

FLORIDA ATLANTIC UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2010



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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Notes: (1) Continued to serve after term expiration
on January 6, 2010.
(2) Faculty Senate chair.
(3) Student body president.

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

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

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**FLORIDA ATLANTIC UNIVERSITY
TABLE OF CONTENTS**

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets.....	12
Statement of Cash Flows.....	13
Notes to Financial Statements	15
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	38
Notes to Required Supplementary Information.....	39
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	40
Internal Control Over Financial Reporting.....	40
Compliance and Other Matters	41

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida 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, 2010, which collectively comprise the University's basic financial statements as shown on pages 10 through 37. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Atlantic University and of its aggregate discretely presented component units as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, effective August 11, 2009, the Florida Atlantic University Finance Corporation (FAUFC) became a component unit and direct-support organization of the University. This change

affects the comparability of amounts reported within the component units' columns for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 2 to the financial statements, the University changed its reporting of the liability for Capital Improvement (Housing and Parking) Revenue Bonds from bonds payable to capital improvement debt payable during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 3 to the financial statements, the University discontinued reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds on the University's statement of net assets during the 2009-10 fiscal year. Additionally, the University removed land, buildings, and other capital asset amounts relating to the University's Harbor Branch Oceanographic campus acquired by the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida. These changes affect the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 9 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
March 2, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Florida Atlantic University for the fiscal year ended June 30, 2010, 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 \$993.8 million at June 30, 2010. This balance reflects a \$19.5 million, or 2 percent increase from the 2008-09 fiscal year. While assets slightly grew, liabilities increased by a lesser amount of \$5.5 million, or 3 percent, totaling \$191 million at June 30, 2010, compared to \$185.5 million at June 30, 2009. As a result, the University's net assets increased by \$14 million, reaching a year-end balance \$802.8 million.

The University's operating revenues totaled \$201.9 million for the 2009-10 fiscal year, representing a 0.07 percent increase over the 2008-09 fiscal year. Operating expenses totaled \$410.6 million for the 2009-10 fiscal year, representing an increase of 3.9 percent over the 2008-09 fiscal year due mainly to an increase in general insurance, repairs and maintenance, and state and private scholarship grants awarded and distributed.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include: The Florida Atlantic University Foundation, Inc.; the Florida Atlantic University Research Corporation, Inc.; the Harbor Branch Oceanographic Institution Foundation, Inc.; and the Florida Atlantic University Finance Corporation.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports. The Florida Atlantic University Foundation, Inc. and the Harbor Branch Oceanographic Institution Foundation, Inc. report under Financial Accounting Standards Board (FASB) and, as such, do not include an MD&A in their audit reports.

THE STATEMENT OF NET ASSETS

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

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

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

	2010	2009
Assets		
Current Assets	\$ 277,791	\$ 299,832
Capital Assets, Net	711,002	669,173
Other Noncurrent Assets	5,018	5,332
Total Assets	<u>993,811</u>	<u>974,337</u>
Liabilities		
Current Liabilities	54,592	42,191
Noncurrent Liabilities	136,440	143,357
Total Liabilities	<u>191,032</u>	<u>185,548</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	616,443	552,819
Restricted	67,692	142,853
Unrestricted	118,644	93,117
Total Net Assets	<u>\$ 802,779</u>	<u>\$ 788,789</u>

Current assets decreased as a result of decrease capital appropriations authorizations. Current liabilities increased due to amounts due to vendors at year-end while noncurrent liabilities decreased due to the change in reporting of the State University System Capital Improvement Trust Fund Revenue Bonds. Further information on this adjustment is presented in note 3 to the financial statements.

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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Operating Revenues	\$ 201,948	\$ 201,805
Operating Expenses	<u>410,634</u>	<u>395,201</u>
Operating Loss	(208,686)	(193,396)
Net Nonoperating Revenues	<u>224,619</u>	<u>204,185</u>
Income Before Other Revenues, Expenses, Gains, or Losses	15,933	10,789
Other Revenues, Expenses, Gains, or Losses	<u>11,464</u>	<u>68,346</u>
Net Increase In Net Assets	<u>27,397</u>	<u>79,135</u>
Net Assets, Beginning of Year	788,789	709,654
Adjustments to Beginning Net Assets (1)	<u>(13,407)</u>	<u></u>
Net Assets, Beginning of Year, as Restated	<u>775,382</u>	<u>709,654</u>
Net Assets, End of Year	<u><u>\$ 802,779</u></u>	<u><u>\$ 788,789</u></u>

Note: (1) As discussed in note 3 of the financial statements, the University's beginning net assets were adjusted to reflect a change in reporting bonds payable and certain capital assets.

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2009-10 and 2008-09 fiscal years:

**Operating Revenues
(In Thousands)**

	2009-10	2008-09
Net Tuition and Fees	\$ 104,338	\$ 93,301
Grants and Contracts	41,134	43,531
Sales and Services of Educational Departments	412	463
Sales and Services of Auxiliary Enterprises	43,369	46,969
Other	<u>12,695</u>	<u>17,541</u>
Total Operating Revenues	<u><u>\$ 201,948</u></u>	<u><u>\$ 201,805</u></u>

During the fiscal year the State legislature authorized and approved a 15 percent increase in tuition and fees.

