



**AUDITOR GENERAL**  
DAVID W. MARTIN, CPA



**FLORIDA ATLANTIC UNIVERSITY**

Financial Audit

For the Fiscal Year Ended June 30, 2007

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**

Norman D. Tripp, Chair from 1-17-07,  
Vice-Chair to 1-16-07  
Nancy Wood Blosser, Vice-Chair from 1-17-07  
Sheridan Plymale, Chair to 1-16-07  
Scott Adams  
Dr. William Bryant  
David Feder  
Armand Grossman  
Dr. Rajendra P. Gupta  
Lalita M. Janke  
Dr. Roy Levow to 5-15-07 (1)  
Austin Shaw to 5-15-07 (2)  
Dr. Eric H. Shaw from 5-16-07 (1)  
Robert J. Stilley  
Tony Teixeira from 5-16-07 (2)  
Dr. George Zoley

Notes: (1) Faculty senate chair.  
(2) Student body president.

## FLORIDA ATLANTIC UNIVERSITY

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**EXECUTIVE SUMMARY**

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The audit of the financial statements of Florida Atlantic University for the fiscal year ended June 30, 2007, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the 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, 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 results of our operational audit of the University are included in our report No. 2008-048.

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

- 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.
- We noted a certain matter involving the University's internal control over financial reporting and its operation that we consider to be a significant deficiency as discussed in the **FINDING AND RECOMMENDATION** section of this report. However, the significant deficiency is not considered to be a material weakness.
- 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 coordinated by Ilene R. Gayle, CPA, and supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at [tedsauerbeck@aud.state.fl.us](mailto:tedsauerbeck@aud.state.fl.us) or by telephone at (850) 487-4468. The information technology portion of this audit was coordinated by Heidi Burns, CPA, CISA, and supervised by Nancy M. Reeder, CPA, CISA. Please address inquiries regarding the information technology finding included in this report to Jon Ingram, CPA, CISA, Audit Manager, via e-mail at [joningram@aud.state.fl.us](mailto:joningram@aud.state.fl.us) or by telephone at (850) 488-0840.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**FINDING AND RECOMMENDATION****SIGNIFICANT DEFICIENCY****Finding No. 1: Information Technology – Application Access Control Procedures**

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or loss. We noted that the University needed to strengthen its access control procedures related to the SCT Banner application, as described below:

- As similarly noted in our report No. 2006-018, authorization of access to the University's SCT Banner application had not been properly documented for all users. Good access controls include instituting policies and procedures for authorizing access to information resources, documenting such authorizations, and then periodically monitoring actual access capabilities through comparisons to the authorizations. Of 18 access authorizations tested, we noted 7 instances where proper access documentation was not maintained and 4 instances where the authorization documentation did not match the actual level of access that had been granted. When access is not limited to what is authorized and approved by management, the risk is increased of inappropriate use of information resources. Subsequent to our review, University personnel indicated that they had reviewed, verified, and approved the access authorizations for the 11 instances disclosed by our test, as appropriate.
- The University did not have adequate policies and procedures in place to ensure that access capabilities were timely revoked for individuals who had terminated employment. Our test of user access for 14 employees who terminated employment between July 1, 2006, and June 30, 2007, disclosed 8 instances where SCT Banner application access privileges were not timely revoked. Specifically, the number of days that passed between the termination date and the date the SCT Banner accounts were either locked or deleted ranged from 18 to 70 days. In addition, we noted that University procedures did not provide for a security report detailing the last accessed date to ensure the terminated employee's user account had not been used following termination and prior to being locked or deleted. Without adequate procedures to ensure the timely revocation of access privileges of terminated personnel, the risk is increased for unauthorized access to the University's information resources.
- Our audit disclosed instances of inappropriate or unnecessary access privileges. An appropriate division of roles and responsibilities excludes the possibility for a single individual to subvert a critical process. When enforced through appropriate system access privileges, such a division helps ensure that personnel are performing only those duties stipulated for their respective jobs and positions. During our testing of access privileges for an appropriate separation of duties, we noted the following:
  - Twenty-seven instances where access to an SCT Banner-delivered class allowed excessive access privileges within the Banner Finance Module to employee or system-related user accounts (ID).

Access to the class provided the capability to input, update, and approve a requisition, purchase order and an invoice, and process a warrant for payment.

- One instance where an SCT Banner-delivered user account appeared to have inappropriate and incompatible SCT Banner accounts payable-related functions.
- Twenty instances in which generic user IDs used for training allowed update and approval access to the Invoice and Credit Memo function within the Finance Module. Activity using generic IDs not assigned to individual users is not traceable to a specific individual.
- Sixteen instances where access to two SCT Banner-delivered classes allowed excessive access privileges to payroll and position control functions within the Human Resource Module to employee or system-related user accounts.
- One instance where an employee had been granted a combination of classes within the Human Resource Module that would enable the employee capabilities including adding a new employee, adjusting salaries, and printing payroll checks.

Absent appropriate separation of duties, the risk is increased that erroneous or fraudulent transactions could be processed and that computer resources could be damaged or destroyed. Subsequent to our inquiries, University personnel indicated that they had reviewed and removed access to the SCT Banner-delivered Finance and Human Resource Module classes, as well as to the user IDs assigned for training.

- The University did not have procedures in place to routinely monitor SCT Banner application security events as enabled through the application and database logging options. Appropriate IT security administration ensures that security activity is logged and any indication of imminent security violation is reported immediately. Without routine logging and monitoring, the risk is increased that unauthorized access or changes could be made and not detected in a timely manner. Subsequent to our inquiries, University personnel indicated that they had developed reports and training procedures to ensure the continued monitoring of application security events by security officers.

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**Recommendation:** The University should strengthen its access control procedures including documenting access authorizations, timely notifying security officers of employee terminations, reviewing the ongoing appropriateness of access privileges, and monitoring significant security events.

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<b>MANAGEMENT RESPONSE</b>
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The University's response is included as Appendix A of this report.



DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



850/488-5534/SC 278-5534  
Fax: 488-6975/SC 278-6975

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, 2007, as shown on pages 14 through 39. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion 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 Florida Atlantic University and of its aggregate discretely presented component units as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of 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 the results of that testing, and not to provide an opinion on 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 7 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,



David W. Martin, CPA  
February 20, 2008





DAVID W. MARTIN, CPA  
AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



850/488-5534/SC 278-5534  
Fax: 488-6975/SC 278-6975

The President of the Senate, the Speaker of the  
House of Representatives, and the  
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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 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, 2007, 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. 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 purposes 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of

the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency described in the **FINDING AND RECOMMENDATION** section of this audit report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the **FINDING AND RECOMMENDATION** section of this audit report is not a material weakness.

#### **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, 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*.

We noted certain matters that we reported to University management in our operational audit report No. 2008-48, dated December 2007.

The University's response to the finding discussed in the **FINDING AND RECOMMENDATION** section of this audit report is included as Appendix A of this report. We did not audit the University's response and, accordingly, we express no opinion on it.

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,



David W. Martin, CPA  
February 20, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2007, 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 \$732.4 million at June 30, 2007. This balance reflects a \$99 million, or 15.6 percent, increase from the 2005-06 fiscal year, resulting from an increase in amounts due from PECO funding and Capital Facilities Matching Trust Finds. Liabilities totaled \$186.1 million at June 30, 2007, as compared to \$164.8 million at June 30, 2006, an increase of \$21.3 million, or 12.9 percent, resulting from the issuance of Housing Revenue Bonds, Series 2006A, for \$27.6 million. The University's net assets increased by \$77.6 million, reaching a year end balance of \$546.2 million.

The University's operating revenues totaled \$169.8 million for the 2006-07 fiscal year, representing a 3.4 percent decrease compared to the 2005-06 fiscal year due mainly to a slight decrease in student tuition and fees. Operating expenses totaled \$359.6 million for the 2006-07 fiscal year, representing an increase of 2.9 percent compared to the 2005-06 fiscal year due mainly to increases in salaries.

### 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., and the Florida Atlantic University Research Corporation, Inc.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in the notes to the financial statements. This MD&A focuses on the University, excluding the component units. MD&A information for the Florida Atlantic University Research Corporation, Inc., is included in its separately issued audit report. The Florida Atlantic University Foundation, Inc., reports under Financial Accounting Standards Board standards and, as such, does not include an MD&A in its audit report.

### 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, or 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:

<b>Condensed Statement of Net Assets (In Thousands)</b>		
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets	\$ 157,474	\$ 134,391
Capital Assets, Net	562,881	492,325
Other Noncurrent Assets	<u>12,008</u>	<u>6,727</u>
<b>Total Assets</b>	<u>732,363</u>	<u>633,443</u>
<b>Liabilities</b>		
Current Liabilities	44,276	47,034
Noncurrent Liabilities	<u>141,844</u>	<u>117,812</u>
<b>Total Liabilities</b>	<u>186,120</u>	<u>164,846</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	464,150	395,999
Restricted	37,592	32,428
Unrestricted	<u>44,501</u>	<u>40,170</u>
<b>Total Net Assets</b>	<u>\$ 546,243</u>	<u>\$ 468,597</u>

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

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

The following summarizes the University's activity for the 2006-07 and 2005-06 fiscal years:

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

	2006-07	2005-06
Operating Revenues	\$ 169,799	\$ 175,787
Operating Expenses	359,632	349,509
<b>Operating Loss</b>	(189,833)	(173,722)
Net Nonoperating Revenues	208,352	170,582
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	18,519	(3,140)
Other Revenues, Expenses, Gains, or Losses	59,127	40,033
<b>Increase in Net Assets</b>	77,646	36,893
Net Assets, Beginning of Year	468,597	431,704
<b>Net Assets, End of Year</b>	<u>\$ 546,243</u>	<u>\$ 468,597</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 during the 2006-07 and 2005-06 fiscal years:

**Operating Revenues  
(In Thousands)**

	2006-07	2005-06
Net Tuition and Fees	\$ 78,148	\$ 81,421
Grants and Contracts	49,216	52,058
Sales and Services of Auxiliary Enterprises	18,774	16,821
Sales and Services of Educational Departments	248	231
Other	23,413	25,256
<b>Total Operating Revenues</b>	<u>\$ 169,799</u>	<u>\$ 175,787</u>

### 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 2006-07 and 2005-06 fiscal years:

<b>Operating Expenses (In Thousands)</b>		
	<u>2006-07</u>	<u>2005-06</u>
Compensation and Employee Benefits	\$ 219,835	\$ 213,208
Services and Supplies	75,589	75,636
Utilities and Communications	11,884	12,033
Scholarships, Fellowships, and Waivers	32,426	29,659
Depreciation	19,898	18,973
<b>Total Operating Expenses</b>	<b><u>\$ 359,632</u></b>	<b><u>\$ 349,509</u></b>

### Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2006-07 and 2005-06 fiscal years:

<b>Nonoperating Revenues (Expenses) (In Thousands)</b>		
	<u>2006-07</u>	<u>2005-06</u>
State Appropriations	\$179,748	\$151,457
Federal and State Student Financial Aid	25,537	26,555
Investment Income	4,426	1,452
Other Nonoperating Revenues	3,186	
Loss on Disposal of Capital Assets	(637)	(1,471)
Interest on Capital Asset-Related Debt	(3,908)	(4,563)
Other Nonoperating Expenses		(2,848)
<b>Net Nonoperating Revenues</b>	<b><u>\$208,352</u></b>	<b><u>\$170,582</u></b>

The University's nonoperating revenues increased by \$37.8 million, or 22.1 percent, primarily because of increased State appropriations.

### Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2006-07 and 2005-06 fiscal years:

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

	<u>2006-07</u>	<u>2005-06</u>
Capital Appropriations	\$51,870	\$37,270
Capital Grants, Contracts, Donations, and Fees	7,346	2,674
Other Revenues (Expenses)	<u>(89)</u>	<u>89</u>
<b>Total</b>	<u><u>\$59,127</u></u>	<u><u>\$40,033</u></u>

The University's other revenues increased by \$19.1 million, or 47.7 percent, primarily due to an increase in appropriations for PECO funding.

