116,822	\$ 236,617,887

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, 2012**

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 114,553,526
Grants and Contracts	39,856,297
Sales and Services of Educational Departments	370,907
Sales and Services of Auxiliary Enterprises	49,753,373
Interest on Loans and Notes Receivable	144,923
Payments to Employees	(251,086,076)
Payments to Suppliers for Goods and Services	(100,593,255)
Payments to Students for Scholarships and Fellowships	(52,761,207)
Loans Issued to Students	(554,366)
Collection on Loans to Students	332,574
Other Operating Receipts	<u>5,632,806</u>
Net Cash Used by Operating Activities	<u>(194,350,498)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	145,091,785
Federal and State Student Financial Aid	60,203,022
Operating Subsidies and Transfers	29,507
Federal Direct Loan Program Receipts	109,139,394
Federal Direct Loan Program Disbursements	(109,574,713)
Other Nonoperating Expenses	(2,957,525)
Net Change in Funds Held for Others	3,758,529
Other Nonoperating Receipts	<u>12,770,904</u>
Net Cash Provided by Noncapital Financing Activities	<u>218,460,903</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	1,163,172
Capital Grants, Contracts, Donations, and Fees	23,811,448
Fees and Other Receipts from Capital Projects	408,304
Capital Subsidies and Transfers	11,988,676
Purchase or Construction of Capital Assets	(60,239,186)
Principal Paid on Capital Debt and Leases	(3,801,945)
Interest Paid on Capital Debt and Leases	<u>(4,180,399)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(30,849,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(324,605,909)
Sale of Investments	331,084,198
Investment Income	<u>3,540,321</u>
Net Cash Provided by Investing Activities	<u>10,018,610</u>
Net Increase in Cash and Cash Equivalents	<u>3,279,085</u>
Cash and Cash Equivalents, Beginning of Year	<u>6,579,584</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,858,669</u>

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

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	\$ (229,892,402)
Depreciation Expense	30,814,788
Change in Assets and Liabilities:	
Accounts Receivable, Net	(3,528,124)
Inventories	(34,593)
Loans and Notes Receivable, Net	(221,793)
Other Assets	(244,079)
Accounts Payable	1,496,099
Salaries and Wages Payable	(67)
Deposits Payable	289,185
Compensated Absences Payable	35,015
Deferred Revenue	(1,090,527)
Other Postemployment Benefits Payable	8,026,000
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (194,350,498)</u>

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

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 1,237,608
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.	\$ (16,468,793)

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, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit. Based on the application of the criteria for determining component units, the Florida Atlantic University College of Medicine Self-Insurance Program (Program), is included within the University reporting entity as a blended component unit. The Program was created on June 23, 2011, by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes, and its sole purpose is to assist in providing comprehensive general liability (malpractice) coverage for the University and its affiliated individuals and entities, and is therefore reported as if it is part of the University.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, certain affiliated organizations are included within the University's reporting entity as discretely presented component units. The University further categorizes its component units as Direct-Support Organizations and Health Science Center Affiliates. An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual reports are submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the Office of University Relations. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

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

Direct-Support Organizations. The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, are considered component units of Florida Atlantic University and, therefore, the latest audited financial statements of these organizations are included in the University's financial statements by discrete presentation. 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, 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 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.
- Harbor Branch Oceanographic Institution Foundation, Inc., is a separate corporation operating independently from the University that 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 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.

Health Science Center Affiliates. The Florida Atlantic University Clinical Practice Organization, Inc., is closely affiliated with the University's Charles Schmidt College of Medicine, the Christine E. Lynn College of Nursing, and other participating colleges or units within the University. The Florida Atlantic University Clinical Practice Organization, Inc., was incorporated on May 3, 2011, as a not-for-profit organization under Chapter 617, Florida Statutes. It was established to promote and support medical education, research, and distribution of funds exclusively for the support of the mission and objectives of the University in accordance with the University's College of Medicine Faculty Practice Plan and other faculty practice plans, adopted by the University, pursuant to Board of Governors Regulation 9.017.

