REPORT NO. 2014-160
MARCH 2014

FLORIDA INTERNATIONAL UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2013

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

Notes: (1) Faculty Senate Chair.
(2) 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 Michael K. Hollinger, and the audit was supervised by Ramon A. Gonzalez, 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) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

Our audit objectives were to determine whether Florida International 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, 2013. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2014-060.

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.

AUDITOR GENERAL

STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
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DAVID W. MARTIN, CPA
AUDITOR GENERAL

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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

Report on the Financial Statements

We have audited the accompanying financial statements of Florida International 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 International University and of its aggregate discretely presented component units as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of Florida International 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* in considering Florida International University's internal control over financial reporting and compliance.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 17, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2013, 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. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2013, and June 30, 2012. **(STD Language)**

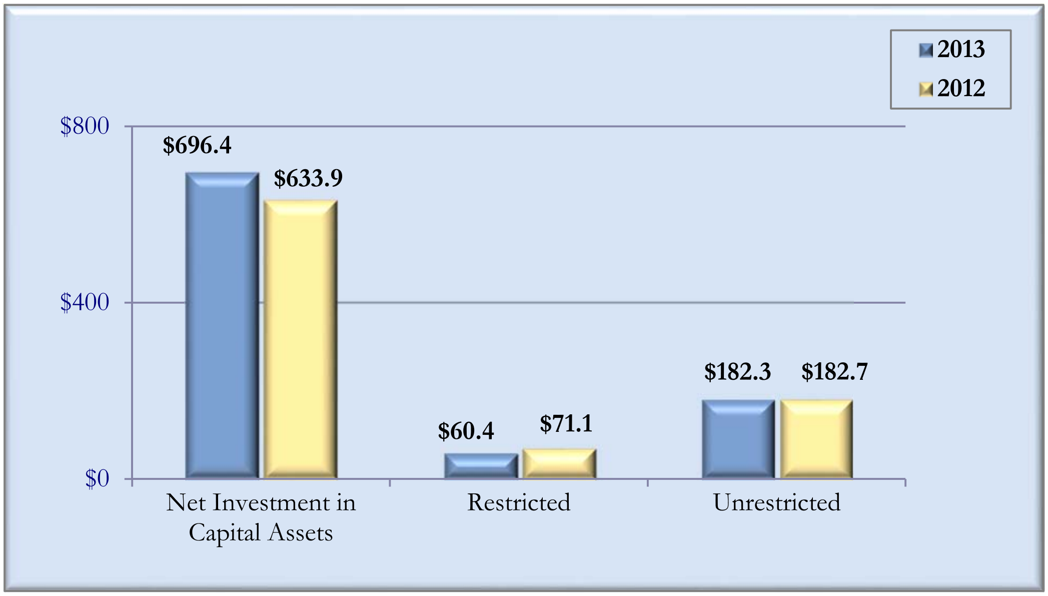
FINANCIAL HIGHLIGHTS

The University's assets totaled $1.3 billion at June 30, 2013. This balance reflects a $6.8 million, or 0.5 percent, increase as compared to the 2011-12 fiscal year. Contributing to the increase during the 2012-13 fiscal year was the $76.7 million in additions to depreciable capital asset and $66.4 million in net additions to construction in progress for several major construction projects. These increases were offset by a decrease of $55.4 million due from the State for prior year capital appropriations that were approved for disbursement during the 2012-13 fiscal year, and $38.3 million in prior year bond proceeds that were currently used for a major construction project, as well as $39.6 million in current depreciation expense. While assets increased, liabilities decreased by $44.6 million, or 12.3 percent, totaling $319.0 million at June 30, 2013, as compared to $363.6 million at June 30, 2012. This decrease was due to the current recognition of revenue, on previously reported unearned revenue, for encumbrances on construction projects that were approved by the State during the 2012-13 fiscal year. As a result, the University's net position increased by $51.4 million, resulting in a year-end balance of $939.1 million.