### 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 the capital financing activities include all plant funds and related long-term debt activities. Cash flows from the investing activities show the net source and use of cash related to purchasing or selling investments, and income earned on those investments. Cash flows from the noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2006-07 and 2005-06 fiscal years:

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

	<u>2006-07</u>	<u>2005-06</u>
Cash Provided (Used) by:		
Operating Activities	\$ (166,834)	\$ (153,080)
Noncapital Financing Activities	204,231	177,461
Capital and Related Financing Activities	(38,440)	(23,094)
Investing Activities	<u>957</u>	<u>(633)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(86)	654
Cash and Cash Equivalents, Beginning of Year	<u>1,233</u>	<u>579</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,147</u></u>	<u><u>\$ 1,233</u></u>

Major sources of funds came from State appropriations (\$179.7 million), net student tuition and fees (\$53 million), grants and contracts (\$44.5 million), and sales and services of auxiliary enterprises (\$15.1 million).



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

### CAPITAL ASSETS

At June 30, 2007, the University had \$779.6 million in capital assets, less accumulated depreciation of \$216.7 million, for net capital assets of \$562.9 million. Depreciation charges for the current fiscal year totaled \$19.9 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

<b>Capital Assets, Net at June 30 (In Thousands)</b>		
	<u>2007</u>	<u>2006</u>
Land	\$ 11,204	\$ 9,304
Works of Art and Historical Treasures	666	618
Construction in Progress	27,484	28,682
Buildings	420,954	362,859
Infrastructure and Other Improvements	37,151	27,744
Furniture and Equipment	40,153	37,510
Library Resources	12,302	12,230
Property Under Capital Lease	10,774	11,942
Computer Software	2,193	1,436
<b>Total Capital Assets, Net</b>	<u><u>\$ 562,881</u></u>	<u><u>\$ 492,325</u></u>

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

### CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2007, were incurred on the following projects: Computer Center Expansion/Remodel, Arena Remodel, Traditions Lab School, and Davie Campus Student Activity Center. A summary of the University's major capital commitments at June 30, 2007, is as follows:

	<u>Amount (In Thousands)</u>
Total Commitment	\$ 47,605
Completed to Date	<u>(27,485)</u>
<b>Balance Committed</b>	<u><u>\$ 20,120</u></u>

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

**DEBT ADMINISTRATION**

As of June 30, 2007, the University had \$126.5 million in outstanding bonds and capital leases, representing an increase of \$22.6 million, or 21.7 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type at June 30:

<b>Long-Term Debt, at June 30 (In Thousands)</b>		
	<u>2007</u>	<u>2006</u>
Bonds	\$ 114,932	\$ 90,598
Capital Leases	<u>11,519</u>	<u>13,266</u>
<b>Total</b>	<u><u>\$ 126,451</u></u>	<u><u>\$ 103,864</u></u>

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

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The budget that the Florida Legislature adopted for the 2007-08 fiscal year provided an 8.29 percent increase for State universities. Regarding the University's legislative priorities, the Legislature awarded a one time bonus of \$1,000 to State University employees in November 2007, in lieu of a salary increase. In addition, the Legislature provided \$60.5 million for enrollment growth at State universities (the University's share is 5.6 percent), for which the University anticipates an increase in revenue from increases in enrollment and student tuition and fees.

**REQUESTS FOR INFORMATION**

Questions concerning information provided in the MD&A, financial statements, and notes thereto or requests for additional financial information should be addressed to the Vice-President for Financial Affairs, Florida Atlantic University, 777 Glades Road, Boca Raton, Florida 33431.

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**FINANCIAL SECTION**


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**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS**  
**As of June 30, 2007**

	<u>University</u>	<u>Component Units</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,124,787	\$ 2,997,787
Restricted Cash and Cash Equivalents	22,403	
Investments	71,812,225	9,975,149
Accounts Receivable, Net	13,836,147	3,681,458
Loans and Notes Receivable, Net	65,809	
Due from State	69,536,037	
Due from Component Units/University	713,080	663,584
Inventories	71,944	
Other Current Assets	291,712	167,133
<b>Total Current Assets</b>	<u>157,474,144</u>	<u>17,485,111</u>
Noncurrent Assets:		
Restricted Investments	8,631,531	197,638,787
Net Investment in Direct Financing-Type Lease		10,875,000
Loans and Notes Receivable, Net	2,550,778	11,615,183
Depreciable Capital Assets, Net	524,149,728	869,774
Nondepreciable Capital Assets	38,731,464	10,041,146
Other Noncurrent Assets	825,735	1,255
<b>Total Noncurrent Assets</b>	<u>574,889,236</u>	<u>231,041,145</u>
<b>TOTAL ASSETS</b>	<u>732,363,380</u>	<u>248,526,256</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	13,705,855	568,490
Construction Contracts Payable	7,537,803	
Salaries and Wages Payable	4,969,954	
Deposits Payable	804,291	
Due to State	135,390	
Due to Component Units/University	663,584	713,080
Deferred Revenue	10,404,253	134,364
Long-Term Liabilities - Current Portion:		
Bonds Payable	4,106,172	
Notes Payable		829,924
Capital Leases Payable	759,632	
Certificates of Participation Payable		275,000
Compensated Absences Payable	1,189,061	
<b>Total Current Liabilities</b>	<u>44,275,995</u>	<u>2,520,858</u>

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF NET ASSETS (Continued)**  
**As of June 30, 2007**

	<b>University</b>	<b>Component Units</b>
<b>LIABILITIES (Continued)</b>		
Noncurrent Liabilities:		
Bonds Payable	\$ 110,826,263	\$
Notes Payable		3,207,686
Capital Leases Payable	10,759,130	
Certificates of Participation Payable		10,600,000
Compensated Absences Payable	20,259,002	
Other Noncurrent Liabilities		453,858
<b>Total Noncurrent Liabilities</b>	<b>141,844,395</b>	<b>14,261,544</b>
<b>TOTAL LIABILITIES</b>	<b>186,120,390</b>	<b>16,782,402</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	464,149,653	10,912,175
Restricted for Expendable:		
Loans	4,634,111	
Capital Projects	21,462,629	
Other	11,495,745	205,959,518
Unrestricted	44,500,852	14,872,161
<b>TOTAL NET ASSETS</b>	<b>546,242,990</b>	<b>231,743,854</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 732,363,380</b>	<b>\$ 248,526,256</b>