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

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

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

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

The University's discretely presented component units use the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The Florida Atlantic University Research Corporation, Inc., the Florida Atlantic University Finance Corporation, and the Florida Atlantic University Clinical Practice Organization, Inc., 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.

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

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

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

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

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

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

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 depositary 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, cash equivalents, and cash with fiscal agent that included a fair value totaling \$32,115,048 at June 30, 2012, 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 A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The component units rely on policies developed by the State Treasury for managing interest risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

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

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 \$5,000 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 – 7 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, deferred lease revenue, capital leases payable, Federal advance payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refunding 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 (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality

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

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 \$183,889,266 at June 30, 2012, in the State Treasury SPIA investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Units Investments. Investments reported by the University's component units at June 30, 2012, 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:

<u>Investment Type</u>	<u>Amount</u>
United States Stocks and Bonds	\$ 44,314,023
International Stocks and Bonds	31,726,011
Fixed Income Securities	65,500,907
Hedge Funds	46,572,151
Other Investments	<u>56,817,520</u>
Subtotal	244,930,612
Funds Held in Trust by Others	<u>2,971,349</u>
Total Investments	<u>\$ 247,901,961</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, 2012, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 6,261,829
Student Tuition and Fees	19,139,543
Other	<u>587,320</u>
Total Accounts Receivable, Net	<u>\$ 25,988,692</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 \$4,405,395 and \$442,908, respectively, at June 30, 2012.

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

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

4. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The \$1,802,587 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 operations and to the Florida Atlantic University Finance Corporation (Finance Corporation) pursuant to a management agreement for student housing operations. The amount \$2,232,905 due from component units consists of amounts owed to the University by the Foundation for scholarships and student aid; by the Finance Corporation for the education, finance, and investment-related activities; and by the Florida Atlantic University Research Corporation (Research Corporation), Inc., for University research projects performed on behalf of the Research Corporation and costs incurred by the University related to patenting technologies.

5. INVENTORIES

Inventories have been categorized into the following two types:

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

6. CAPITAL ASSETS

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

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

Description	Beginning Balance	Adjustment (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 11,203,803	\$	\$	\$	\$ 11,203,803
Works of Art and Historical Treasures	261,180		12,215	14,200	259,195
Construction in Progress	61,916,701		1,760,607	61,939,076	1,738,232
Total Nondepreciable Capital Assets	\$ 73,381,684	\$	\$ 1,772,822	\$ 61,953,276	\$ 13,201,230
Depreciable Capital Assets:					
Buildings	\$ 718,395,368	\$	\$ 89,067,870	\$ 2,000	\$ 807,461,238
Infrastructure and Other Improvements	76,178,297		11,151,832	83,476	87,246,653
Furniture and Equipment	120,613,491	(35,696,453)	8,175,896	6,005,777	87,087,157
Library Resources	76,073,135		284,943	648,785	75,709,293
Property Under Capital Leases and Leasehold Improvements	42,406,921		2,749,282	229,193	44,927,010
Works of Art and Historical Treasures	766,884		106,999	47,196	826,687
Computer Software	4,142,392		379,283	562,118	3,959,557
Total Depreciable Capital Assets	1,038,576,488	(35,696,453)	111,916,105	7,578,545	1,107,217,595
Less, Accumulated Depreciation:					
Buildings	157,431,576		19,103,134		176,534,710
Infrastructure and Other Improvements	24,343,492		2,431,188	345,760	26,428,920
Furniture and Equipment	63,885,873	(19,740,648)	5,177,621	4,184,476	45,138,370
Library Resources	59,167,740		2,887,092	1,127,889	60,926,943
Property Under Capital Leases and Leasehold Improvements	4,624,295		929,390	45,793	5,507,892
Works of Art and Historical Treasures	96,313		18,751	2,335	112,729
Computer Software	3,216,078		267,612	381,438	3,102,252
Total Accumulated Depreciation	312,765,367	(19,740,648)	30,814,788	6,087,691	317,751,816
Total Depreciable Capital Assets, Net	\$ 725,811,121	\$ (15,955,805)	\$ 81,101,317	\$ 1,490,854	\$ 789,465,779

