



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



FLORIDA ATLANTIC UNIVERSITY
Financial Audit

For the Fiscal Year Ended June 30, 2004

During the audit period, the President of the University was Mr. Frank T. Brogan. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

Dr. George C. Zoley, Chairman
Sheridan Plymale, Vice Chairman
Scott Adams
Nancy Wood Blosser
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Virginia I. Miller
Norman D. Tripp
Rabbi Bruce Warshal
Ancel Pratt to 5-11-04 (1)
Alvira Khan from 5-12-04 (1)

Note: (1) The student body president, who is a voting member of the Board in accordance with Section 1001.71(1), Florida Statutes.

FLORIDA ATLANTIC UNIVERSITY

TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	v
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
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.....	3
Internal Control Over Financial Reporting	3
Compliance and Other Matters.....	4
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL SECTION	
Statement of Net Assets.....	14
Statement of Revenues, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Notes to Financial Statements	19

EXECUTIVE SUMMARY

The audit of the financial statements of the Florida Atlantic University for the fiscal year ended June 30, 2004, was conducted pursuant to the provisions of Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the University, a component unit of the State of Florida, and a determination as to whether management has complied with applicable laws, administrative rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the University is included in our Statewide audit of Federal awards administered by the State of Florida.

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

- We found that the University's financial statements presented fairly, in all material respects, the financial positions of the University and its aggregate discretely presented component units as of June 30, 2004; the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- We noted no matters involving the University's internal control over financial reporting and its operation that we considered 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*.

This audit was conducted by Ilene R. Gayle, CPA, and supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to James E. Raulerson, CPA, Audit Manager, via e-mail at jimraulerson@aud.state.fl.us or by telephone at (850) 487-4468. This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Florida 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, 2004, as shown on pages 14 through 40. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the discretely presented component units column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon 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.

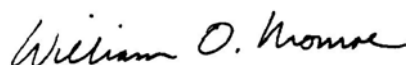
In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Florida Atlantic University and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 18 to the financial statements, student tuition and fees (net of scholarship allowances) totaling \$22,213,485 were misclassified as deferred revenue. This discovery was made subsequent to the issuance of the financial statements. The financial statements have been restated to reflect this correction.

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

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



William O. Monroe, CPA
January 11, 2005, except for note 18, as
to which the date is February 7, 2005



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

We have audited the financial statements of the Florida Atlantic University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2004, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. 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. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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, administrative rules, regulations, contracts, and grant agreements, noncompliance with which 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*.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink that reads "William O. Monroe". The signature is written in a cursive, flowing style.

William O. Monroe, CPA
January 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis of the Florida Atlantic University's financial statements provides an overview of the University's financial activities for the fiscal year ended June 30, 2004. The financial statements are comprised of the following:

- 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 the Financial Statements

This management's discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. Please read it in conjunction with the basic financial statements and the notes to financial statements. Responsibility for the completeness and fairness of this information rests with the University's management. Comparative analysis of financial data for the University and the component units for the 2003-04 and 2002-03 fiscal years are presented in the management's discussion and analysis.

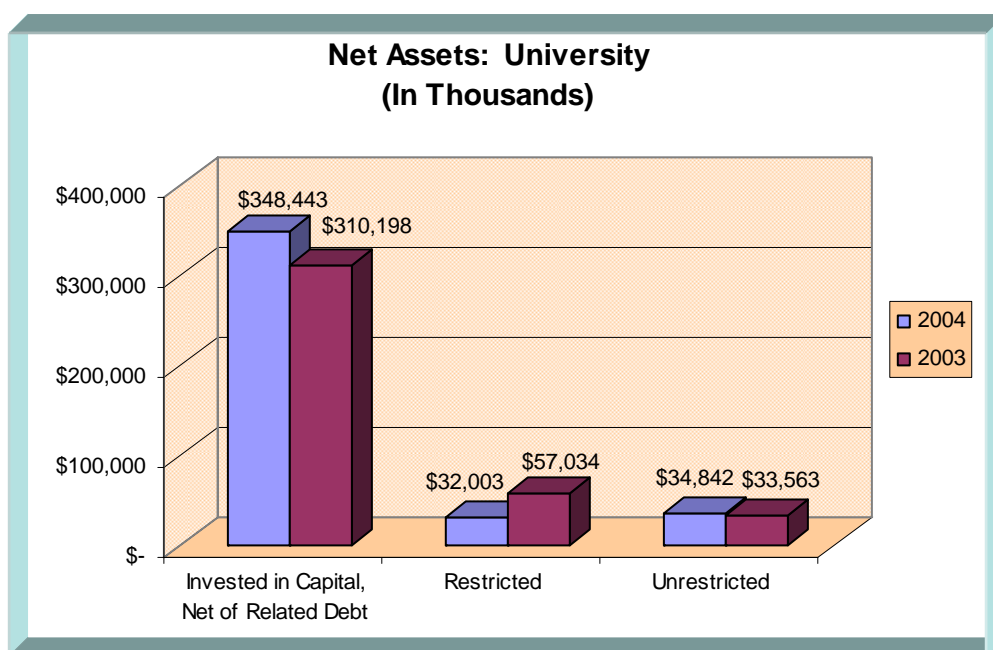
Listed below are entities that are represented in the management's discussion and analysis:

- Florida Atlantic University (Primary Institution) – Reporting financial activities of the University for fiscal year ended June 30, 2004. Most of the programs and services generally associated with the University fall into this category, including instruction, public service, and support services.
- Florida Atlantic University Foundation, Inc. (Foundation), and the Florida Atlantic University Research Corp., Inc. (Corporation) – Reported financial activities of the Foundation and Corporation are for the fiscal year ended June 30, 2004. These two not-for-profit corporations receive, hold, invest, and administer property and make expenditures to or for the benefit of the University or its programs as legally separate but discretely presented component units.