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, 2007**

	<u>University</u>	<u>Component Units</u>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$29,512,899	\$ 78,147,882	\$ 91,625
Federal Grants and Contracts	26,056,398	
State and Local Grants and Contracts	15,191,142	
Nongovernmental Grants, Donations and Contracts	7,968,185	221,471
Sales and Services of Auxiliary Enterprises	18,774,466	
Sales and Services of Educational Departments	247,991	
Interest on Loans and Notes Receivable	115,418	
Gifts and Donations		23,092,069
Other Operating Revenues	23,298,022	1,993,598
<b>Total Operating Revenues</b>	<u>169,799,504</u>	<u>25,398,763</u>
<b>EXPENSES</b>		
Operating Expenses:		
Compensation and Employee Benefits	219,835,319	7,389,688
Services and Supplies	75,588,851	2,444,735
Utilities and Communications	11,883,624	
Scholarships, Fellowships, and Waivers	32,425,864	1,971,348
Depreciation	19,898,483	7,086
Other Operating Expenses		11,002,797
<b>Total Operating Expenses</b>	<u>359,632,141</u>	<u>22,815,654</u>
<b>Operating Income (Loss)</b>	<u>(189,832,637)</u>	<u>2,583,109</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	179,747,848	
Federal and State Student Financial Aid	25,537,384	
Investment Income	4,426,210	4,123,513
Net Realized and Unrealized Gain on Investments		27,733,883
Other Nonoperating Revenues	3,186,066	1,087,757
Loss on Disposal of Capital Assets	(637,233)	
Interest on Capital Asset-Related Debt	(3,908,576)	(204,774)
<b>Net Nonoperating Revenues</b>	<u>208,351,699</u>	<u>32,740,379</u>
<b>Income (Loss) Before Other Revenues, Expenses, Gains, or Losses</b>	18,519,062	35,323,488
Capital Appropriations	51,869,835	
Capital Grants, Contracts, Donations, and Fees	7,346,337	
Other Expenses	(88,918)	
<b>Increase in Net Assets</b>	77,646,316	35,323,488
Net Assets, Beginning of Year	<u>468,596,674</u>	<u>196,420,366</u>
<b>Net Assets, End of Year</b>	<u>\$ 546,242,990</u>	<u>\$ 231,743,854</u>

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

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2007**

	<u><b>University</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees, Net	\$ 52,999,191
Grants and Contracts	44,518,699
Sales and Services of Educational Departments	247,991
Sales and Services of Auxiliary Enterprises	15,141,529
Interest on Loans and Notes Receivable	115,418
Payments to Employees	(217,931,490)
Payments to Suppliers for Goods and Services	(89,739,308)
Payments to Students for Scholarships and Fellowships	(32,425,864)
Net Loans Issued to Students	(250,489)
Other Operating Receipts	60,490,229
<b>Net Cash Used by Operating Activities</b>	<u>(166,834,094)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Appropriations	179,747,848
Federal and State Student Financial Aid	25,537,384
Net Change in Funds Held for Others	(864,666)
Other Nonoperating Disbursements	(189,388)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>204,231,178</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Capital Debt and Leases	26,893,923
Capital Appropriations	40,625,916
Capital Grants, Contracts, Donations, and Fees	(288,269)
Capital Subsidies and Transfers	(25,168,743)
Proceeds from Sale of Capital Assets	3,575,035
Purchase or Construction of Capital Assets	(76,119,928)
Principal Paid on Capital Debt and Leases	(4,208,189)
Interest Paid on Capital Debt and Leases	(3,749,896)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(38,440,151)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments, Net	(3,512,257)
Investment Income	4,469,634
<b>Net Cash Provided by Investing Activities</b>	<u>957,377</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(85,690)
Cash and Cash Equivalents, Beginning of Year	<u>1,232,880</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,147,190</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, 2007**

	<u>University</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (189,832,637)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	19,898,483
Change in Assets and Liabilities:	
Receivables, Net	(19,620,438)
Inventories	(9,023)
Other Assets	(4,846,993)
Accounts Payable	(2,108,330)
Deposits Payable	82,021
Compensated Absences Payable	1,903,829
Deferred Revenue	27,948,997
Other Liabilities	<u>(250,003)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ (166,834,094)</u></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**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**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, and is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the State's 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 Florida law, State Board of Education rules, and Board of Governors regulations. The Trustees select the University President and the State Board of Education ratifies 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.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's *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 activity are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

**Discretely Presented Component Units.** Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 6C-9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- Florida Atlantic University Foundation, Inc. (Foundation), is a separate corporation operating independently from the University, and as such it receives and administers most private support for the University. Any person or organization contributing money, stock, or any other item to be used

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

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.

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 University Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

**Basis of Presentation.** The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by 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). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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

**FLORIDA ATLANTIC UNIVERSITY**  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

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

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

The University follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by a student or a third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

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 in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

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

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

**Noncurrent Liabilities.** Noncurrent liabilities include principal amounts of bonds payable, capital leases payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

## **2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

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.

### **3. INVESTMENTS**

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. Pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

#### **External Investment Pools**

The University reported investments at fair value totaling \$80,395,756 at June 30, 2007, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 3.21 years at June 30, 2007. 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 the financial statements of the State's Comprehensive Annual Financial Report.

#### **State Board of Administration Debt Service Accounts**

The University reported investments at fair value totaling \$48,000 at June 30, 2007, in the State Board of Administration Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

investments consist of United States Treasury securities, with maturity dates of more than three months. The University relies on policies developed by the State Board of Administration for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

**Component Units Investments**

Investments reported for the University's component units at June 30, 2007, are those held by Florida Atlantic University Foundation, Inc., and are reported at fair market value as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Stocks	\$ 59,019,304
International Stocks	46,990,332
Fixed Income Securities	51,527,591
Other Investments	46,509,099
<b>Subtotal</b>	<b>204,046,326</b>
Funds Held in Trust by Others	3,567,610
<b>Total Investments</b>	<b>\$ 207,613,936</b>

**4. 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. These receivables, net of an allowance for uncollectible accounts, are summarized in the following table:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 6,295,422
Student Tuition and Fees	7,401,744
Other	138,981
<b>Total Accounts Receivable, Net</b>	<b>\$ 13,836,147</b>

**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 Uncollectible Receivables.** Allowances for uncollectible accounts, and loans and notes receivable, are reported based upon management's best estimate as of fiscal year-end considering type, age,

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$4,545,905 and \$343,283, respectively, at June 30, 2007.