The University's operating revenues totaled $462.5 million for the 2012-13 fiscal year, representing a $43.5 million, or 10.4 percent, increase over the 2011-12 fiscal year. Major components of operating revenues are student tuition and fees, auxiliary enterprise revenues, and grants and contracts. Net tuition and fees increased $53.1 million. Sales and services of auxiliary enterprises decreased $15.4 million. Grants and contract revenue increased $3.1 million. Explanations for these three changes are provided on pages 8 and 9. Operating expenses totaled $773 million for the 2012-13 fiscal year, representing an increase of $34.9 million, or 4.7 percent, over the 2011-12 fiscal year due mainly to an increase in compensation and employee benefits of $34 million.

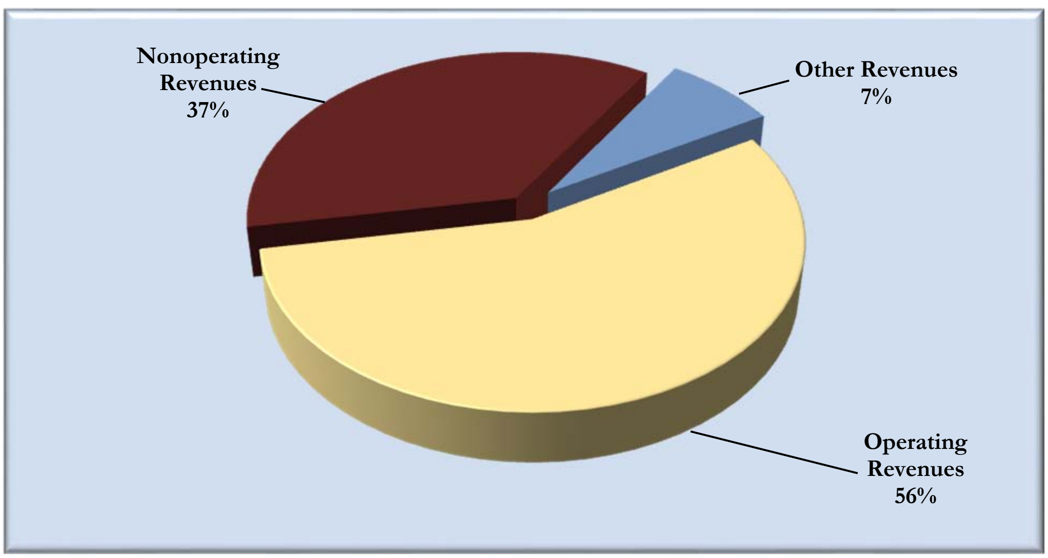
Net position represents the residual interest in the University's assets after deducting liabilities. The University's comparative total net position by category for the fiscal years ended June 30, 2013, and June 30, 2012, is shown in the following graph:

Net Position
(In Millions)



The following chart provides a graphical presentation of University revenues by category for the 2012-13 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its discretely presented component units as follows:

- Florida International University Foundation, Inc. (Foundation).
- Florida International University Research Foundation, Inc. (Research Foundation).
- FIU Athletics Finance Corporation (Finance Corporation).

- Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network).

Based upon the application of the criteria for determining component units, the Foundation, Research Foundation, Finance Corporation, and Health Care Network are included within the University reporting entity as discretely presented component units. Information regarding the discretely presented 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 discretely presented component units. For those discretely presented component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

During the 2012-13 fiscal year, University management determined that the Florida International University College of Medicine Self-Insurance Program (Program) was no longer reportable as a blended component unit, as in previous years. However, the Program became part of the University and the financial activities were reported as a part of the University for the 2012-13 fiscal year.

THE STATEMENT OF NET POSITION

The statement of net position 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 position that occurs over time indicate improvement or deterioration in the University's financial condition.