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

7. DEFERRED REVENUE

Deferred revenue consists mainly of student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2012, the University reported the following amounts as deferred revenue:

Description	Amount
Student Tuition and Fees	\$ 8,611,821
Contracts and Grants	463,053
Capital Projects	5,239
Athletic	760,489
Housing	67,147
Total Deferred Revenue	\$ 9,907,749

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

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2012, include capital improvement debt payable, capital leases payable, deferred lease revenue, Federal advance payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	\$ 81,955,829	\$ 3,304,784	\$ 78,651,045	\$ 3,439,784	
Deferred Lease Revenue	11,466,667	400,000	11,066,667	400,000	
Capital Leases Payable	9,690,000	1,535,206	411,945	10,813,261	558,553
Federal Advance Payable	1,833,748			1,833,748	
Compensated Absences Payable	25,737,192	1,857,606	1,822,591	25,772,207	1,556,438
Other Postemployment Benefits Payable	13,583,000	9,578,000	1,552,000	21,609,000	
Total Long-Term Liabilities	\$ 144,266,436	\$ 12,970,812	\$ 7,491,320	\$ 149,745,928	\$ 5,954,775

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

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	\$ 25,208,168	3.875 - 4.875	2033
2006A Student Housing	27,640,000	24,462,612	4.0 - 4.625	2036
2006B Student Housing	21,775,000	18,956,180	4.0 - 4.375	2030
Total Student Housing Debt	84,700,000	68,626,960		
Parking Garage Debt:				
2001 Parking Facility	7,990,000	4,400,000	4.1 - 4.8	2021
2002 Parking Facility	8,995,000	5,624,085	3.375 - 4.35	2023
Total Parking Garage Debt	16,985,000	10,024,085		
Total Capital Improvement Debt	\$ 101,685,000	\$ 78,651,045		

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 \$78,651,045 in capital improvement (housing and parking) revenue bonds issued by the 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 through 2036. The University has committed to appropriate each year from the housing rental income, traffic and parking fees, and

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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 \$120,345,081, and principal and interest paid for the current year totaled \$7,023,085. During the 2011-12 fiscal year, housing rental income, traffic and parking fees, special student fee assessments, and other fines and fees totaled \$8,883,271, \$2,885,447, \$2,623,477, and \$1,220,112 respectively.

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 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	4,125,000	2,910,529	7,035,529
2018-2022	21,645,000	11,758,366	33,403,366
2023-2027	16,135,000	7,573,871	23,708,871
2028-2032	16,095,000	3,807,475	19,902,475
2033-2036	7,400,000	787,537	8,187,537
Subtotal	80,340,000	40,005,081	120,345,081
Less: Net Discounts and Premiums	(1,688,955)		(1,688,955)
Total	\$ 78,651,045	\$ 40,005,081	\$ 118,656,126

Bonds Payable – Component Unit. The Florida Atlantic University Finance Corporation had the following bonds payable outstanding at June 30, 2012:

<u>Bonds Payable</u>	<u>Amount</u>	<u>Amount</u>	<u>Interest</u>	<u>Maturity</u>
	<u>of Original</u>	<u>Outstanding</u>	<u>Rates</u>	<u>Date</u>
	<u>Debt</u>	<u>(1)</u>	<u>(Percent)</u>	<u>To</u>
Series 2010A, Tax Exempt	\$ 8,475,000	\$ 9,170,174	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	\$ 168,795,000	\$ 169,490,174		

Note: (1) Amount outstanding includes unamortized premiums.