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 2009-10 and 2008-09 fiscal years:

**Operating Expenses
(In Thousands)**

	2009-10	2008-09
Compensation and Employee Benefits	\$ 244,901	\$ 244,220
Services and Supplies	82,281	79,240
Utilities and Communications	13,943	14,932
Scholarships, Fellowships, and Waivers	43,624	30,478
Depreciation	25,885	26,331
Total Operating Expenses	\$ 410,634	\$ 395,201

Scholarships, fellowships, and waivers increased by \$13.1 million primarily due to an increase in scholarships from Federal, state, and private grants.

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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
State Appropriations	\$ 153,255	\$ 172,036
Federal and State Student Financial Aid	49,594	35,772
State Appropriated American Recovery and Reinvestment Act Funds	12,155	
Investment Income	9,071	1,607
Other Nonoperating Revenues	6,536	2,232
Loss on Disposal of Capital Assets	(213)	(2,036)
Interest on Capital Asset-Related Debt	(5,779)	(5,426)
Net Nonoperating Revenues	\$ 224,619	\$ 204,185

The University was able to award and distribute additional scholarships from Federal, State, and private grants in addition to the Florida Atlantic University Foundation transferring \$3.5 million of scholarships to the University during the fiscal year. During the 2009-10 fiscal year, the University also received \$12.2 million of American Recovery and Reinvestment Act (ARRA) funds. Increases in investment income primarily resulted from the unrealized gain and loss adjustment to market for the University's investments. During the 2009-10 fiscal year there was a \$2.1 million unrealized gain recognized as compared to a \$3.1 million unrealized loss in the 2008-09 fiscal year.

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Capital Appropriations	\$ 10,571	\$ 64,537
Capital Grants, Contracts, Donations, and Fees	893	3,809
Total	\$ 11,464	\$ 68,346

The University received substantially less funding from State capital appropriations in the 2009-10 fiscal year.

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 earning income 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 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (173,156)	\$ (161,397)
Noncapital Financing Activities	225,216	206,876
Capital and Related Financing Activities	(16,482)	(22,203)
Investing Activities	(31,764)	(24,766)
Net Increase (Decrease) in Cash and Cash Equivalents	3,814	(1,490)
Cash and Cash Equivalents, Beginning of Year	1,369	2,859
Cash and Cash Equivalents, End of Year	\$ 5,183	\$ 1,369

Major sources of funds came from State appropriations (\$165.4 million), net student tuition and fees (\$104.1 million), capital appropriations (\$79.3 million), Federal and State student financial aid (\$47 million), grants and contracts (\$42.5 million), and sales and services of auxiliary enterprises (\$40.2 million). Major uses of funds were for payments made to and on behalf of employees (\$241 million), payments to suppliers (\$94.9 million), purchase or construction of Capital Assets (\$90.4), and payments to and on behalf of students for scholarships (\$43.6 million).

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

CAPITAL ASSETS

At June 30, 2010, the University had \$1.016 billion in capital assets, less accumulated depreciation of \$305 million, for net capital assets of \$711 million. Depreciation charges for the current fiscal year totaled \$25.9 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Thousands)

	2010	2009
Land	\$ 11,204	\$ 32,439
Buildings	469,357	462,101
Construction in Progress	79,738	35,624
Infrastructure and Other Improvements	49,633	45,866
Furniture and Equipment	52,884	50,498
Library Resources	16,256	15,734
Property Under Capital Leases and Leasehold Improvements	30,042	24,930
Works of Art and Historical Treasures	890	813
Computer Software	998	1,168
Capital Assets, Net	\$ 711,002	\$ 669,173

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2010, were incurred on the following projects: College of Engineering and Computer Science, FAU-UF Joint Use Facilities – Davie Campus, and General Classroom Facility and Multi-Media Center - Boca. The University's major capital commitments at June 30, 2010, are as follows:

	Amount (In Thousands)
Total Committed	\$114,476
Completed to Date	<u>(79,738)</u>
Balance Committed	<u>\$ 34,738</u>

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

CAPITAL DEBT ADMINISTRATION

As of June 30, 2010, the University had \$95.2 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of \$25 million, or 20.8 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30
(In Thousands)

	2010	2009 Restated
Bonds Payable	\$	\$ 21,563
Capital Improvement Debt Payable	85,136	88,206
Capital Leases	<u>10,051</u>	<u>10,402</u>
Total	<u>\$ 95,187</u>	<u>\$ 120,171</u>

In prior fiscal years, the University reported the liability for its Housing and Parking Revenue Bonds issued by the Florida Board of Governors on behalf of the University as bonds payable on the statement of net assets. Pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, for the 2009-10 fiscal year, the University began reporting the outstanding liability for these bonds as capital

improvement debt payable. This change affects the comparability of amounts reported as bonds payable and capital improvement debt payable on the statement of net assets for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year. See note 2 to the financial statements.