**5. DUE FROM STATE**

This amount consists of Public Education Capital Outlay, Alec P. Courtelis Capital Facility Matching Trust Fund, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction of University facilities.

**6. INVENTORIES**

Inventories have been categorized into the following two types:

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

**7. CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:



**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

Description	Beginning Balance	Adjustments	Additions	Reductions	Ending Balance
<b>Nondepreciable Capital Assets:</b>					
Land	\$ 9,303,803	\$	\$ 1,900,000	\$	\$ 11,203,803
Works of Art and Historical Treasures	44,940			1,800	43,140
Construction in Progress	28,682,140		26,674,030	27,871,649	27,484,521
<b>Total Nondepreciable Capital Assets</b>	<b>\$ 38,030,883</b>	<b>\$</b>	<b>\$ 28,574,030</b>	<b>\$ 27,873,449</b>	<b>\$ 38,731,464</b>
<b>Depreciable Capital Assets:</b>					
Buildings (1)	\$ 459,028,036	\$ 13,461,938	\$ 57,408,581	\$ 2,016,647	\$ 527,881,908
Infrastructure and Other Improvements	38,063,941		10,454,666	13,173	48,505,434
Furniture and Equipment	78,520,499		12,108,385	9,166,082	81,462,802
Library Resources	59,468,627		3,633,456	1,685	63,100,398
Property Under Capital Lease	16,476,729			1,190,694	15,286,035
Works of Art and Historical Treasures	589,268		61,914	537	650,645
Computer Software	2,773,046		1,667,346	436,492	4,003,900
<b>Total Depreciable Capital Assets</b>	<b>654,920,146</b>	<b>13,461,938</b>	<b>85,334,348</b>	<b>12,825,310</b>	<b>740,891,122</b>
<b>Less, Accumulated Depreciation:</b>					
Buildings (1)	96,168,954	2,523,025	8,435,762	200,130	106,927,611
Infrastructure and Other Improvements	10,319,777		1,034,882		11,354,659
Furniture and Equipment	41,009,910		6,029,610	5,729,794	41,309,726
Library Resources	47,239,061		3,559,424		50,798,485
Property Under Capital Lease	4,534,691		231,265	253,717	4,512,239
Works of Art and Historical Treasures	15,991		12,926	1,181	27,736
Computer Software	1,337,485		594,614	121,161	1,810,938
<b>Total Accumulated Depreciation</b>	<b>200,625,869</b>	<b>2,523,025</b>	<b>19,898,483</b>	<b>6,305,983</b>	<b>216,741,394</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>\$ 454,294,277</b>	<b>\$ 10,938,913</b>	<b>\$ 65,435,865</b>	<b>\$ 6,519,327</b>	<b>\$ 524,149,728</b>

Note: (1) Adjustments were made to correct prior year accounting errors.

## 8. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay and Alec P. Courtelis Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2007, to spend the funds, and student tuition and fees received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2007, the University reported the following amounts as deferred revenue:

Description	Amount
Capital Appropriations	\$ 3,914,734
Student Tuition and Fees	6,489,519
<b>Total Deferred Revenue</b>	<b>\$ 10,404,253</b>

**FLORIDA ATLANTIC UNIVERSITY**  
**A COMPONENT UNIT OF THE STATE OF FLORIDA**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2007**

**9. LONG-TERM LIABILITIES**

Long-term liabilities of the University at June 30, 2007, include bonds, capital leases, and compensated absences. Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 90,598,444	\$ 49,492,983	\$ 25,158,992	\$ 114,932,435	\$ 4,106,172
Capital Leases Payable	13,265,667		1,746,905	11,518,762	759,632
Compensated Absences Payable	19,544,234	3,114,016	1,210,187	21,448,063	1,189,061
<b>Total Long-Term Liabilities</b>	<b>\$ 123,408,345</b>	<b>\$ 52,606,999</b>	<b>\$ 28,116,084</b>	<b>\$ 147,899,260</b>	<b>\$ 6,054,865</b>

**Bonds Payable.** Auxiliary revenue bonds were issued to construct student parking garages and housing facilities. Auxiliary revenue bonds outstanding, which include both term and serial bonds, are secured by a pledge of traffic and parking fees, housing rental revenues, and an assessed transportation fee based on credit hours. State University System bonds were issued to acquire and construct various University facilities. These bonds are secured by and payable from the capital improvement and building fees, which are remitted to the State Board of Education to be used to retire the bonds. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

On August 17, 2006, the State Board of Education issued Housing Revenue Bonds, Series 2006A, for \$27,640,000. The proceeds were used to finance construction and equip a new 600-bed residence hall.

On November 2, 2006, the State Board of Education issued \$21,775,000 of Housing Facilities Revenue Refunding Bonds, Series 2006B, with interest rates ranging from 3.5 to 4.375 percent. The proceeds were used to advance-refund a portion of the Housing Facility Revenue Bonds, Series 2000. The University deposited with an escrow agent in an irrevocable trust amounts sufficient to provide for all future debt service payments on the refunded portion of the bonds, which are considered defeased in-substance. 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 \$1,876,061 over the next 24 years and obtained an economic gain of \$1,191,303. At June 30, 2007, the amount of the defeased bonds was \$20,060,000.

The University had the following bonds and revenue certificates payable outstanding at June 30, 2007:

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Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
<b>Auxiliary Revenue Bonds:</b>				
2000 Student Housing	\$ 24,400,000	\$ 1,640,000	4.4 – 5.4	2010
2001 Parking Facility	7,990,000	6,235,000	3.0 – 4.8	2021
2002 Parking Facility	8,995,000	7,535,942	2.375 – 4.35	2023
2003 Student Housing	35,285,000	30,977,969	3.0 – 4.875	2033
2006A Student Housing	27,640,000	27,111,490	4.0 – 4.625	2036
2006B Student Housing	21,775,000	20,529,564	3.5 – 4.375	2030
<b>Total Auxiliary Revenue Bonds</b>	<b>126,085,000</b>	<b>94,029,965</b>		
<b>State University System Revenue Bonds:</b>				
1997A Series	5,601,098	4,596,283	3.85 – 5.0	2016
1998 Series	2,761,595	2,058,127	4.0 – 5.0	2023
2001 Series	5,610,730	4,747,835	4.0 – 5.0	2026
2003A Series	3,534,098	2,038,140	4.5 – 5.375	2013
2005A Series	491,349	460,543	3.625 – 4.125	2022
2006A Series	6,940,534	7,001,542	4.0 – 5.0	2030
<b>Total State University System Revenue Bonds</b>	<b>24,939,404</b>	<b>20,902,470</b>		
<b>Total</b>	<b>\$ 151,024,404</b>	<b>\$ 114,932,435</b>		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$ 4,106,172	\$ 5,054,437	\$ 9,160,609
2009	4,225,289	4,901,157	9,126,446
2010	4,407,374	4,740,063	9,147,437
2011	4,571,935	4,567,325	9,139,260
2012	4,757,031	4,390,908	9,147,939
2013-2017	24,903,937	18,929,840	43,833,777
2018-2022	25,493,637	13,490,815	38,984,452
2023-2027	19,564,890	8,369,922	27,934,812
2028-2032	17,450,026	3,945,185	21,395,211
2033-2036	7,400,000	787,538	8,187,538
<b>Subtotal</b>	<b>116,880,291</b>	<b>69,177,190</b>	<b>186,057,481</b>
Less: Net Bond Discounts, Premiums, and Losses on Bond Refundings	(1,947,856)		(1,947,856)
<b>Total</b>	<b>\$ 114,932,435</b>	<b>\$ 69,177,190</b>	<b>\$ 184,109,625</b>

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**Notes Payable.** Notes Payable at June 30, 2007, for The Florida Atlantic University Foundation, Inc., are as follows:

<u>Description</u>	<u>Amount</u>
Notes Payable to Bank in Semiannual Installments of \$400,000 Plus Interest at 4.20 Percent Until May 2012	\$ 4,000,000
Notes Payable to an Individual in Quarterly Installments of \$7,772 including Interest at 4.47 percent until December 2008	37,610
<b>Total</b>	<b><u>\$ 4,037,610</u></b>

Future debt principal payments in the aggregate are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 829,924	\$ 163,471	\$ 993,395
2009	807,686	127,905	935,591
2010	800,000	93,753	893,753
2011	800,000	59,687	859,687
2012	800,000	25,337	825,337
<b>Total</b>	<b><u>\$ 4,037,610</u></b>	<b><u>\$ 470,153</u></b>	<b><u>\$ 4,507,763</u></b>

**Capital Leases.** Computer, communications and image scanning equipment for \$2,756,034 is being acquired under capital lease agreements. The stated interest rates range from 0.0 to 3.33 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2007, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2008	\$491,042
2009	137,180
2010	19,227
2011	4,807
<b>Total Minimum Payments</b>	652,256
Less, Amount Representing Interest	<u>(8,494)</u>
<b>Present Value of Minimum Payments</b>	<b><u>\$643,762</u></b>

The University entered into a capital lease agreement in connection with Certificates of Participation issued by the 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

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sufficient to cover all amounts due under the Certificates of Participation. At June 30, the amount reported by the University as capital leases payable included \$10,875,000, representing the total future minimum payments remaining under the Certificates of Participation (see note 10).

**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 Regulation 6C-5.920 and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2007, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$21,448,063. The current portion of the compensated absences liability (\$1,189,061) 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 years' total compensated absences liability.

**10. 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, 2007, certificates of participation payable are as follows:

COP Series	Amount of Issue	Total Retired	Outstanding Principal	Outstanding Interest	Interest Rates	Maturity Date
1999	\$ 6,230,000	\$ 1,010,000	\$ 5,220,000	\$ 3,310,861	4.25 - 5.0	2028
2000	6,300,000	645,000	5,655,000	4,650,610	4.875 - 5.875	2030
<b>Total</b>	<b>\$ 12,530,000</b>	<b>\$ 1,655,000</b>	<b>\$ 10,875,000</b>	<b>\$ 7,961,471</b>		

The Foundation entered into Master Lease agreements with the former Board of Regents (the Board) whereby they are obligated to pay the Board \$1 per year for each property. The Foundation also entered into agreements with the University, whereby the University was allowed use of the buildings in exchange for the University paying all amounts due under the Certificates (see note 9).

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**11. RETIREMENT PROGRAMS**

**Florida Retirement System.** Most employees working in regularly established positions of the University are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. 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 his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

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 benefit payments while continuing employment with a FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

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Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, totaled \$3,972,316, \$4,192,247, and \$5,272,310, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 215 University participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled \$706,083.

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.



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**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 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 1,454 University participants during the 2006-07 fiscal year. Required employer contributions made to the Program totaled \$9,472,315 and employee contributions totaled \$4,997,811.

## **12. 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 2006-07 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 11.

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 2006-07 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

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**13. CONSTRUCTION COMMITMENTS**

The University's major construction commitments at June 30, 2007, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Computer Center Expansion/Remodel	\$ 9,253,840	\$ 5,719,483	\$ 3,534,357
Arena Remodel	8,842,897	4,859,827	3,983,070
Traditions Lab School	15,000,000	5,282,546	9,717,454
Davie Campus Student Activity Center	6,566,199	3,680,713	2,885,486
<b>Subtotal</b>	39,662,936	19,542,569	20,120,367
Other Project Expenses (1)	7,941,952	7,941,952	
<b>Total</b>	<b>\$ 47,604,888</b>	<b>\$ 27,484,521</b>	<b>\$ 20,120,367</b>

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

**14. OPERATING LEASE COMMITMENTS**

The University leased the facilities at its Dania Beach Campus and Biomed Research and Development Park under operating leases, which expire in 2046 and 2011, respectively. In addition, the University also leased various copiers under operating leases with terms ranging from 36 to 60 months. 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:

Fiscal Year Ending June 30	Amount
2008	\$ 352,702
2009	291,459
2010	237,917
2011	156,444
2012	27,000
2013-2017	135,000
2018-2022	135,000
2023-2027	135,000
2028-2032	135,000
2033-2037	135,000
2038-2042	135,000
2043-2046	108,000
<b>Total Minimum Payments Required</b>	<b>\$ 1,983,522</b>

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**15. 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(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2006-07 fiscal year, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for wind and flood and \$5 million for perils other than wind and flood. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for wind, \$50 million for flood, and \$200 million for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain health care 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.