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

Condensed Statement of Net Position at June 30
(In Millions)

	2013	2012
Assets		
Current Assets	$ 365.4	$ 416.5
Capital Assets, Net	852.9	751.4
Other Noncurrent Assets	39.8	83.4
Total Assets	1,258.1	1,251.3
Liabilities		
Current Liabilities	75.8	102.8
Noncurrent Liabilities	243.2	260.8
Total Liabilities	319.0	363.6
Net Position		
Net Investment in Capital Assets	696.4	633.9
Restricted	60.4	71.1
Unrestricted	182.3	182.7
Total Net Position	$ 939.1	$ 887.7

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

The statement of revenues, expenses, and changes in net position 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 2012-13 and 2011-12 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years
(In Millions)

	2012-13	2011-12
Operating Revenues	$ 462.5	$ 419.0
Less, Operating Expenses	773.0	738.1
Operating Loss	(310.5)	(319.1)
Net Nonoperating Revenues	298.4	291.2
Loss Before Other Revenues, Expenses, Gains, or Losses	(12.1)	(27.9)
Other Revenues	63.5	39.0
Net Increase In Net Position	51.4	11.1
Net Position, Beginning of Year	887.7	876.6
Net Position, End of Year	$ 939.1	$ 887.7

Operating Revenues

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

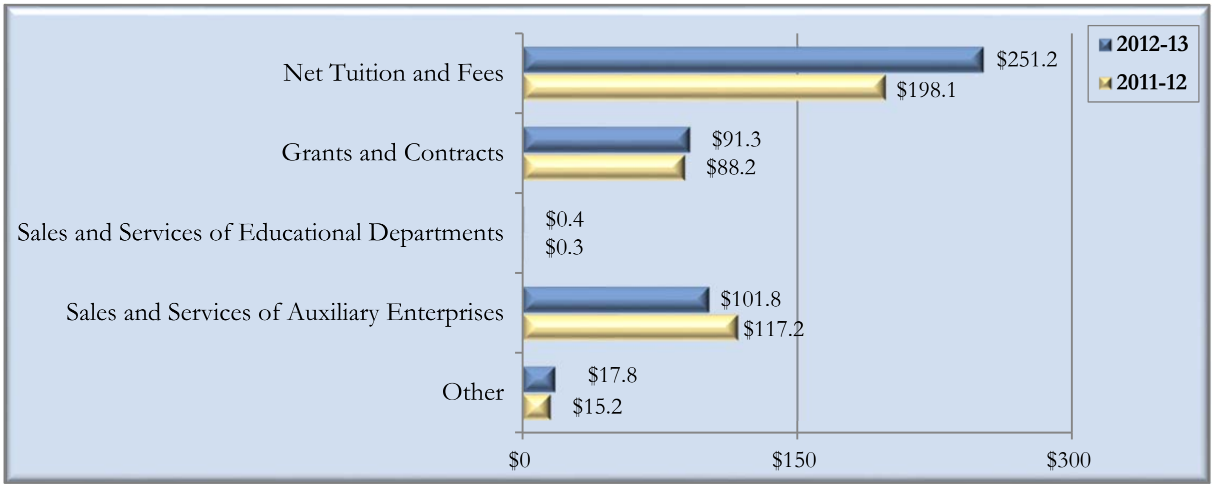
The following summarizes the operating revenues by source that were used to fund operating activities for the 2012-13 and 2011-12 fiscal years:

Operating Revenues
(In Millions)

	2012-13	2011-12
Net Tuition and Fees	$ 251.2	$ 198.1
Grants and Contracts	91.3	88.2
Sales and Services of Educational Departments	0.4	0.3
Sales and Services of Auxiliary Enterprises	101.8	117.2
Other	17.8	15.2
Total Operating Revenues	$ 462.5	$ 419.0

The following chart presents the University's operating revenues for the 2012-13 and 2011-12 fiscal years:

Operating Revenues
(In Millions)



University operating revenue changes were the result of the following factors:

- Student tuition and fees increased $53.1 million. There was a $28 million increase primarily due to an increase in tuition and fees of 15 percent and an increase in student enrollment of 2.5 percent. In addition, market rate continuing education revenue also increased in the current year for expanded and new programs, the latter of which generated $25.1 million in revenues. In prior years, these programs were included in sales and services of auxiliary enterprises.
- Grants and contracts revenue increased $3.1 million primarily due to higher Federal and private funding for global water access and sanitation programs.
- Sales and services of auxiliary enterprises decreased $15.4 million. An increase of approximately $9.7 million was due to higher fees for non-market rate continuing education programs and higher distance learning fees due to increased enrollment in fully online courses. Additionally, other fees and revenue driven by higher student enrollment such as parking access fees, housing fees, and commissions on retail spaces also contributed to the increase. This increase was offset by a decrease of $25.1 million due to revenues from market rate continuing education programs now reported as student tuition and fees.
- Other operating revenue increased $2.6 million primarily due to revenue generated from new affiliation agreements with local healthcare providers entered into by the College of Medicine in the current year.

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 position and has displayed the functional classification in the notes to financial statements.

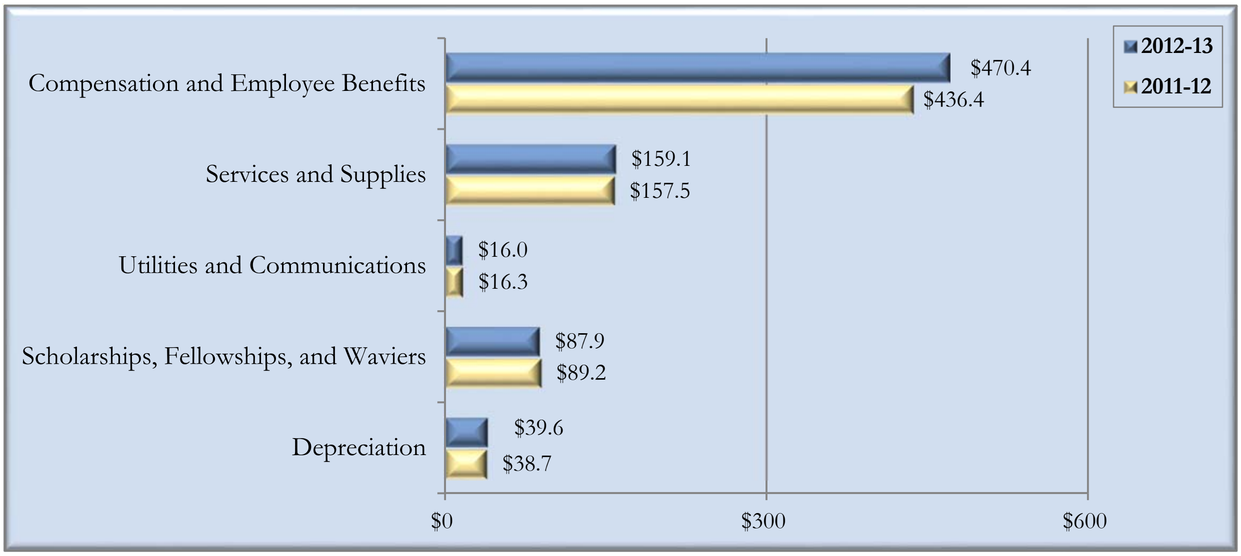
The following summarizes the operating expenses by natural classifications for the 2012-13 and 2011-12 fiscal years:

Operating Expenses
For the Fiscal Years
(In Millions)

	2012-13	2011-12
Compensation and Employee Benefits	$ 470.4	$ 436.4
Services and Supplies	159.1	157.5
Utilities and Communications	16.0	16.3
Scholarships, Fellowships, and Waivers	87.9	89.2
Depreciation	39.6	38.7
Total Operating Expenses	$ 773.0	$ 738.1

The following chart presents the University's operating expenses for the 2012-13 and 2011-12 fiscal years:

Operating Expenses
(In Millions)