Annual requirements to amortize the outstanding bonds as of June 30, 2012, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,680,000	10,997,936	14,677,936
2018-2022	20,760,000	51,634,100	72,394,100
2023-2027	25,505,000	44,387,389	69,892,389
2028-2032	31,855,000	34,677,034	66,532,034
2033-2037	40,010,000	22,219,336	62,229,336
2038-2041	38,025,000	6,714,783	44,739,783
Subtotal	168,795,000	216,086,936	384,881,936
Add: Unamortized Premium	695,174		695,174
Total	\$ 169,490,174	\$ 216,086,936	\$ 385,577,110

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 deferred lease revenue amount held by the University totaled \$11,066,667 at June 30, 2012, of which \$400,000 was reported as current.

Capital Leases Payable. During the 2011-12 fiscal year, the University entered into capital lease agreements for energy performance equipment totaling \$1,082,030 with a stated interest rate of 3.28 percent and computer equipment totaling \$453,176 with a stated interest rate of 1.96 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 248,896
2014	248,895
2015	248,896
2016	248,895
2017	177,711
2018-2020	449,113
Total Minimum Payments	1,622,406
Less, Amount Representing Interest	(164,145)
Present Value of Minimum Payments	\$ 1,458,261

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 buildings, makes lease payments sufficient to cover all amounts due under the Certificates of Participation. At June 30, 2012, the amount reported by the University as capital leases payable included \$9,355,000, representing the total future minimum payments remaining under the Certificates of Participation.

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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, 2012, Certificates of Participation payable are as follows:

COP Series	Amount of Issues	Total Retired	Outstanding Principal	Outstanding Interest	Interest Rates	Maturity Date
1999	\$ 6,230,000	\$ 1,830,000	\$ 4,400,000	\$ 2,097,500	4.375 - 5.0	2028
2000	6,300,000	1,345,000	4,955,000	3,111,823	5.0 - 5.875	2030
Total	\$ 12,530,000	\$ 3,175,000	\$ 9,355,000	\$ 5,209,323		

The Foundation 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.

Federal Advance Payable. Represents the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program. Federal capital contributions held by the University totaled \$1,833,748 at June 30, 2012.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$25,772,207. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those 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 by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for

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both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 369 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,552,000 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 \$2,055,000.

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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 5,619,000
Amortization of Unfunded Actuarial Accrued Liability	3,521,000
Interest on Normal Cost and Amortization	<u>366,000</u>
Annual Required Contribution	9,506,000
Interest on Net OPEB Obligation	543,000
Adjustment to Annual Required Contribution	<u>(471,000)</u>
Annual OPEB Cost (Expense)	9,578,000
Contribution Toward the OPEB Cost	<u>(1,552,000)</u>
Increase in Net OPEB Obligation	8,026,000
Net OPEB Obligation, Beginning of Year	<u>13,583,000</u>
Net OPEB Obligation, End of Year	<u>\$ 21,609,000</u>

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

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009-10	\$ 6,237,000	21.9%	\$ 9,086,000
2010-11	5,867,000	23.4%	13,583,000
2011-12	9,578,000	16.2%	21,609,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$105,618,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$105,618,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$167 million for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 63 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, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the University's 2011-12 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates were 7.24 percent, and was 8.38 percent and 8.57 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.81 percent, 3.11 percent, and 8.42 percent for the first three years, respectively, for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.5 percent in the fourth year grading identically to 5 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

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9. RETIREMENT PROGRAMS

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in 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.

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

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

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

- Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.
- (B) Contribution rates are dependent upon retirement class in which reemployed.

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$5,750,007, \$6,399,485, and \$4,150,750, respectively, which were equal to the required contributions for each fiscal year.