As described in note 3 to the financial statements, the University no longer reports State University System Capital Improvement Trust Fund Revenue Bonds since the University is not responsible for the repayment of the bonds.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The Florida Legislature provided appropriations to the University's that provided for stable funding for the 2009-10 fiscal year. However, included in this budget was the first of a two-year commitment for infusing of non-recurring Federal ARRA funding. Due to the economic condition of the State of Florida, mirrored nationwide, funding priorities for Higher Education focused more on the overall stability, rather than a salary program, enrollment growth or other emphases. Florida Atlantic University did experience a 4 percent enrollment growth in 2009-10 that is expected to continue into the years ahead. An increase in revenue generated from student tuition and fees because of increased enrollment and increased student tuition and fees will result.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

FLORIDA ATLANTIC UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2010

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 5,178,789	\$ 12,800,977
Cash with Fiscal Agent		95,698,311
Investments	184,813,046	10,003,234
Accounts Receivable, Net	18,855,237	3,283,291
Loans and Notes Receivable, Net	722,944	25,836
Due from State	62,293,617	
Due from Component Units/University	5,138,578	669,123
Inventories	68,304	561,064
Other Current Assets	720,428	4,765,766
Total Current Assets	277,790,943	127,807,602
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,752	51,000
Restricted Investments	1,609,402	200,194,720
Net Investments in Direct Financing-Type Lease		10,005,000
Accounts Receivable, Net		968,668
Loans and Notes Receivable, Net	2,776,946	535,700
Depreciable Capital Assets, Net	619,892,581	2,655,473
Nondepreciable Capital Assets	91,109,626	36,291,608
Other Noncurrent Assets	627,293	13,779,010
Total Noncurrent Assets	716,020,600	264,481,179
TOTAL ASSETS	\$ 993,811,543	\$ 392,288,781
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 14,258,636	\$ 8,883,623
Construction Contracts Payable	11,332,472	
Salaries and Wages Payable	6,697,265	
Deposits Payable	5,097,159	521,129
Due to Component Units/University	669,123	5,138,578
Deferred Revenue	10,964,813	231,363
Other Current Liabilities		4,092,310
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	3,179,784	
Notes Payable		819,357
Certificates of Participation Payable		315,000
Deferred Lease Revenue	533,333	
Capital Leases Payable	336,137	
Compensated Absences Payable	1,523,289	
Total Current Liabilities	54,592,011	20,001,360

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 81,955,829	\$
Bonds Payable		125,040,428
Notes Payable		825,193
Certificates of Participation Payable		9,690,000
Deferred Lease Revenue	11,466,667	
Capital Leases Payable	9,714,927	
Compensated Absences Payable	22,382,992	
Other Postemployment Benefits Payable	9,086,000	
Other Noncurrent Liabilities	1,833,748	730,695
Total Noncurrent Liabilities	136,440,163	136,286,316
TOTAL LIABILITIES	191,032,174	156,287,676
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	616,442,823	9,593,252
Restricted for Nonexpendable:		
Endowment		137,626,524
Restricted for Expendable:		
Loans	2,869,702	
Capital Projects	54,483,326	
Other	10,338,870	80,606,388
Unrestricted	118,644,648	8,174,941
TOTAL NET ASSETS	802,779,369	236,001,105
TOTAL LIABILITIES AND NET ASSETS	\$ 993,811,543	\$ 392,288,781

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, 2010

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$33,278,174	\$ 104,338,024	\$
Federal Grants and Contracts	25,368,056	
State and Local Grants and Contracts	8,356,027	3,140,382
Nongovernmental Grants and Contracts	7,410,317	64,087
Sales and Services of Educational Departments	412,087	
Sales and Services of Auxiliary Enterprises	43,368,546	
Interest on Loans and Notes Receivable	106,261	
Gifts and Donations		14,236,615
Other Operating Revenues	12,588,575	5,101,297
Total Operating Revenues	<u>201,947,893</u>	<u>22,542,381</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	244,901,258	5,539,731
Services and Supplies	82,280,902	6,352,949
Utilities and Communications	13,942,959	280,570
Scholarships, Fellowships, and Waivers	43,623,700	5,315,447
Depreciation	25,885,159	381,788
Other Operating Expenses		1,335,636
Total Operating Expenses	<u>410,633,978</u>	<u>19,206,121</u>
Operating Income (Loss)	<u>(208,686,085)</u>	<u>3,336,260</u>
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	153,255,306	
Federal and State Student Financial Aid	49,594,111	
State Appropriated American Recovery and Reinvestment Act Funds	12,155,065	
Investment Income	9,071,292	4,639,807
Other Nonoperating Revenues	6,535,521	1,749,539
Gain (Loss) on Disposal of Capital Assets	(212,865)	12,055,451
Interest on Capital Asset-Related Debt	(5,779,496)	(2,160,994)
Net Realized and Unrealized Gain on Investments		12,778,655
Loss on Impaired Assets		(2,160,300)
Net Nonoperating Revenues	<u>224,618,934</u>	<u>26,902,158</u>
Income Before Other Revenues, Expenses, Gains, or Losses	15,932,849	30,238,418
Capital Appropriations	10,570,955	
Capital Grants, Contracts, Donations, and Fees	893,354	107,616
Increase in Net Assets	<u>27,397,158</u>	<u>30,346,034</u>
Net Assets, Beginning of Year	788,788,880	205,655,071
Adjustment to Beginning Net Assets	(13,406,669)	
Net Assets, Beginning of Year, as Restated	<u>775,382,211</u>	<u>205,655,071</u>
Net Assets, End of Year	<u>\$ 802,779,369</u>	<u>\$ 236,001,105</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, 2010