**16. LITIGATION**

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 legal counsel and management, should not materially affect the University's financial position.

**17. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES**

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service.

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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	\$ 130,714,538
Research	23,825,240
Public Service	11,309,809
Academic Support	33,219,164
Student Services	19,130,622
Institutional Support	28,677,277
Operation and Maintenance of Plant	20,072,824
Scholarships and Fellowships	21,276,671
Depreciation	19,898,483
Auxiliary Enterprises	51,354,956
Loan Operations	152,557
<b>Total Operating Expenses</b>	<b><u><u>\$ 359,632,141</u></u></b>

#### 18. SEGMENT INFORMATION

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

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**Condensed Statement of Net Assets**

	Housing	Traffic and Parking Services
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Current Assets	\$ 13,376,219	\$ 4,819,122
Capital Assets, Net	<u>62,240,273</u>	<u>17,436,607</u>
<b>Total Assets</b>	<u>75,616,492</u>	<u>22,255,729</u>
<b>Liabilities</b>		
Current Liabilities	812,106	36,081
Noncurrent Liabilities	<u>65,535,000</u>	<u>13,845,000</u>
<b>Total Liabilities</b>	<u>66,347,106</u>	<u>13,881,081</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	(3,294,727)	3,591,607
Unrestricted	<u>12,564,113</u>	<u>4,783,041</u>
<b>Total Net Assets</b>	<u>\$ 9,269,386</u>	<u>\$ 8,374,648</u>

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

	Housing	Traffic and Parking Services
	<u>                    </u>	<u>                    </u>
Operating Revenues	\$ 12,760,072	\$ 4,382,207
Depreciation Expense	(1,510,823)	(372,455)
Other Operating Expenses	<u>(5,949,597)</u>	<u>(1,626,518)</u>
<b>Operating Income</b>	<u>5,299,652</u>	<u>2,383,234</u>
Nonoperating Revenues (Expenses):		
Nonoperating Revenues	312,007	291,300
Interest Expense	(2,646,173)	(566,412)
Other Nonoperating Expenses	<u>(470,844)</u>	<u>(174,006)</u>
<b>Net Nonoperating Expenses</b>	<u>(2,805,010)</u>	<u>(449,118)</u>
<b>Increase in Net Assets</b>	2,494,642	1,934,116
Net Assets, Beginning of Year	<u>6,774,744</u>	<u>6,440,532</u>
<b>Net Assets, End of Year</b>	<u>\$ 9,269,386</u>	<u>\$ 8,374,648</u>

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**Condensed Statement of Cash Flows**

	Housing	Traffic and Parking Services
	<u>                    </u>	<u>                    </u>
Net Cash Provided (Used) by:		
Operating Activities	\$ 6,739,068	\$ 2,519,544
Noncapital Financing Activities	(470,844)	(110,818)
Capital and Related Financing Activities	(5,419,045)	(5,632,521)
Investing Activities	946,714	
	<u>                    </u>	<u>                    </u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,795,893	(3,223,795)
Cash and Cash Equivalents, Beginning of Year	5,082,176	3,224,795
	<u>                    </u>	<u>                    </u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 6,878,069</u></u>	<u><u>\$ 1,000</u></u>

**19. COMPONENT UNITS**

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

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	Florida Atlantic University Foundation, Inc.	Florida Atlantic University Research Corporation, Inc.	Total
<b>Condensed Statement of Net Assets</b>			
Assets:			
Current Assets	\$ 17,040,728	\$ 444,383	\$ 17,485,111
Capital Assets, Net	10,901,726	9,194	10,910,920
Other Noncurrent Assets	220,128,970	1,255	220,130,225
<b>Total Assets</b>	<b>248,071,424</b>	<b>454,832</b>	<b>248,526,256</b>
Liabilities:			
Current Liabilities	2,164,362	356,496	2,520,858
Noncurrent Liabilities	14,261,544		14,261,544
<b>Total Liabilities</b>	<b>16,425,906</b>	<b>356,496</b>	<b>16,782,402</b>
Net Assets:			
Investment in Capital Assets, Net of Related Debt	10,901,726	10,449	10,912,175
Restricted	205,868,925	90,593	205,959,518
Unrestricted	14,874,867	(2,706)	14,872,161
<b>Total Net Assets</b>	<b>\$ 231,645,518</b>	<b>\$ 98,336</b>	<b>\$ 231,743,854</b>
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>			
Operating Revenues	\$ 24,346,653	\$ 1,052,110	\$ 25,398,763
Operating Expenses	21,774,635	1,041,019	22,815,654
<b>Operating Income</b>	<b>2,572,018</b>	<b>11,091</b>	<b>2,583,109</b>
Net Nonoperating Revenues	32,721,248	19,131	32,740,379
<b>Increase in Net Assets</b>	<b>35,293,266</b>	<b>30,222</b>	<b>35,323,488</b>
Net Assets, Beginning of Year	196,352,252	68,114	196,420,366
<b>Net Assets, End of Year</b>	<b>\$ 231,645,518</b>	<b>\$ 98,336</b>	<b>\$ 231,743,854</b>

**Appendix A**  
**Management Response**



*Office of the Vice President for Financial Affairs*  
777 Glades Road  
Boca Raton, FL 33431  
tel: 561.297.3266 / fax: 561.297.2772  
jessell@fau.edu  
[www.fau.edu/financial](http://www.fau.edu/financial)

February 15, 2008

Mr. David W. Martin, CPA  
Auditor General  
State of Florida  
111 West Madison Street  
Claude Pepper Building, Suite G-74  
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

As required by the provisions of Section 11.45 (4)(d) of the Florida Statutes, I am submitting Florida Atlantic University's written response to the audit findings and recommendations identified in your February 7, 2008 preliminary and tentative financial audit findings for the fiscal year ended June 30, 2007.

Should you have any questions or need additional information, please don't hesitate to call me at 561-297-3266.

Sincerely,

A handwritten signature in blue ink, appearing to read "K. Jessell", with a long horizontal line extending to the right.