There were 359 University participants in the Investment Plan during the 2011-12 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled \$1,081,935, which was equal to the required contribution for the 2011-12 fiscal year.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes, on behalf of the participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by

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payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 1,478 University participants during the 2011-12 fiscal year. The University's contributions to the Program totaled \$7,797,305 and employee contributions totaled \$6,605,547 for the 2011-12 fiscal year.

10. CONSTRUCTION COMMITMENTS

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

Project Description	Total Committed	Completed to Date	Balance Committed
600-bed Residence Hall (1)	\$ 33,846,838	\$ 1,573,108	\$ 32,273,730
Other Project Expenses (2)	165,124	165,124	
Total	\$ 34,011,962	\$ 1,738,232	\$ 32,273,730

Notes: (1) The expenses incurred to date will be reimbursed by the Florida Atlantic University Finance Corporation (FAUFC) during the 2012-13 fiscal year. The asset will be reported on FAUFC's 2012-13 fiscal year financial statements.
(2) Other project expenses represent costs associated with minor construction projects.

11. OPERATING LEASE COMMITMENTS

The University leased the Biomed Research and Development Park under an operating lease, which expires in 2013. In addition, the University leased various copiers and vehicles 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>
2013	\$ 203,243
2014	45,240
Total Minimum Payments Required	\$ 248,483

12. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2011-12 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per

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occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$61 million for named windstorm and flood losses through February 14, 2012, and decreased to \$50 million starting February 15, 2012. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights, and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

University Self-Insurance Program

The Florida Atlantic University College of Medicine Self-Insurance Program (Program) was established pursuant to Section 1004.24, Florida Statutes, on June 23, 2011. The Program provides professional and general liability protection for the Florida Atlantic University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff, and resident physicians. Liability protection is afforded to the students at the colleges. The Program provides legislative claims bill protection.

Prior to October 1, 2011, the Program provided the Board of Trustees with protection of \$100,000 per claim and \$200,000 for all claims arising from a single occurrence; \$100,000 per claim and \$200,000 for all claims arising for the acts and omissions of students of the colleges protected by the Program engaged in assigned activities at affiliated hospitals or other healthcare affiliates, and student coverage may be increased subject to a \$1 million limit per occurrence if higher limits of liability are required by an affiliated hospital or healthcare affiliate; \$250,000 per occurrence in the event that the personal immunity to tort claims as described in Section 768.28(9), Florida Statutes, is inapplicable as to an employee or agent of the Board of Trustees while such employee or agent functions within the course and scope of his or her employment or agency; and \$250,000 for employees who act as a Good Samaritan or are engaged in approved Community Service. In response to the Florida Legislature increasing the limits of liability contained in Section 768.28, Florida Statutes, effective October 1, 2011, the Program raised the limits of protection for sovereign immune entities to \$200,000 per claim and \$300,000 for all

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claims arising for a single occurrence. Under this claims-incurred policy written directly with the Program participants, protection is provided against claims that arise from incidents occurring during the term of the policies irrespective of the time the claim is asserted.

The Self-Insurance Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported. Claims liabilities for the fiscal year ended June 30, 2012, are as follows:

Fiscal Year Ended	Claims Liabilities Beginning of Year	Current Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
June 30, 2012	\$	\$ 23,618	\$	\$ 23,618

13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 141,840,315
Research	25,379,083
Public Services	4,388,553
Academic Support	48,074,279
Student Services	16,389,298
Institutional Support	48,042,393
Operation and Maintenance of Plant	21,538,609
Scholarships and Fellowships	47,180,541
Depreciation	30,814,788
Auxiliary Enterprises	<u>59,805,983</u>
Total Operating Expenses	<u>\$ 443,453,842</u>

14. 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.

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During the 2011-12 fiscal year, the operations of the Boca Raton Campus housing segment, for which one or more bonds are outstanding, was administered by an independent organization and the activities in excess of related debt service that occurred during the fiscal year are reported on Florida Atlantic University Finance Corporation's financial statements. All activity related to the Jupiter Campus Honors housing segment that is under a capital lease from the Florida Atlantic University Foundation, Inc., (see Capital Leases Payable) is included in the Housing segment below.