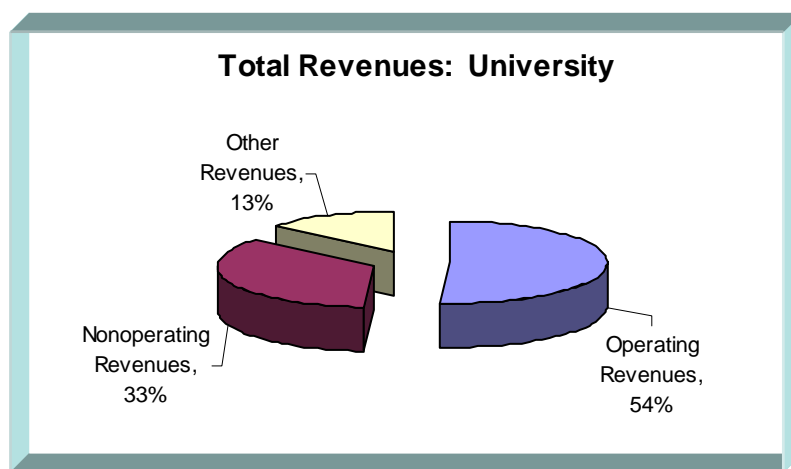
The Governmental Accounting Standards Board (GASB) is the governing entity that issues guidelines under which the University reports financial statements.

FINANCIAL HIGHLIGHTS

The University's financial position improved during the fiscal year ended June 30, 2004, with its net assets now totaling \$415 million. The University's revenues and other support exceeded expenses by \$14.5 million, resulting in a 3.6 percent increase in University net assets. Revenues from both governmental and nongovernmental grants and contracts and student tuition and fees, net of scholarship allowances, increased while State appropriations decreased. Sales and services of auxiliary enterprises also decreased due to a reclassification of student athletic fees and student health fees to student tuition and fees revenue. The following graph presents comparative net assets by category of the University for the fiscal years ended June 30, 2004, and June 30, 2003:



The following chart provides a graphical presentation of the University's revenues by category for the 2003-04 fiscal year:



The University's revenues exceeded expenses, increasing their net assets by \$14.5 million, or 3.6 percent, for the fiscal year ended June 30, 2004.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

One of the most important questions asked about the University's finances is whether the University, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the University as a whole and on its activities

in a way that help answer this question. These statements present financial information in a form similar to that used by corporations. Examining the University's net assets is one way to evaluate the University's financial health. Over time, increases or decreases in net assets can indicate the improvement or deterioration of the University's financial condition when considered along with nonfinancial information, such as enrollment levels and the condition of the facilities.

THE STATEMENT OF NET ASSETS

The statement of net assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The statement of net assets portrays the University's financial condition at only one point in time, i.e., June 30, 2004. The purpose of the statement of net assets is to present to the readers of the financial statements a fiscal snapshot of the Florida Atlantic University. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors and other entities. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities) and their availability for use by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. The next net asset category is restricted net assets. Expendable restricted net assets are available for use by the University, but must be spent for purposes as determined by grantors and external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets, which are net assets available to the University for any lawful purpose.

A condensed statement of net assets for the University and its aggregate component units for the fiscal years ended June 30, 2004, and June 30, 2003, are presented in the following table:

Assets, Liabilities, and Net Assets at June 30 (In Thousands)				
	University		Component Units	
	2004	2003	2004	2003
Assets				
Current Assets	\$ 130,345	\$ 118,713	\$ 14,920	\$ 20,716
Noncurrent Assets	15,772	32,393	138,344	112,939
Capital Assets, Net	428,928	382,724	8,764	5,030
Total Assets	575,045	533,830	162,028	138,685
Liabilities				
Current Liabilities	48,002	37,065	2,922	2,771
Noncurrent Liabilities	111,755	95,970	17,089	18,160
Total Liabilities	159,757	133,035	20,011	20,931
Net Assets				
Invested in Capital Assets, Net of Related Debt	348,443	310,198	5,026	5,030
Restricted	32,003	57,034	126,950	104,486
Unrestricted	34,842	33,563	10,041	8,238
Total Net Assets	\$ 415,288	\$ 400,795	\$ 142,017	\$ 117,754
Increase in Net Assets	\$ 14,493	3.6%	\$ 24,263	20.6%

For a more detailed understanding of the University's and its component units' net assets, the reader should review the statement of net assets and the notes to financial statements.

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

Changes in total net assets are summarized based on the related types of financial activity, and are presented in the statement of revenues, expenses, and changes in net assets. The purpose of the statement is to present the revenues, both operating and nonoperating; expenses, both operating and nonoperating; and any other revenues, expenses, gains, and losses and explain why and how the University's net assets changed between fiscal years or accounting periods.

Generally speaking, operating revenues are received for delivering educational goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, State appropriations, although significant, are considered nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services in return.

A condensed statement of revenues, expenses, and changes in net assets for the University and its aggregate component units for the 2003-04 and 2002-03 fiscal years is shown in the following table:

**Operating Results for the Fiscal Years
(In Thousands)**

	University		Component Units	
	2003-04	2002-03	2003-04	2002-03
Operating Revenues				
Student Tuition and Fees, Net of Scholarship Allowances	\$ 68,909	\$ 56,195	\$	\$
Federal Grants and Contracts	42,765	37,366		
State and Local Grants and Contracts	19,648	10,312	1,121	1,764
Nongovernmental Grants and Contracts - Including Private Support	39,543	29,971		
Sales and Services of Auxiliary Enterprises	14,110	25,265		
Other Operating Revenues	9,065	15,100		
Total Operating Revenues	194,040	174,209	1,121	1,764
Less, Operating Expenses	336,553	313,629	16,230	35,304
Net Operating Loss	(142,513)	(139,420)	(15,109)	(33,540)
Nonoperating Revenues (Expenses)				
State Appropriations	119,484	127,484		
Other Nonoperating Revenues (Expenses)	(8,219)	322	21,859	3,671
Nonoperating Revenues	111,265	127,806	21,859	3,671
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(31,248)	(11,614)	6,750	(29,869)
Capital Appropriations	41,911	37,556		
Capital Grants, Contracts, and Donations	3,732	8,624	17,513	20,658
Fee for Capital Projects	98			
Increase (Decrease) in Net Assets	14,493	34,566	24,263	(9,211)
Net Assets, Beginning of Year	400,795	367,040	117,754	133,990
Prior Period Adjustment		(811)		(7,025)
Net Assets, End of Year	<u>\$ 415,288</u>	<u>\$ 400,795</u>	<u>\$ 142,017</u>	<u>\$ 117,754</u>