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 104,113,781
Grants and Contracts	42,482,463
Sales and Services of Educational Departments	412,087
Sales and Services of Auxiliary Enterprises	40,176,695
Interest on Loans and Notes Receivable	106,261
Other Operating Receipts	19,358,854
Payments to Employees	(241,048,037)
Payments to Suppliers for Goods and Services	(94,857,565)
Payments to Students for Scholarships and Fellowships	(43,623,700)
Net Loans Issued to Students	<u>(276,617)</u>
Net Cash Used by Operating Activities	<u>(173,155,778)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	153,255,306
Federal and State Student Financial Aid	47,049,795
State Appropriated American Recovery and Reinvestment Act Funds	12,155,065
Net Change in Funds Held for Others	(612,051)
Other Nonoperating Receipts	<u>13,367,977</u>
Net Cash Provided by Noncapital Financing Activities	<u>225,216,092</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	79,250,431
Capital Grants, Contracts, Donations, and Fees	2,597,652
Capital Subsidies and Transfers	(185,869)
Proceeds from Sale of Capital Assets	2,328,595
Fees for Capital Projects	45,475
Purchase or Construction of Capital Assets	(90,370,905)
Principal Paid on Capital Debt and Leases	(4,659,047)
Interest Paid on Capital Debt and Leases	<u>(5,488,496)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(16,482,164)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(35,558,133)
Investment Income	<u>3,794,208</u>
Net Cash Used by Investing Activities	<u>(31,763,925)</u>
Net Increase in Cash and Cash Equivalents	3,814,225
Cash and Cash Equivalents, Beginning of Year	<u>1,369,316</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,183,541</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, 2010

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (208,686,085)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	25,885,159
Change in Assets and Liabilities:	
Accounts Receivable, Net	(86,611)
Inventories	(359)
Loans and Notes Receivable, Net	(228,897)
Contracts and Grants Receivable	1,348,064
Other Current Assets	(141,815)
Accounts Payable	2,821,348
Deposits Payable	1,394,625
Compensated Absences Payable	590,570
Deferred Revenue	(922,777)
Postemployment Healthcare Benefits Payable	4,871,000
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (173,155,778)</u></u>

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

Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (212,865)
Unrealized gains on investments were recognized as an increase in investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 2,137,703

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's *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 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

- The Harbor Branch Oceanographic Institution Foundation, Inc. (HBOI Foundation), a separate corporation operating independently from the University, became a provider of funding and support for the research and education in marine sciences and ocean engineering to the Harbor Branch Oceanographic Institute, a research institute within the University. The Foundation receives and administers most private support to the Institute as it increases the understanding of oceans and coastal areas through exploration and scientific investigation.
- Florida Atlantic University Finance Corporation (FAUFC) is a separate corporation operating independently from the University. It has been organized and operated to assist the activities and educational purposes of the University by providing finance and investment-related assistance in connection with the acquisition or construction of capital or other University projects, including but not limited to the structuring of debt relating thereto. Effective August 11, 2009, FAUFC became a component unit and direct-support organization 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 discretely presented component units, including copies of audit reports, is available by contacting the University's Controller's office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by 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
- Other Required Supplementary Information

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

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

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

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

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

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

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

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

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

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

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, deferred lease revenue; capital leases payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Noncurrent liabilities also consist of amounts due to the Federal government for the Federal Perkins Loan Program – Federal Capital Contributions. Capital Debt payable is reported net of unamortized premiums or discounts and deferred losses on refundings. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

2. REPORTING CHANGES

In prior fiscal years, the University reported the liability for Capital Improvement (Housing and Parking) Revenue Bonds issued by the Florida Board of Governors on behalf of the University as bonds payable on the statement of net assets. The Florida Board of Governors loaned the bond proceeds to the University for the stated capital improvement projects. Pursuant to an agreement with the Florida Board of Governors, revenues to be generated from the constructed facilities were pledged by the University to repay the bonds. Pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the liability for the Capital Improvement Revenue Bonds should be reported as collateralized borrowing. Accordingly, for the 2009-10 fiscal year, the University began reporting the outstanding liability for these bonds as capital improvement debt payable. This change affects the comparability of amounts reported as bonds payable and capital improvement debt payable on the statement of net assets for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

3. PRIOR PERIOD ADJUSTMENTS

The University's beginning net assets increased by \$20,131,558 to record a change in reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years the liability for these bonds was reported on the University's statement of net assets. It has subsequently been determined that these bonds are not debt of the University. Although proceeds from the bonds were provided to the University for capital projects, the University is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all universities and remitted in total to the Florida Department of Education.

The University's beginning net assets decreased by \$33,538,227 due to the deletion of land, buildings, and other capital assets of the University's Harbor Branch Oceanographic campus owned by the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida.