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	\$ 11,215,423	\$ 9,121,094
Capital Assets, Net	88,675,075	18,344,365
Total Assets	<u>99,890,498</u>	<u>27,465,459</u>
Liabilities		
Current Liabilities	321,862	286,167
Noncurrent Liabilities	77,981,960	10,075,000
Total Liabilities	<u>78,303,822</u>	<u>10,361,167</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	10,693,115	8,269,365
Unrestricted	10,893,561	8,834,927
Total Net Assets	<u>\$ 21,586,676</u>	<u>\$ 17,104,292</u>

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

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

	Housing	Traffic and Parking Services
Operating Revenues	\$ 8,883,271	\$ 6,729,036
Depreciation Expense	(2,298,622)	(522,905)
Other Operating Expenses	<u>(715,097)</u>	<u>(3,486,440)</u>
Operating Income	<u>5,869,552</u>	<u>2,719,691</u>
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	233,446	
Interest Expense	(3,822,528)	(457,198)
Other Nonoperating Expense	<u>(514,484)</u>	<u>(429,929)</u>
Net Nonoperating Expenses	<u>(4,337,012)</u>	<u>(653,681)</u>
Increase in Net Assets	1,532,540	2,066,010
Net Assets, Beginning of Year	<u>20,054,136</u>	<u>15,038,282</u>
Net Assets, End of Year	<u>\$ 21,586,676</u>	<u>\$ 17,104,292</u>

Condensed Statement of Cash Flows

	Housing	Traffic and Parking Services
Net Cash Provided (Used) by:		
Operating Activities	\$ 7,336,860	\$ 3,758,901
Noncapital Financing Activities	(91,725)	(335,104)
Capital and Related Financing Activities	(7,209,483)	(1,637,476)
Investing Activities	<u>(831,067)</u>	<u>(1,760,303)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(795,415)</u>	<u>26,018</u>
Cash and Cash Equivalents, Beginning of Year	<u>2,681,500</u>	<u>2,246,218</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,886,085</u>	<u>\$ 2,272,236</u>

15. COMPONENT UNITS

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

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

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

	Direct-Support Organizations				Health Services Center Affiliates	Total
	Florida Atlantic University Foundation, Inc.	Florida Atlantic University Research Corporation, Inc.	Harbour Branch Oceanographic Institution Foundation, Inc.	Florida Atlantic University Finance Corporation	Florida Atlantic University Clinical Practice Organization, Inc.	
Condensed Statement of Net Assets						
Assets:						
Current Assets	\$ 16,222,317	\$ 691,868	\$ 57,219,232	\$ 21,142,292	\$ 97,295	\$ 95,373,004
Capital Assets, Net	10,259,809		2,615,361	96,753,566		109,628,736
Other Noncurrent Assets	198,451,131		186,000	27,938,448		226,575,579
Total Assets	224,933,257	691,868	60,020,593	145,834,306	97,295	431,577,319
Liabilities:						
Current Liabilities	8,405,958	308,726	170,206	7,571,298	8,070	16,464,258
Noncurrent Liabilities	9,005,000			169,490,174		178,495,174
Total Liabilities	17,410,958	308,726	170,206	177,061,472	8,070	194,959,432
Net Assets:						
Invested in Capital Assets, Net of Related Debt	10,259,809		2,615,361	(38,724,224)		(25,849,054)
Nonexpendable	141,515,877					141,515,877
Restricted	49,605,795		59,323,956	5,080,362		114,010,113
Unrestricted	6,140,818	383,142	(2,088,930)	2,416,696	89,225	6,940,951
Total Net Assets	\$ 207,522,299	\$ 383,142	\$ 59,850,387	\$ (31,227,166)	\$ 89,225	\$ 236,617,887
Condensed Statement of Revenues, Expenses, and Changes in Net Assets						
Operating Revenues	\$ 8,692,759	\$ 217,134	\$ 3,248,413	\$ 20,990,198	\$ 151,667	33,300,171
Operating Expenses	13,723,724	204,695	3,998,044	12,548,822	62,442	30,537,727
Operating Income (Loss)	(5,030,965)	12,439	(749,631)	8,441,376	89,225	2,762,444
Net Nonoperating Revenues (Expenses)	739,466	20,080	(363,901)	(19,711,613)		(19,315,968)
Other Revenues, Expenses, Gains, and Losses	2,021,033					2,021,033
Increase (Decrease) in Net Assets	(2,270,466)	32,519	(1,113,532)	(11,270,237)	89,225	(14,532,491)
Net Assets, Beginning of Year	209,792,765	350,623	60,963,919	(19,956,929)		251,150,378
Net Assets, End of Year	\$ 207,522,299	\$ 383,142	\$ 59,850,387	\$ (31,227,166)	\$ 89,225	\$ 236,617,887