The 2003-04 fiscal year resulted in increases in net assets for the University. University net gain was \$14.5 million after capital contributions. The aggregate component units net income was \$24.3 million. For a more detailed understanding of the University's and its component units' financial activities, the reader should review the statement of revenues, expense, and changes in net assets and the notes to financial statements. Some highlights of the information presented on the University's statement of revenues, expenses, and changes in net assets are as follows:

- Operating revenues were \$194 million, including \$68.9 million in net student tuition and fees revenues, \$42.7 million in Federal contracts and grants, \$19.6 million in State and local contracts and grants, \$39.5 million in nongovernmental grants and contracts and \$14.1 million in sales and services of auxiliary enterprises, comprised in a large part from delivery of services by the Open University Continuing Education.
- Operating expenses were \$336.6 million, including \$182.4 million for personnel service, \$57.4 million for scholarships and fellowships, \$16.7 million for depreciation, \$71.7 million for services and supplies, and \$8.3 million for utilities. For additional analysis, the function distribution of expenses has been shown in

the notes to the financial statements using the classifications as recommended by the National Association of College and University Business Officers.

- Net nonoperating revenues totaled \$111.2 million. This included \$119 million in State appropriations (nonexchange support) for University operations. State allocations and moneys for operations decreased by approximately \$8 million when compared to the prior year.
- Capital contributions were \$45.7 million, representing Public Education Capital Outlay (PECO) encumbrance authorizations received during the fiscal year and other miscellaneous capital grants and contracts.

Because operating expenses are one of the most significant items above, additional information for the University and its aggregate component units is presented in the following table:

Operating Expenses (In Thousands)				
	University		Component Units	
	2003-04	2002-03	2003-04	2002-03
Operating Expenses				
Personal Services	\$182,384	\$178,636	\$	\$
Services and Supplies	71,708	61,572	1,992	19,167
Utilities	8,330	12,395		
Scholarships and Fellowships	57,382	40,671		
Depreciation Expense	16,749	20,355	5	5
Other Operating Expenses			14,233	16,132
Total Operating Expenses	\$336,553	\$313,629	\$16,230	\$35,304

THE STATEMENT OF CASH FLOWS

The primary purpose of the statement of cash flows is to provide an understanding of the University's cash activity and its relationships to its various financial activities, operations, and overall changes in cash balances. Analyzing the statement is another way to assess the financial health of the University. The statement of cash flows presents detailed information about the cash activity of the University during the year.

The statement of cash flows also helps users assess:

- The University's ability to generate cash in the future.
- Its ability to meet obligations as they come due.
- Its potential needs for external financing.

A condensed statement of the University's cash flows for the 2003-04 and 2002-03 fiscal years is shown in the following table:

Cash Flows for the Fiscal Years (In Thousands)		
	<u>2003-04</u>	<u>2002-03</u>
Cash Provided (Used) by:		
Operating Activities	\$(132,404)	\$(121,726)
Noncapital Financing Activities	122,845	129,039
Capital and Related Financing Activities	(3,731)	16,892
Investing Activities	<u>(173)</u>	<u>(21,627)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,463)	2,578
Cash and Cash Equivalents, Beginning of the Year	<u>13,983</u>	<u>11,405</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 520</u>	<u>\$ 13,983</u>

Cash and cash equivalents are fully explained in notes to the financial statements and for a more detailed understanding of University's cash activity see the actual statement of cash flows. This statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and shows the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities, such cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows net investments purchased and interest received from investing activities, which is followed by a summary of the overall change in cash and cash equivalents for the year. The fifth section reconciles the net operating revenues (expenses) to net cash used by operating activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2004, the University and its component units had \$428.9 million and \$8.8 million of capital assets, net of depreciation, respectively. A summary of capital assets and accumulated depreciation is shown in the following table for the fiscal years ended June 30, 2004, and June 30, 2003:

Net Capital Assets at June 30 (In Thousands)				
Capital Assets	University		Component Units	
	2004	2003	2004 (1)	2003
Land	\$ 9,304	\$ 9,304	\$ 4,933	\$ 4,933
Buildings	393,938	338,978	243	237
Other Structures and Improvements	34,037	32,180		
Furniture, Machinery, and Equipment	74,391	68,613	79	79
Library Resources	54,944	52,895	648	
Property Under Capital Lease	12,530	12,530		
Other Capital Assets	1,440	1,370	3,085	
Construction in Progress	17,185	20,317		
Total	597,769	536,187	8,988	5,249
Less, Accumulated Depreciation:				
Buildings	73,134	66,234	149	145
Other Structures and Improvements	8,449	7,578		
Furniture, Machinery, and Equipment	41,794	36,941	74	74
Library Resources	42,181	39,897	1	
Property Under Capital Lease	2,086	1,668		
Other Capital Assets	1,196	1,144		
Total Accumulated Depreciation	168,840	153,462	224	219
Net Capital Assets	\$428,929	\$382,725	\$8,764	\$5,030
Increase in Net Capital Assets	\$ 46,204	12.1%	\$3,734	74.2%
Note: (1) Includes reclassification of \$648 for Foundation Library Resources and \$3,085 for Art Collections in the 2003-04 fiscal year.				

Details of University's capital asset activity for year ended June 30, 2004, such as additions and deletions by category, are shown in notes to financial statements.

As of June 30, 2004, there are several construction projects in progress on many of the campuses. These projects include a Jupiter Library Expansion; Scripps Laboratory; Life Long Learning Complex at Jupiter; The Christine E. Lynn College of Nursing Building; and the College of Business Expansion. Various infrastructure improvements and minor projects are ongoing as well.