The following is a summary of adjustments to beginning net assets to reflect these reporting changes on the statement of revenues, expenses, and changes in net assets:

<u>Description</u>	<u>University</u>
To Increase Beginning Net Asset Balance for Prior Year due to Reporting Changes	\$ 20,131,558
To Decrease Beginning Net Asset Balance for Prior Year due to Transfer of Fixed Assets to the State of Florida	<u>(33,538,227)</u>
Total	<u><u>\$ (13,406,669)</u></u>

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

External Investment Pools

The University reported investments at fair value totaling \$186,422,448 at June 30, 2010, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Aa by Standard & Poor's and had an effective duration of 1.81 years at June 30, 2010. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Units Investments

The University's component units, Florida Atlantic University Research Corporation, Inc. and the Florida Atlantic University Finance Corporation, reported investments at fair value amounting to \$96,244,156 at June 30, 2010, in the SPIA as cash and cash equivalents. Investments reported by the University's component units at June 30, 2010, are those held by Florida Atlantic University Foundation, Inc. and the Harbor Branch Oceanographic Institution Foundation, Inc., and are reported at fair market value as follows:

<u>Investment Type</u>	<u>Amount</u>
United States Stocks and Bonds	\$ 47,409,441
International Stocks and Bonds	32,206,290
Fixed Income Securities	58,334,545
Other Investments	69,579,126
Subtotal	207,529,402
Funds Held in Trust by Others	2,668,552
Total Investments	<u>\$ 210,197,954</u>

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

5. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2010, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 6,071,102
Student Tuition and Fees	12,129,301
Other	<u>654,834</u>
Total Accounts Receivable, Net	<u>\$ 18,855,237</u>

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

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$5,541,254 and \$287,895, respectively, at June 30, 2010. No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

6. DUE FROM STATE

This amount consists of \$62,293,617 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction of University facilities.

7. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The \$669,123 reported as due to component units consists of amounts owed by the University to the Florida Atlantic University Foundation, Inc. (Foundation) pursuant to an agreement to support the Foundation's operations and to the Florida Atlantic University Research Corporation, Inc. The \$5,138,578 reported as due from component units consists of amounts owed to the University by the Foundation for scholarships and student aid and by the Florida Atlantic University Finance Corporation for the education, finance and investment-related activities. The Foundation received funds from the Harbor Branch Oceanographic Institution Foundation, Inc. to support the activities of the Harbor Branch Oceanographic Institute.

8. 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,

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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.

9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 32,439,234	\$	\$ 21,235,431	\$ 11,203,803
Works of Art and Historical Treasures	145,380	27,200	4,300	168,280
Construction in Progress	35,623,537	45,029,206	915,200	79,737,543
Total Nondepreciable Capital Assets	\$ 68,208,151	\$ 45,056,406	\$ 22,154,931	\$ 91,109,626
Depreciable Capital Assets:				
Buildings	\$ 605,267,762	\$ 33,128,476	\$ 25,832,635	\$ 612,563,603
Infrastructure and Other Improvements	67,062,160	5,510,316	387,900	72,184,576
Furniture and Equipment	122,574,406	11,760,039	6,340,238	127,994,207
Library Resources	70,775,415	4,658,191	2,210,851	73,222,755
Property Under Capital Leases and Leasehold Improvements	29,100,097	5,930,725	1,044,254	33,986,568
Works of Art and Historical Treasures	731,313	98,460	28,844	800,929
Computer Software	4,200,372	260,007	90,227	4,370,152
Total Depreciable Capital Assets	899,711,525	61,346,214	35,934,949	925,122,790
Less, Accumulated Depreciation:				
Buildings	143,166,195	12,976,379	12,936,031	143,206,543
Infrastructure and Other Improvements	21,196,291	1,622,138	266,863	22,551,566
Furniture and Equipment	72,076,443	7,688,174	4,654,521	75,110,096
Library Resources	55,041,681	2,497,511	573,238	56,965,954
Property Under Capital Lease and Leasehold Improvements	4,170,066	661,536	887,609	3,943,993
Works of Art and Historical Treasures	63,380	16,149		79,529
Computer Software	3,032,341	423,272	83,085	3,372,528
Total Accumulated Depreciation	298,746,397	25,885,159	19,401,347	305,230,209
Total Depreciable Capital Assets, Net	\$ 600,965,128	\$ 35,461,055	\$ 16,533,602	\$ 619,892,581

10. DEFERRED REVENUE

Deferred revenue includes student tuition and fees received prior to fiscal year-end related to subsequent accounting periods, and funds received from a ground lease that will be recognized over the duration of the lease. As of June 30, 2010, the University reported the following amounts as deferred revenue:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 7,136,476
Capital Projects	224,558
Contracts and Grants	2,954,098
Athletic	649,681
Total	<u>\$ 10,964,813</u>

11. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include capital improvement debt payable, deferred lease revenue, capital leases payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Improvement Debt Payable (1)	\$ 88,205,397	\$	\$ 3,069,784	\$ 85,135,613	\$ 3,179,784
Deferred Lease Revenue		12,000,000		12,000,000	533,333
Capital Leases Payable	10,402,123		351,059	10,051,064	336,137
Compensated Absences Payable	23,315,711	2,175,248	1,584,678	23,906,281	1,523,289
Other Postemployment Benefits Payable	4,215,000	4,871,000		9,086,000	
Other Noncurrent Liabilities	1,833,748			1,833,748	
Total Long-Term Liabilities	<u>\$ 127,971,979</u>	<u>\$ 19,046,248</u>	<u>\$ 5,005,521</u>	<u>\$ 142,012,706</u>	<u>\$ 5,572,543</u>

Note: (1) The University recorded an adjustment to beginning net assets to recognize a change in the reporting of Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds totaling \$20,131,558, which was net of unamortized deferred charges of \$1,431,601. The University also reclassified Capital Improvement (Housing and Parking) Revenue Bonds totaling \$88,205,397 from bonds payable to capital improvement debt payable. See Notes 2 and 3.