16. 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, 2012**

Statement of Current Unrestricted Funds Net Assets

Assets

Current Assets:

Cash and Cash Equivalents	\$ 9,835,554
Investments	171,552,742
Receivables, Net	11,439,219
Inventories	102,371
Due from Component Units	884,242
Other Current Assets	<u>533,355</u>

Total Assets

194,347,483

Liabilities

Current Liabilities:

Accounts Payable	3,904,157
Deposits Payable	11,208
Due to Other Funds	15,149,453
Due to Component Units	1,223,229
Deferred Revenue	7,862,220
Compensated Absences Payable	<u>1,556,438</u>

Total Current Liabilities

29,706,705

Noncurrent Liabilities:

Compensated Absences Payable	24,215,769
Other Postemployment Benefits Payable	<u>21,609,000</u>

Total Noncurrent Liabilities

45,824,769

Total Liabilities

75,531,474

Total Net Assets

\$ 118,816,009

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

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

Revenues

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$46,600,821	\$ 109,588,169
Sales and Services of Auxiliary Enterprises	48,538,715
Other Operating Revenues	<u>7,119,448</u>
Total Operating Revenues	<u>165,246,332</u>

Expenses

Operating Expenses:

Compensation and Employee Benefits	228,313,647
Services and Supplies	65,128,599
Utilities and Communications	13,184,105
Scholarships, Fellowships, and Waivers	<u>1,388,749</u>
Total Operating Expenses	<u>308,015,100</u>

Operating Loss

(142,768,768)

Nonoperating Revenues (Expenses)

State Noncapital Appropriations	145,091,785
Investment Income	4,073,026
Other Nonoperating Revenues	2,286,908
Nonoperating Expenses	<u>(566,742)</u>

Net Nonoperating Revenues

150,884,977

Income Before Other Revenues,

Expenses, Gains, or Losses

Transfers to/from Other Funds	<u>(15,433,815)</u>
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Decrease in Net Assets

Net Assets, Beginning of Year

(7,317,606)

126,133,615

Net Assets, End of Year

\$ 118,816,009

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	46.3%
7/1/2011	\$	\$ 105,618,000	\$ 105,618,000	0%	\$ 167,000,000	63.2%

Note: (1) The entry-age cost actuarial method was used to calculate the 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, 2011, unfunded actuarial accrued liability of \$105,618,000, was significantly higher than the July 1, 2009, liability of \$72,617,000 as a result of changes in the methodology used by the actuary to calculate this liability. The most significant of these modifications were due to changes in healthcare costs due to the passage of the Patient Protection and Affordable Care Act that are reflected in the State Employees' Group Health Self-Insurance Trust Fund's *Report on the Financial Outlook* presented October 12, 2011.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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



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

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

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

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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
November 6, 2012