DEBT

At June 30, 2004, the University had approximately \$101.9 million in debt outstanding versus \$83.2 million the previous year, an increase of 22.5 percent. The amount of this increase in debt is State University System Revenue Certificates and Construction Bonds, whose proceeds were used for capital outlay projects, and reporting of a capital lease. Additional information about debt and other obligations of the University and its component units are included in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic position of the Florida Atlantic University is closely tied to that of the State of Florida. In the 2003-04 fiscal year, State appropriations compromised approximately 48 percent of the University's total operating and nonoperating revenues and were the largest individual sources of funding. The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the current fiscal year other than those uncertainties having the potential for the interruption of virtually all types of normal business operations.

The University's overall financial position is strong. Even with a relatively flat funded year, the University was able to generate 3.6 percent increase in net assets. The University anticipates that 2004-05 fiscal year will be much like the 2003-04 fiscal year, and will maintain a close watch over resources to maintain the University's ability to react to issues, both internal and external.

FINANCIAL SECTION

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
June 30, 2004**

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 513,264	\$ 4,526,138
Investments	79,862,623	
Receivables, Net	16,015,914	7,549,282
Loans and Notes Receivable, Net	49,608	
Due from State	33,900,927	
Inventories	2,635	
Other Current Assets		2,844,478
Total Current Assets	130,344,971	14,919,898
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,694	
Restricted Investments	12,833,295	126,412,491
Loans and Notes Receivable, Net	2,398,520	
Net Investment in Direct Financing-Type Lease		11,640,000
Other Noncurrent Assets	533,521	291,777
Buildings, Equipment, and Other Depreciable Capital Assets, Net	402,402,872	746,048
Land and Other Nondepreciable Capital Assets	26,525,309	8,018,374
Total Noncurrent Assets	444,700,211	147,108,690
TOTAL ASSETS	\$ 575,045,182	\$ 162,028,588
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,557,532	\$ 1,740,044
Salary and Wages Payable	4,844,357	
Construction Contracts Payable	4,041,688	
Deposits Payable	4,965,213	
Deferred Revenues	5,292,021	111,727
Current Compensated Absences Liability	510,539	
Current Bonds and Revenue Certificates Payable	2,974,740	
Current Capital Leases Payable	245,000	
Certificates of Participation		245,000
Obligations Under Securities Lending and Reverse Repurchase Agreements	22,570,893	
Current Notes Payable		825,915
Total Current Liabilities	48,001,983	2,922,686
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	87,321,053	
Capital Leases Payable	11,395,000	
Certificates of Participation		11,395,000
Compensated Absences Liability	13,039,167	
Notes Payable		5,694,000
Total Noncurrent Liabilities	111,755,220	17,089,000
TOTAL LIABILITIES	159,757,203	20,011,686

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2004

	<u>University</u>	<u>Component Units</u>
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	\$ 348,442,846	\$ 5,026,199
Restricted for:		
Expendable:		
Endowments		126,950,020
Expendable:		
Debt Service	23,064	
Loans	4,717,667	
Capital Projects	13,745,259	
Other Restricted	13,517,015	
Unrestricted	<u>34,842,128</u>	<u>10,040,683</u>
Total Net Assets	<u>415,287,979</u>	<u>142,016,902</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 575,045,182</u>	<u>\$ 162,028,588</u>

The accompanying notes to the 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, 2004

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$30,018,442	\$ 68,908,035	\$
Federal Grants and Contracts	42,765,434	
State and Local Grants and Contracts	19,648,003	1,120,829
Nongovernmental Grants and Contracts	39,543,168	
Sales and Services of Auxiliary Enterprises	14,109,798	
Interest on Loans Receivable	138,336	
Other Operating Revenue	8,927,126	
Total Operating Revenue	<u>194,039,900</u>	<u>1,120,829</u>
EXPENSES		
Operating Expenses:		
Personal Services	182,384,348	
Services and Supplies	71,707,888	1,992,000
Utilities	8,330,537	
Scholarships and Fellowships	57,382,232	
Depreciation Expense	16,748,879	5,328
Other Operating Expenses		14,233,265
Total Operating Expenses	<u>336,553,884</u>	<u>16,230,593</u>
Operating Loss	<u>(142,513,984)</u>	<u>(15,109,764)</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	119,484,474	
Investment Income (Loss), Net	(1,080,646)	2,067,823
Other Nonoperating Revenue		2,716,921
Interest on Asset-Related Debt	(6,853,136)	
Other Nonoperating Expenses	(284,959)	
Net Realized and Unrealized Gain on Investments		17,074,045
Total Nonoperating Revenues	<u>111,265,733</u>	<u>21,858,789</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(31,248,251)</u>	<u>6,749,025</u>
Capital Appropriations	41,910,712	
Capital Grants, Contracts, and Donations	3,732,126	17,513,519
Fees for Capital Projects	98,145	
Increase (Decrease) in Net Assets	<u>14,492,732</u>	<u>24,262,544</u>
Net Assets, Beginning of Year	<u>400,795,247</u>	<u>117,754,358</u>
Net Assets, End of Year	<u>\$ 415,287,979</u>	<u>\$ 142,016,902</u>

The accompanying notes to the 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, 2004

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 49,009,891
Grants and Contracts	99,742,232
Sales and Services of Auxiliary Enterprises	13,747,748
Interest on Loans Receivable	138,336
Other Operating Receipts	25,998,042
Payments to Employees	(183,969,298)
Payments to Suppliers for Goods and Services	(79,498,398)
Payments to Students for Scholarships and Fellowships	(57,382,232)
Loans Issued to Students	(190,538)
Net Cash Used by Operations	<u>(132,404,217)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	119,484,474
Operating Subsidies and Transfers	890,737
Funds Held for Others	2,702,671
Other Expenses	(233,289)
Net Cash Provided by Noncapital Financing Activities	<u>122,844,593</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	20,130,298
Capital Appropriations	41,910,712
Capital Grants and Contracts	2,356,686
Capital Subsidies and Transfers	3,833,675
Other Receipts for Capital Projects	111,471
Purchase or Construction of Capital Assets	(61,913,369)
Principal Paid on Capital Debt and Lease	(3,308,493)
Interest Paid on Asset Related Debt and Lease	(6,851,731)
Net Cash Used by Capital and Related Financing Activities	<u>(3,730,751)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Change in Investments	(2,195,047)
Investment Income	2,021,701
Net Cash Used by Investing Activities	<u>(173,346)</u>
Net Decrease in Cash and Cash Equivalents	(13,463,721)
Cash and Cash Equivalents, Beginning of Year	<u>13,983,679</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 519,958</u></u>