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2010:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2003 Student Housing	\$ 35,285,000	\$ 27,626,088	3.5 - 4.875	2033
2006A Student Housing	27,640,000	25,586,163	4.0 - 4.625	2036
2006B Student Housing	21,775,000	20,323,534	3.5 - 4.375	2030
Total Student Housing Debt	84,700,000	73,535,785		
Parking Facility Debt:				
2001 Parking Facility	7,990,000	5,175,000	3.75 - 4.8	2021
2002 Parking Facility	8,995,000	6,424,828	3.125 - 4.35	2023
Total Parking Facility Debt	16,985,000	11,599,828		
Total Capital Improvement Debt	\$ 101,685,000	\$ 85,135,613		

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

The University has pledged a portion of future housing rental revenues, traffic and parking fees, and various student fee assessments to repay \$85,135,613 in capital improvement (housing and parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing rental income, traffic and parking fees, and special student fee assessments and are payable through 2036. The University has committed to appropriate each year from the housing rental income, traffic and parking fees, and special student fee assessments amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$134,382,826, and principal and interest paid for the current year totaled \$7,019,973. During the 2009-10 fiscal year housing rental income, traffic and parking fees, and special student fee assessment totaled \$16,059,303, \$2,240,018, and \$2,273,454, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2010, are as follows:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,265,000	\$ 3,749,660	\$ 7,014,660
2012	3,390,000	3,633,085	7,023,085
2013	3,525,000	3,504,105	7,029,105
2014	3,660,000	3,366,989	7,026,989
2015	3,800,000	3,224,370	7,024,370
2016-2020	21,530,000	13,637,761	35,167,761
2021-2025	17,720,000	9,066,869	26,786,869
2026-2030	17,680,000	5,371,606	23,051,606
2031-2035	10,785,000	1,757,531	12,542,531
2036	1,640,000	75,850	1,715,850
Subtotal	86,995,000	47,387,826	134,382,826
Less: Net Discounts and Premiums	<u>(1,859,387)</u>		<u>(1,859,387)</u>
Total	<u>\$ 85,135,613</u>	<u>\$ 47,387,826</u>	<u>\$ 132,523,439</u>

Bonds Payable – Component Unit. The Florida Atlantic University Finance Corporation had the following bonds payable outstanding at June 30, 2010:

<u>Bonds Payable</u>	<u>Amount of Original Debt</u>	<u>Amount Outstanding (1)</u>	<u>Interest Rates (Percent)</u>	<u>Maturity Date To</u>
Series 2010A, Tax Exempt	\$ 8,475,000	\$ 9,220,428	2.18 - 3.44	2021
Series 2010A, Taxable BAB Bonds	112,455,000	112,455,000	5.48 - 6.45	2041
Series 2010B, Taxable Bonds	<u>3,365,000</u>	<u>3,365,000</u>	7.39	2036
Total Bonds Payable	<u>\$ 124,295,000</u>	<u>\$ 125,040,428</u>		

Note: (1) Amount outstanding includes unamortized premium.

Annual requirements to amortize all bonds payable outstanding as of June 30, 2010, are as follows:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$	\$ 2,884,549	\$ 2,884,549
2012		8,875,535	8,875,535
2013		8,875,534	8,875,534
2014	1,610,000	8,875,534	10,485,534
2015	2,010,000	8,809,270	10,819,270
2016-2020	13,750,000	42,158,770	55,908,770
2021-2025	16,965,000	37,569,931	54,534,931
2026-2030	21,360,000	30,937,609	52,297,609
2031-2035	27,175,000	22,142,056	49,317,056
2036-2040	33,760,000	10,826,450	44,586,450
2041	7,665,000	585,529	8,250,529
Subtotal	124,295,000	182,540,767	306,835,767
Add: Unamortized Premium	745,428		745,428
Total	<u>\$ 125,040,428</u>	<u>\$ 182,540,767</u>	<u>\$ 307,581,195</u>

Notes Payable – Component Units

Notes payable at June 30, 2010, 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	\$ 1,600,000
Notes Payable to a Bank in Quarterly Installments of \$3,793 Plus Interest at 3.15 Percent Until October 2012	32,838
Total	<u>\$ 1,632,838</u>

Future debt principal payments in the aggregate are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 810,689	\$ 60,379	\$ 871,068
2012	814,650	26,192	840,842
2013	7,499	89	7,588
Total	<u>\$ 1,632,838</u>	<u>\$ 86,660</u>	<u>\$ 1,719,498</u>

Notes payable at June 30, 2010, for the Harbor Branch Oceanographic Institution Foundation, Inc., are as follows:

<u>Description</u>	<u>Amount</u>
Notes Payable to GE Capital Bank in Monthly Installments of \$750 Principal and Interest at 3.9 Percent Until December 2011	<u>\$ 11,712</u>

Future debt principal payments in the aggregate are as follows:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 8,668	\$ 329	\$ 8,997
2012	3,044	36	3,080
Total	<u>\$ 11,712</u>	<u>\$ 365</u>	<u>\$ 12,077</u>

Deferred Lease Revenue. The University leased land to the Florida Atlantic University Finance Corporation (FAUFC) under a noncancelable agreement dated March 4, 2010, with terms extending through July 2040. The lease was prepaid in March 2010 by the FAUFC to the University for the sum of \$12,000,000, which is being amortized over the life of the agreement. The amount held by the University totaled \$12,000,000 at June 30, 2010, of which \$533,333 was reported as current.