Kenneth A. Jessell, Ph.D.  
Vice President for Financial Affairs

KAJ/lac

cc: Frank T. Brogan, President



**Florida Atlantic University  
Financial Audit  
For the Fiscal Year Ended June 30, 2007**

**Preliminary and Tentative Audit Findings,  
Recommendations and Responses**

**SIGNIFICANT DEFICIENCY**

**Finding No. 1: Information Technology – Application Access Control Procedures**

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or loss. We noted that the University needed to strengthen its access control procedures related to the SCT Banner application, as described below:

1. As similarly noted in our report No. 2006-018, authorization of access to the University's SCT Banner application had not been properly documented for all users. Good access controls include instituting policies and procedures for authorizing access to information resources, documenting such authorizations, and then periodically monitoring actual access capabilities through comparisons to the authorizations. Of 18 access authorizations tested, we noted 7 instances where proper access documentation was not maintained and 4 instances where the authorization documentation did not match the actual level of access that had been granted. When access is not limited to what is authorized and approved by management, the risk is increased of inappropriate use of information resources. Subsequent to our review, University personnel indicated that they had reviewed, verified, and approved the access authorizations for the 11 instances disclosed by our test, as appropriate.
2. The University did not have adequate policies and procedures in place to ensure that access capabilities were timely revoked for individuals who had terminated employment. Our test of user access for 14 employees who terminated employment between July 1, 2006, and June 30, 2007, disclosed 8 instances where SCT Banner application access privileges were not timely revoked. Specifically, the number of days that passed between the termination date and the date the SCT Banner accounts were either locked or deleted ranged from 18 to 70 days. In addition, we noted that University procedures did not provide for a security report detailing the last accessed date to ensure the terminated employee's user account had not been used following termination and prior to being locked or deleted. Without adequate procedures to ensure the timely revocation of access privileges of terminated personnel, the risk is increased for unauthorized access to the University's information resources.
3. Our audit disclosed instances of inappropriate or unnecessary access privileges. An appropriate division of roles and responsibilities excludes the possibility for a single individual to subvert a critical process. When enforced through appropriate system access privileges, such a division helps ensure that personnel are performing only those duties stipulated for their respective jobs and positions. During our testing of access privileges for an appropriate separation of duties, we noted the following:
  - Twenty-seven instances where access to an SCT Banner-delivered class allowed excessive access privileges within the Banner Finance Module to employee or system-related user accounts (ID). Access to the class provided the capability to input, update, and approve a requisition, purchase order and an invoice, and process a warrant for payment.

- One instance where an SCT Banner-delivered user account appeared to have inappropriate and incompatible SCT Banner accounts payable-related functions.
- Twenty instances in which generic user IDs used for training allowed update and approval access to the Invoice and Credit Memo function within the Finance Module. Activity using generic IDs not assigned to individual users is not traceable to a specific individual.
- Sixteen instances where access to two SCT Banner-delivered classes allowed excessive access privileges to payroll and position control functions within the Human Resource Module to employee or system-related user accounts.
- One instance where an employee had been granted a combination of classes within the Human Resource Module which would enable the employee capabilities including adding a new employee, adjusting salaries, and printing payroll checks.

Absent appropriate separation of duties, the risk is increased that erroneous or fraudulent transactions could be processed and that computer resources could be damaged or destroyed. Subsequent to our inquiries, University personnel indicated that they had reviewed and removed access to the SCT Banner-delivered Finance and Human Resource Module classes, as well as to the user IDs assigned for training.

4. The University did not have procedures in place to routinely monitor SCT Banner application security events as enabled through the application and database logging options. Appropriate IT security administration ensures that security activity is logged and any indication of imminent security violation is reported immediately. Without routine logging and monitoring, the risk is increased that unauthorized access or changes could be made and not detected in a timely manner. Subsequent to our inquiries, University personnel indicated that they had developed reports and training procedures to ensure the continued monitoring of application security events by security officers.

**Recommendation:** The University should strengthen its access control procedures including documenting access authorizations, timely notifying security officers of employee terminations, reviewing the ongoing appropriateness of access privileges, and monitoring significant security events.

**Response:**

1. Florida Atlantic University concurs with this finding. FAU does not utilize a Chief Security Officer within IRM and utilizes a distributed Security Officer model among the user groups. Upon completion of the preliminary auditor's report, Banner Security Officers took corrective actions to review and verify existing Banner Access Authorization Forms. This issue was brought to the attention of the Banner Security Officers during their quarterly meeting on December 18, 2007. In addition, the Banner Security Guidelines document has been revised to emphasize that the authorization forms require close monitoring and review. The document was distributed to Banner Security Officers on December 18, 2007, and will be reviewed annually.

**Completion Date:** December 18, 2007

2. Florida Atlantic University concurs with this finding. A daily report is now being generated that compares current employees with employees who are no longer in the payroll system. The purpose of this report is to identify employees who have permanently separated from service. The new procedure will allow for the timely disabling of Banner access for employees who have separated from the university. Additional measures, precautions and safeguards are also being taken to assure that faculty who are on nine and ten month contracts and who are not in the

payroll system during the summer months will retain their appropriate status.

**Completion Date:** March 31, 2008

3. Florida Atlantic University concurs with this finding. Banner Security Officers and appropriate departments have been notified of this deficiency. Twenty Banner training accounts which were identified were established to conduct Banner training for newly implemented modules. These accounts have been disabled. All generic accounts used for Banner production activities have been identified and the University has taken the responsibility to properly safeguard these accounts. Utilizing *generic account* is recommended by Banner and it is part of Banner Best practices to ensure production activities are not tied to a single individual. IRM will set up a separate instance which will be used for Banner Training.

Banner Security Officers have been notified to provide appropriate access to Banner classes or forms for all new accounts unless it is specifically requested by the user department and proper signatures have been obtained. Existing accounts are currently under review, and appropriate steps to remove excessive access are currently under implementation.

**Completion Date:** March 31, 2008

4. Florida Atlantic University concurs with this finding. As previously stated, FAU has adopted a distributed Banner security model and this approach has proven to be efficient in addressing timely user requests to access Banner Forms.

A series of daily reports are generated by IRM and distributed to the Banner Security Officers to address discrepancies or potential deviation in authorization to Banner objects or forms. The daily reports provide Banner Security Officers with the necessary information related to Banner account profile and access to Banner classes, object association, incomplete user information, employment status and unauthorized access. The Banner Security Officers are responsible for immediate follow up to areas of concerns.

**Completion Date:** January 31, 2008