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2004**

	<u>University</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (142,513,984)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	16,748,880
Change in Assets and Liabilities:	
Accounts Receivable	(1,217,924)
Contracts and Grants Receivable	(2,214,373)
Inventories	(2,635)
Loans and Notes Receivable	(190,538)
Accounts Payable	515,253
Accrued Salaries and Wages	895,413
Compensated Absences Liability	(2,480,363)
Deferred Revenues	(1,971,355)
Other Liabilities	27,409
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (132,404,217)</u></u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH
CAPITAL FINANCING ACTIVITY**

The State Board of Education, on behalf of the University, issued \$35,285,000 of Florida Atlantic University Housing Bonds, Series 2003. A portion of the revenue bonds (\$14,400,000) was used to defease \$13,960,000 of outstanding University Student Apartment Facility Revenue Bonds, Series 1993.

The accompanying notes to the 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, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following organizations are included within the University reporting entity as discretely presented component units. The University further categorizes its identified component units as direct-support organizations. Additional condensed financial statements for the University's 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, 2004

The University's direct-support organizations, as provided for in Section 1004.28, Florida Statutes, and Department of Education Rule 6C-9.011, Florida Administrative Code, are considered component units of the University and therefore the latest audited financial statements of these organizations are included in the financial statements of the University by discrete presentation. These are separate, not-for-profit corporations 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 not-for-profit corporations and their purposes are explained as follows:

- Florida Atlantic University Foundation, Inc.: The Foundation is a separate corporation operating independently from the University, and as such it receives and administers most private support for the University. Any person or organization contributing money, stock, or any other item which is to be used in support of the general or specific support of the University usually does so through the office of the Foundation.
- Florida Atlantic University Research Corporation, Inc.: The Corporation was established by the Florida Atlantic University in 1990. It has been organized for the purposes of promotion and encouragement of, as well as 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 the defined and selected intellectual property. In consideration of their efforts, the Corporation is entitled to a portion of the royalties and 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.

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

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

In November 1999, the GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes public colleges and universities within

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

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

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

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

The University's principal operating activities consist of instruction, research and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities plus administration, operation and maintenance of plant assets, and depreciation on capital assets. Nonoperating

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

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

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

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

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

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

Capital Assets. University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital leases and lease improvements, library resources, works of art and historical treasures, construction in progress, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at appraised value at the date received in the case of gifts or purchases of State surplus property. Additions, improvements and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for all movable equipment items and a \$100,000 threshold or 25 percent of the cost of the building for building renovations and improvements. Depreciation is computed on the straight-line basis over the estimated useful life of the related assets.

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

- Buildings and Improvements – 20 to 50 Years, Depending on Construction
- Infrastructure and Other Improvements – 12 to 50 Years
- Property Under Capital Lease – 30 Years
- Furniture and Equipment:
 - Equipment (Nonoffice) – 10 to 20 Years
 - Computer Equipment – 3 to 7 Years
 - Moveable Equipment – 3 to 20 Years
- Library Resources – 10 Years

2. CASH AND CASH EQUIVALENTS

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

3. INVESTMENTS

The University participates in investment pools through the State Treasury and the State Board of Administration in accordance with the provisions of Sections 17.61 and 215.49, Florida Statutes. The investments conform with the guidelines established by Section 215.47, Florida Statutes, and are reported at market value.

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

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

University investments in investment pools managed by the State Treasury and the State Board of Administration cannot be categorized because the University's investments are not evidenced by specific, identifiable investment securities.

Under the State Treasury's authority to purchase and sell securities, it has entered into securities lending and reverse repurchase agreements. A securities lending agreement is a loan of securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. As required by generally accepted accounting principles, the University has reported investments and an offsetting current liability of \$22,570,893 in order to account for these transactions. Required note disclosures for these agreements are reported in the State's Comprehensive Annual Financial Report.

All University investments at June 30 were in investment pools managed by the State Treasury with a fair market value of \$92,695,918.

Investments held by the University's component units at June 30 are reported at market value based on quoted market prices and are shown in the following table:

	Investments			Market Value
	Risk Category			
	1	2	3	
Bonds and Notes	\$ 32,244,432	\$	\$	\$ 32,244,432
Stocks	79,086,389			79,086,389
Total Classified Investments	\$ 111,330,821	\$	\$	111,330,821
Investment Agreements				15,081,670
Total Component Units Investments				\$ 126,412,491

4. RECEIVABLES

Accounts Receivable. Accounts receivable reported in the statement of net assets represent amounts for student fees and various student services provided by the University, various auxiliary services provided to students and third parties, grant reimbursements from third parties and interest accrued on investments. Accounts receivable are reported net of an allowance of \$3,517,041.

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

programs. Loans and notes receivable are reported net of an allowance for uncollectible loans and notes of \$330,431.

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

5. DUE FROM STATE

This is primarily the amount of Public Education Capital Outlay allocations due to the University at June 30, 2004, for construction of University facilities.

6. INVENTORIES

Inventories consist of expendable supplies and goods purchased for resale. These inventories are reported on the statement of net assets, and are valued at cost using the current price which approximates the first-in, first-out method.