Capital Leases Payable. Computer, communications, and image scanning equipment in the amount of \$2,380,245 is being acquired under capital lease agreements. The stated interest rate is 0.0 – 3.33 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 23,201
2012	18,394
2013	<u>7,664</u>
Total Minimum Payments	49,259
Less, Amount Representing Interest	<u>3,195</u>
Present Value of Minimum Payments	<u>\$ 46,064</u>

The University entered into a capital lease agreement in connection with Certificates of Participation issued by Florida Atlantic University Foundation, Inc., to build dormitory buildings on the John D. MacArthur campus in Jupiter, Florida. The University, in exchange for use of the buildings, makes lease payments sufficient to cover all amounts due under the Certificates of Participation. At June 30, 2010, the amount reported by the University as capital leases payable included \$10,005,000, representing the total future minimum payments remaining under the Certificates of Participation.

Certificates of Participation – Component Unit. The Florida Atlantic University Foundation, Inc., issued in 1999 and 2001, the 1999 and 2000 Certificates of Participation (the Certificates) for \$6,230,000 and \$6,300,000, respectively. These funds were used to build dormitory buildings on the John D. MacArthur campus in Jupiter, Florida. The stated interest rates on the 1999 certificates range from 3.5 to 5 percent, while interest rates on the 2000 Certificates range from 4.7 to 5.875 percent. At June 30, 2010, certificates of participation payable are as follows:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

COP Series	Amount of Issue	Total Retired	Outstanding Principal	Outstanding Interest	Interest Rates	Maturity Date
1999	\$ 6,230,000	\$ 1,480,000	\$ 4,750,000	\$ 2,561,710	4.375 - 5.0	2028
2000	6,300,000	1,045,000	5,255,000	3,706,124	5.0 - 5.875	2030
Total	\$ 12,530,000	\$ 2,525,000	\$ 10,005,000	\$ 6,267,834		

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

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2010, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$23,906,281. The current portion of the compensated absences liability of \$1,523,289 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.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 392 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,366,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,083,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 3,549,000
Amortization of Unfunded Actuarial	
Accrued Liability	2,421,000
Interest on Normal Cost and Amortization	<u>239,000</u>
Annual Required Contribution	6,209,000
Interest on Net OPEB Obligation	169,000
Adjustment to Annual Required Contribution	<u>(141,000)</u>
Annual OPEB Cost (Expense)	6,237,000
Contribution Toward the OPEB Cost	<u>(1,366,000)</u>
Increase in Net OPEB Obligation	4,871,000
Net OPEB Obligation, Beginning of Year	<u>4,215,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 9,086,000</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, July 1, 2007	\$		\$
2007-08	3,569,000	39.1%	2,173,000
2008-09	3,326,000	38.6%	4,215,000
2009-10	6,237,000	21.9%	9,086,000

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$72,617,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$72,617,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$157 million for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 46.2 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the University's 2009-10 fiscal year annual required contribution. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for the Preferred Provider Option (PPO) plan were 10.32 and 8.84 percent for the first two years followed by 7 percent in the third year, grading to 5.10 percent over 70 years. Initial healthcare cost trend rates for the Health Maintenance Organization (HMO) plan were 10 percent for the first two years, 7 percent in the third year, grading to 5.10 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 27 years.

Other Noncurrent Liabilities. The University participates in the Federal Perkins Loan Program. Under this program, the University receives Federal capital contributions which must be returned to the Federal Government if the program has excess cash or the University ceases to participate in the program. Federal capital contributions held by the University totaled \$1,833,748 at June 30, 2010.

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

12. RETIREMENT PROGRAMS

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

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

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

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
Teachers' 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 postemployment 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.

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions, including employee contributions, for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$5,312,849, \$5,845,447, and \$5,750,007, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 324 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$1,158,166.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 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 1,338 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$9,244,138 and employee contributions totaled \$4,308,919.

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

13. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2010, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
College of Engineering and Computer Science - Boca	\$ 39,492,475	\$ 31,210,355	\$ 8,282,120
FAU-UF Joint Use Facilities - Davie Campus	28,043,292	20,966,486	7,076,806
General Classroom Facility and Multi-Media Center - Boca	20,731,254	16,120,101	4,611,153
AD Henderson School Classroom Expansion	4,170,013	2,951,154	1,218,859
Research Lab II HBOI	15,054,648	1,888,649	13,165,999
Stadium Project - IVIL 13	2,351,936	1,968,408	383,528
Subtotal	109,843,618	75,105,153	34,738,465
Other Project Expenses (1)	4,632,390	4,632,390	
Total	\$ 114,476,008	\$ 79,737,543	\$ 34,738,465

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 Biomed Research and Development Park under an operating lease, which expires in 2011. In addition, the University leased various copiers under operating leases with terms of 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
2011	\$ 175,865
2012	27,195
2013	20,592
2014	25,820
Total Minimum Payments Required	\$ 249,472

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(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2009-10 fiscal year, for property losses, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual

**FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$40 million for named wind and flood through February 14, 2010, and increased to \$58.75 million starting February 15, 2010. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$100,000 per person, and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

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. 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:

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 135,714,793
Research	25,607,284
Public Services	5,722,370
Academic Support	34,905,391
Student Services	15,315,074
Institutional Support	43,840,783
Operation and Maintenance of Plant	19,713,642
Scholarships and Fellowships	41,896,321
Depreciation	25,885,159
Auxiliary Enterprises	62,033,161
Total Operating Expenses	<u>\$ 410,633,978</u>

18. SEGMENT INFORMATION

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

Condensed Statement of Net Assets

	<u>Housing</u>	<u>Traffic and Parking</u>
Assets		
Current Assets	\$ 23,904,591	\$ 8,782,972
Capital Assets, Net	85,381,834	18,236,732
Total Assets	<u>109,286,425</u>	<u>27,019,704</u>
Liabilities		
Current Liabilities	7,776,783	462,825
Noncurrent Liabilities	85,340,000	11,660,000
Total Liabilities	<u>93,116,783</u>	<u>12,122,825</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	41,834	6,576,732
Unrestricted	16,127,808	8,320,147
Total Net Assets	<u>\$ 16,169,642</u>	<u>\$ 14,896,879</u>

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

	Housing	Traffic and Parking
Operating Revenues	\$ 16,228,094	\$ 5,544,154
Depreciation Expense	(2,206,077)	(458,672)
Other Operating Expenses	(6,856,399)	(2,233,142)
Operating Income	7,165,618	2,852,340
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	1,167,728	355,882
Interest Expense	(3,998,065)	(509,510)
Other Nonoperating Expense	(519,281)	(314,123)
Net Nonoperating Expenses	(3,349,618)	(467,751)
Increase in Net Assets	3,816,000	2,384,589
Net Assets, Beginning of Year	12,353,642	12,512,290
Net Assets, End of Year	\$ 16,169,642	\$ 14,896,879

Condensed Statement of Cash Flows

	Housing	Traffic and Parking
Net Cash Provided (Used) by:		
Operating Activities	\$ 16,905,639	\$ 3,544,037
Noncapital Financing Activities	(519,281)	(314,123)
Capital and Related Financing Activities	(7,170,948)	(2,603,661)
Investing Activities	(13,055,246)	(463,707)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,839,836)	162,546
Cash and Cash Equivalents, Beginning of Year	7,150,169	1,675,092
Cash and Cash Equivalents, End of Year	\$ 3,310,333	\$ 1,837,638

19. COMPONENT UNITS

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

FLORIDA ATLANTIC UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

	Direct-Support Organizations				Total
	Florida Atlantic University Foundation, Inc	Florida Atlantic University Research Corporation, Inc.	Florida Atlantic University HBOI Foundation, Inc.	Florida Atlantic University Finance Corporation	
Condensed Statement of Net Assets					
Assets:					
Current Assets	\$ 21,973,052	\$ 584,047	\$ 8,617,319	\$ 96,633,184	\$ 127,807,602
Capital Assets, Net	9,322,764	4,077	4,099,103	25,521,137	38,947,081
Other Noncurrent Assets	168,775,283		42,979,805	13,779,010	225,534,098
Total Assets	200,071,099	588,124	55,696,227	135,933,331	392,288,781
Liabilities:					
Current Liabilities	7,553,990	263,445	565,206	11,618,719	20,001,360
Noncurrent Liabilities	10,926,284		319,604	125,040,428	136,286,316
Total Liabilities	18,480,274	263,445	884,810	136,659,147	156,287,676
Net Assets:					
Invested in Capital Assets, Net of Related Debt	9,322,764	4,077	4,087,391	(3,820,980)	9,593,252
Restricted	168,886,343		49,346,569		218,232,912
Unrestricted	3,381,718	320,602	1,377,457	3,095,164	8,174,941
Total Net Assets	\$ 181,590,825	\$ 324,679	\$ 54,811,417	\$ (725,816)	\$ 236,001,105
Condensed Statement of Revenues, Expenses, and Changes in Net Assets					
Operating Revenues	\$ 7,580,309	\$ 249,554	\$ 14,712,518	\$	\$ 22,542,381
Operating Expenses	(11,433,453)	(224,746)	(7,397,178)	(150,744)	(19,206,121)
Operating Income (Loss)	(3,853,144)	24,808	7,315,340	(150,744)	3,336,260
Net Nonoperating Revenues (Expenses)	13,638,960	32,006	13,806,264	(575,072)	26,902,158
Other Revenues, Expenses, Gains, and Losses	107,616				107,616
Increase (Decrease) in Net Assets	9,893,432	56,814	21,121,604	(725,816)	30,346,034
Net Assets, Beginning of Year	171,697,393	267,865	33,689,813		205,655,071
Net Assets, End of Year	\$ 181,590,825	\$ 324,679	\$ 54,811,417	\$ (725,816)	\$ 236,001,105

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

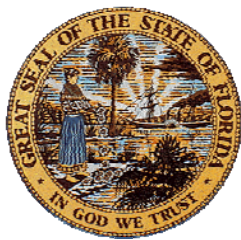
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 48,429,000	\$ 48,429,000	0%	\$ 159,400,000	30.4%
7/1/2009	\$	\$ 72,617,000	\$ 72,617,000	0%	\$ 157,000,000	46.2%

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

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



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

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

We have audited the financial statements of 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, 2010, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting

that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, 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*.

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

Respectfully submitted,



David W. Martin, CPA
March 2, 2011