7. CAPITAL ASSETS

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

Description	Beginning Balance	Additions	Deletions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 9,303,803	\$	\$	\$ 9,303,803
Construction in Progress	20,316,884	15,022,917	18,155,194	17,184,607
Works of Art and Historical Treasures	36,899			36,899
Total Nondepreciable Capital Assets	\$ 29,657,586	\$ 15,022,917	\$ 18,155,194	\$ 26,525,309
Depreciable Capital Assets				
Buildings	\$ 338,978,138	\$ 54,960,339	\$	\$ 393,938,477
Infrastructure and Other Improvements	32,180,290	1,856,978		34,037,268
Furniture and Equipment	68,613,227	7,266,367	1,488,518	74,391,076
Property Under Capital Leases and Lease Improvements	12,530,000			12,530,000
Library Resources	52,895,340	2,052,409	3,629	54,944,120
Works of Art and Historical Treasures	67,084	70,423		137,507
Other Capital Assets	1,265,457	510		1,265,967
Total Depreciable Capital Assets	506,529,536	66,207,026	1,492,147	571,244,415
Less, Accumulated Depreciation:				
Buildings	66,234,371	6,899,896		73,134,267
Infrastructure and Other Improvements	7,578,107	871,354		8,449,461
Furniture and Equipment	36,941,198	5,691,466	838,347	41,794,317
Property Under Capital Leases and Lease Improvements	1,668,333	417,667		2,086,000
Library Resources	39,896,594	2,284,743		42,181,337
Works of Art and Historical Treasures	688	1,342		2,030
Other Capital Assets	1,142,889	51,242		1,194,131
Total Accumulated Depreciation	153,462,180	16,217,710	838,347	168,841,543
Total Depreciable Capital Assets, Net	\$ 353,067,356	\$ 49,989,316	\$ 653,800	\$ 402,402,872

Depreciation expense reported on the statement of revenues, expenses, and changes in net assets includes net losses on disposition of capital assets and other minor adjustments totaling \$531,169.

8. LONG-TERM LIABILITIES

Long-term liabilities of the University include bonds and revenue certificates, capital leases, and compensated absences.

The following table presents the University's long-term liabilities activity for the fiscal year ended June 30, 2004:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates Payable	\$ 71,295,348	\$ 35,368,906	\$ 16,368,461	\$ 90,295,793	\$ 2,974,740
Capital Leases Payable	11,870,000		230,000	11,640,000	245,000
Compensated Absences Liability	16,030,070		2,480,364	13,549,706	510,539
Total Long-Term Liabilities	\$ 99,195,418	\$ 35,368,906	\$ 19,078,825	\$ 115,485,499	\$ 3,730,279

Bonds and Revenue Certificates Payable. Bonds and revenue certificates were issued to construct University facilities, including parking garages, student housing, and academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues and various student fee assessments. The building fees and capital improvement fees, collected as a part of tuition and remitted to the State Board of Education, are used to retire the parking facility revenue bonds. When applicable, the State Board of Administration administers the principal and interest payments, investment of sinking funds, and compliance with reserve requirements.

Bond Defeasance. The University has extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

- On September 3, 2003, the State Board of Education issued \$35,285,000 of Florida Atlantic University Housing Revenue Bonds, Series 2003. A portion of the revenue bonds (\$14,400,000) was used to defease \$13,960,000 of outstanding University Student Apartment Facility Revenue Bonds, Series 1993. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$1,102,055 over the next 18 years and obtained an economic gain of \$788,351. The refunded bonds were called for redemption on October 15, 2003, and were fully defeased at June 30, 2004.

A summary of pertinent information related to the University's bond indebtedness is presented in the following table:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

Bonds	Amount of Original Issue	Total Retired	Amount Outstanding		Interest Rate (Percent)	Annual Maturity To
			Principal	Interest		
Student Housing and Parking:						
1966A	\$ 1,130,000	\$ 1,030,000	\$ 100,000	\$ 4,500	3.00	2006
1966B	1,070,000	980,000	90,000	4,050	3.00	2006
2000	24,400,000	1,260,000	23,140,000	19,911,574	4.4 - 5.4	2030
2001	7,990,000	790,000	7,200,000	3,149,694	3.0 - 4.8	2021
2002	8,995,000	335,000	8,660,000	3,739,925	2.5 - 4.35	2023
2003	35,285,000	510,000	34,775,000	23,031,325		
Subtotal	78,870,000	4,905,000	73,965,000	49,841,068		
Academic and Student Services Facilities:						
1997	652,031	121,265	530,766	311,715	5.0 - 7.0	2022
1997A	5,601,098	376,389	5,224,709	1,977,686	3.85 - 5.00	2016
1998	2,761,595	419,954	2,341,641	1,233,363	4.0 - 5.0	2023
2001	5,610,730	336,267	5,274,463	3,253,345	4.0 - 5.0	2026
2003A	3,534,098	574,884	2,959,214	740,898	4.5 - 5.375	2013
Subtotal	18,159,552	1,828,759	16,330,793	7,517,007		
Total Bonds	\$ 97,029,552	\$ 6,733,759	\$ 90,295,793	\$ 57,358,075		

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

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 2,974,740	\$ 4,037,144	\$ 7,011,884
2006	3,088,269	3,930,912	7,019,181
2007	3,115,523	3,820,378	6,935,901
2008	3,321,629	3,707,640	7,029,269
2009	3,408,859	3,585,425	6,994,284
2010-2014	19,003,855	15,777,964	34,781,819
2015-2019	19,960,268	11,499,992	31,460,260
2020-2024	16,959,003	6,890,219	23,849,222
2025-2029	12,203,647	3,439,013	15,642,660
2030-2034	6,260,000	669,388	6,929,388
Total	\$ 90,295,793	\$ 57,358,075	\$ 147,653,868

Capital Lease and Certificates of Participation. The Florida Atlantic University Foundation, Inc., in 1999 and 2001 issued the 1999 and 2000 Certificates of Participation (the Certificates) for \$6,230,000 and \$6,300,000, respectively. The funds were used to build dormitory buildings on the John D. MacArthur campus in Jupiter, Florida. The interest rates on the 1999 certificates range from 3.5 percent to 5 percent, while the interest rates on the 2000 certificates range from 4.7 percent to 5.875 percent. At June 30 2004,

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

certificates of participation payable and the principal payments due on the 1999 and 2000 Certificates of Participation for each of the five succeeding fiscal years and thereafter are shown in the following schedules:

COP Series	Amount of Issue	Total Retired	Outstanding Principal	Outstanding Interest	Interest Rates (Percent)	Maturity Date
1999	\$ 6,230,000	\$ 590,000	\$ 5,640,000	\$ 4,114,817	3.5 - 5.0	2028
2000	6,300,000	300,000	6,000,000	5,647,295	4.7 - 5.875	2030
Total	\$ 12,530,000	\$ 890,000	\$ 11,640,000	\$ 9,762,112		

Fiscal Year Ending June 30	1999 Certificates	2000 Certificates	Total
2005	\$ 135,000	\$ 110,000	\$ 245,000
2006	140,000	115,000	255,000
2007	145,000	120,000	265,000
2008	150,000	125,000	275,000
2009	155,000	135,000	290,000
2010-2014	895,000	780,000	1,675,000
2015-2019	1,130,000	1,030,000	2,160,000
2020-2024	1,450,000	1,360,000	2,810,000
2025-2029	1,440,000	1,800,000	3,240,000
2030-2030		425,000	425,000
Total	\$ 5,640,000	\$ 6,000,000	\$ 11,640,000

The Foundation entered into Master Lease agreements with the former Board of Regents (the Board), whereby they are obligated to pay the Board \$1 per year for each property. The Foundation further entered into agreements to lease the buildings to the University in exchange for the University paying all amounts due under the Certificates. The following is a schedule of future minimum payments remaining under the lease at fiscal year end:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 245,000	\$ 611,155	\$ 856,155
2006	255,000	600,361	855,361
2007	265,000	589,124	854,124
2008	275,000	577,274	852,274
2009	290,000	564,805	854,805
2010-2014	1,675,000	2,598,696	4,273,696
2015-2019	2,160,000	2,103,550	4,263,550
2020-2024	2,810,000	1,464,431	4,274,431
2025-2029	3,240,000	628,278	3,868,278
2030-2030	425,000	24,438	449,438
Total	\$ 11,640,000	\$ 9,762,112	\$ 21,402,112

Notes Payable – Component Unit. Notes payable at June 30, 2004, for the Florida Atlantic University Foundation, Inc., consist of the following:

<u>Description</u>	<u>Amount</u>
Note Payable to Bank Due May 2012, Semiannual Installments of \$400,000 Plus Interest at 4.20 Percent	\$ 6,400,000
Note Payable to an Individual, Due December 2008, Quarterly Installments of \$7,772 Including Interest at 4.47 Percent	119,915
Total	\$ 6,519,915

Principal requirements on the notes outstanding as of June 30, 2004, are presented in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>
2005	\$ 825,915
2006	827,000
2007	829,000
2008	830,000
2009	808,000
2010-2012	2,400,000
Total	\$ 6,519,915

Compensated Absences Liability. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Department of Education Rule 6C-5.920, Florida Administrative Code, and pursuant to bargaining agreements with the United Faculty of Florida. Leave earned is accrued to the credit of the employee, and records are kept on each employee's unpaid (unused) leave balance. GASB Statement No. 16 requires that the University accrue a liability in the statement of net

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

assets for employees' vested right to receive compensation for future absences when certain conditions are met, whereas appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of the liability for compensated absences, without the corresponding recognition of such future resources, results in the appearance of a reduced ability to meet current obligations. At June 30, 2004, the total estimated liability for annual, sick, and compensatory leave, which includes the University's share of the Florida Retirement System and FICA contributions, was \$8,010,381, \$5,439,772, and \$99,553, respectively. The current portion of the compensated absences liability is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability. The University's total net assets balance at June 30, 2004, of \$393,074,494 would have been \$406,624,200 had the liability for compensated absences not been applied against it.

9. OPERATING LEASES

The University has long-term commitments for assets leased under operating lease agreements. 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 of the related funds when paid or incurred, and are reported in the statement of revenues, expenses, and changes in net assets. Future minimum lease commitments for noncancelable operating lease with remaining terms in excess of one year are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Land and Buildings</u>
2005	\$ 57,000
2006	57,000
2007	27,000
2008	27,000
2009	27,000
2010-2014	135,000
2015-2019	135,000
2020-2024	135,000
2025-2029	135,000
2030-2034	135,000
2035-2039	135,000
2040-2044	135,000
2045-2046	54,000
Total Remaining Commitment	<u><u>\$ 1,194,000</u></u>

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

10. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Function</u>	<u>Amount</u>
Instruction	\$ 115,950,561
Research	30,849,560
Public Service	2,959,446
Academic Support	27,990,512
Student Services	19,195,751
Institutional Support	26,470,316
Operations and Maintenance of Plant	14,762,979
Scholarships and Fellowships	46,998,967
Auxiliary Operations	34,626,913
Depreciation	16,748,879
Total Operating Expenses	<u><u>\$ 336,553,884</u></u>

11. CONSTRUCTION COMMITMENTS

The construction commitments of the university at fiscal year end are as follows:

	<u>Total Estimated Commitment</u>	<u>Total Construction Expenses</u>	<u>Commitment Balance</u>
Total	<u><u>\$ 53,992,000</u></u>	<u><u>\$ 17,184,607</u></u>	<u><u>\$ 36,807,393</u></u>

12. RETIREMENT PLANS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered cost-sharing, multiple-employer, public employee defined benefit retirement plan (Plan). Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein plan eligibility, contributions, and benefits are defined and described in detail. Participating employers include all State departments, counties, district school boards, universities and community colleges. Many municipalities and special districts have elected to be participating employers. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Plan.

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

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

The Plan's financial statements and other supplemental information are included in the State's Comprehensive Annual Financial Report, which may be obtained by contacting the Florida Department of Financial Services in Tallahassee, Florida. Also, an annual report on the Plan, which includes its financial statements, required supplemental information, actuarial report, and other relevant information may be obtained from the Florida Department of Management Services, Division of Retirement in Tallahassee, Florida.

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

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

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

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement and .10 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University's liability for participation in the Plan is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's total contributions made to the Plan (none from employees) for fiscal years ended June 30, 2002, June 30, 2003, and June 30, 2004, totaled \$4,051,083, \$3,279,768, and \$3,837,412, respectively, which were equal to the required contributions for each fiscal year.

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant an amount equal to 10.43 percent of the participant's gross monthly compensation. A small amount remains in the Optional Retirement Program

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

Trust Fund for program administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute by salary deduction an amount not to exceed the percentage contributed by the University to the participant's annuity account.

There were 1,264 University participants during the 2003-04 fiscal year. Required contributions made to the Program totaled \$11,526,828, including \$3,889,726 from employee contributions, on a covered payroll of \$100,111,106.

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

There were 63 University participants during the 2003-04 fiscal year. Required contributions made to the PEORP totaled \$213,061.

13. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2003-04 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 12.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2003-04 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$50. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

14. RISK MANAGEMENT PROGRAMS

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

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

15. CONTINGENT LIABILITIES

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

16. COMPONENT UNITS

Summary financial information from the most recent available audited financial statements of the University's direct-support organizations (component units), as mentioned in note 1, is presented in the following tables:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

Direct-Support Organizations
(In Thousands)

	Florida Atlantic University Foundation, Inc.	Florida Atlantic University Research Corporation, Inc.	Total
Condensed Statement of Net Assets			
Assets:			
Other Current Assets	\$ 14,501	\$ 419	\$ 14,920
Capital Assets, Net	8,759	5	8,764
Other Noncurrent Assets	138,342	2	138,344
Total Assets	<u>161,602</u>	<u>426</u>	<u>162,028</u>
Liabilities:			
Current Liabilities	2,584	338	2,922
Noncurrent Liabilities	17,089		17,089
Total Liabilities	<u>19,673</u>	<u>338</u>	<u>20,011</u>
Net Assets:			
Restricted	126,950		126,950
Unrestricted	9,953	88	10,041
Invested in Capital Assets, Net of Related Debt	5,026		5,026
Total Net Assets	<u>\$ 141,929</u>	<u>\$ 88</u>	<u>\$ 142,017</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	\$	\$ 1,121	\$ 1,121
Operating Expenses	(15,069)	(1,161)	(16,230)
Operating Income (Loss)	(15,069)	(40)	(15,109)
Nonoperating Revenues (Expenses):			
Investment Income	19,134	8	19,142
Capital Grants, Contracts, and Donations	17,513		17,513
Other	2,717		2,717
Change in Net Assets	24,295	(32)	24,263
Net Assets, Beginning of Year	<u>117,634</u>	<u>120</u>	<u>117,754</u>
Net Assets, End of Year	<u>\$ 141,929</u>	<u>\$ 88</u>	<u>\$ 142,017</u>

17. SEGMENT INFORMATION

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

bonds or other debt instruments are outstanding. Traffic and Parking Services provides the University with safe and adequate parking facilities. Several parking garages have been constructed from the proceeds of revenue-backed debt instruments. The Division of Housing and Residential Life provides safe, affordable living space for students of the University. Several revenue bonds have been issued over the years to provide funding for the construction of facilities to house University students. A summary of the activity for these segments is presented in the following table:

Condensed Statement of Net Assets

	Housing	Traffic and Parking Services
Assets		
Current Assets	\$ 8,636,198	\$ 3,229,001
Capital Assets, Net	<u>65,878,840</u>	<u>18,150,340</u>
Total Assets	<u>74,515,038</u>	<u>21,379,341</u>
Liabilities		
Current Liabilities	28,539	21,090
Noncurrent liabilities	<u>69,745,000</u>	<u>15,860,000</u>
Total Liabilities	<u>69,773,539</u>	<u>15,881,090</u>
Unrestricted Net Assets	8,607,659	3,207,911
Invested in Capital Assets, Net of Related Debt	<u>(3,866,160)</u>	<u>2,290,340</u>
Total Net Assets	<u><u>\$ 4,741,499</u></u>	<u><u>\$ 5,498,251</u></u>

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

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

	Housing	Traffic and Parking Services
	<u> </u>	<u> </u>
Operating Revenues (Expenses):		
Operating Revenues	\$ 9,839,902	\$ 3,390,777
Depreciation Expense	(1,221,928)	(185,778)
Other Operating Expenses	<u>(4,857,604)</u>	<u>(1,787,547)</u>
Net Operating Income	<u>3,760,370</u>	<u>1,417,452</u>
Nonoperating Revenues (Expenses):		
Investment Income	164,838	
Capital Related Expenditures		(151,252)
Transfers	<u>(201,389)</u>	<u>(1,011,308)</u>
Net Nonoperating Expenses	<u>(36,551)</u>	<u>(1,162,560)</u>
Change in Net Assets	3,723,819	254,892
Net Assets, Beginning of Year	<u>1,017,680</u>	<u>5,243,359</u>
Net Assets, End of Year	<u><u>\$ 4,741,499</u></u>	<u><u>\$ 5,498,251</u></u>

Condensed Statement of Cash Flows

	Housing	Traffic and Parking Services
	<u> </u>	<u> </u>
Net Cash Provided (Used) by:		
Operating Activities	\$ 5,111,789	\$ 1,537,309
Noncapital Financing Activities	(3,454,279)	99,462
Capital and Related Financing Activities	3,252,890	(1,105,254)
Investing Activities	<u>(1,216,839)</u>	<u> </u>
Net Increase in Cash and Cash Equivalents	3,693,561	531,517
Cash and Cash Equivalents, Beginning of Year	<u>3,973</u>	<u>2,559,837</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,697,534</u></u>	<u><u>\$ 3,091,354</u></u>

**18. CORRECTION TO DEFERRED REVENUE
AND STUDENT TUITION AND FEES**

The Florida Atlantic University financial audit report for the fiscal year ended June 30, 2004, was initially dated January 11, 2005. Subsequently, it was determined that \$22.2 million of student tuition and fees were misclassified as deferred revenue. The misclassification was the result of changes in the reporting format of the University's new SCT Banner Financial and Accounting Systems and recording certain student fees as

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

deferred revenue instead of student tuition and fees. This financial audit report for the same period corrects the misclassification of revenue as shown in the following table:

Account	Original Amount	Revised Amount
Deferred Revenues	\$ 27,505,506	\$ 5,292,021
Student Tuition and Fees, Net of Scholarship Allowances	46,694,550	68,908,035