Changes in operating expenses were primarily the result of the following factors:

- Compensation and employee benefits increased $34 million. This increase was primarily due to an increase in the number of employees, a 2% across the board salary increase, and an increase in healthcare insurance costs borne by the University.
- Services and supplies increased $1.6 million. The increase is primarily related to increases in other operating expenses of $8.5 million for higher rent costs for building and facilities space, an increase in expenses for furniture and equipment costing less than $5,000, and bad debt expense. This increase was offset by a decrease in contractual services of $6.9 million.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State Student financial aid, 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 2012-13 and 2011-12 fiscal years:

Nonoperating Revenues (Expenses)
(In Millions)

	2012-13	2011-12
State Noncapital Appropriations	$ 173.8	$ 195.0
Federal and State Student Financial Aid	107.9	112.4
Investment Income	13.3	9.0
Other Nonoperating Revenues	10.5	9.5
Gain (Loss) on Disposal of Capital Assets	0.2	(0.5)
Interest on Capital Asset-Related Debt	(7.1)	(6.1)
Other Nonoperating Expenses	(0.2)	(28.1)
Net Nonoperating Revenues	$ 298.4	$ 291.2

Net nonoperating revenues increased by $7.2 million, or 2.5 percent, from the prior fiscal year due mainly to the following factors:

- There was a decrease of $21.2 million in State noncapital appropriations and a decrease of $4.5 million in Federal and State student financial aid. The decreases were partially offset by an increase of $4.3 million in investment income and an increase in other nonoperating revenue of $1 million.
- Other nonoperating expenses decreased $27.9 million primarily due to the inclusion in the prior fiscal year of a nonrecurring, noncash item totaling $28 million, for capital assets removed from the accounting records due to a change in capitalization threshold.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
State Capital Appropriations	$ 59.4	$ 34.3
Capital Grants, Contracts, Donations, and Fees	4.1	4.7
Total	$ 63.5	$ 39.0

Other revenues, expenses, gains, or losses totaled $63.5 million for the 2012-13 fiscal year. The increase of $24.5 million represents a 62.8 percent increase compared to the 2011-12 fiscal year and was due to a $25.1 million increase in State capital appropriations earned from authorized encumbrances for current construction projects, offset by a $0.6 million decrease in capital donations.

THE STATEMENT OF CASH FLOWS

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

The following summarizes cash flows for the 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows
(In Millions)

	2012-13	2011-12
Cash Provided (Used) by:		
Operating Activities	$ (249.9)	$ (272.1)
Noncapital Financing Activities	276.2	315.5
Capital and Related Financing Activities	(82.7)	3.5
Investing Activities	65.1	(53.7)
Net Increase (Decrease) in Cash and Cash Equivalents	8.7	(6.8)
Cash and Cash Equivalents, Beginning of Year	3.2	10.0
Cash and Cash Equivalents, End of Year	$ 11.9	$ 3.2

Major sources of funds came from State noncapital appropriations ($173.8 million), Federal direct student loan program receipts ($254.9 million), net student tuition and fees ($252.2 million), grants and contracts ($91.2 million), sales and services of auxiliary enterprises ($102.3 million), proceeds from sales and maturities of investments ($893.7 million), State capital appropriations ($103.1 million), and Federal and State student financial aid ($107.9 million). Major uses of funds were for payments made to and on behalf of employees ($457.7 million); payments to suppliers ($172.1 million), disbursements to students for Federal direct student loan program disbursements ($259.4 million), purchases of capital assets ($173.8 million), purchases of investments ($836.5 million), and payments to and on behalf of students for scholarships ($87.9 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the University had $1.3 billion in capital assets, less accumulated depreciation of $409.6 million, for net capital assets of $852.9 million. Depreciation charges for the current fiscal year totaled $39.6 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Millions)

	2013	2012
Land	$ 28.4	$ 31.0
Construction in Progress	146.2	79.8
Buildings	591.7	552.9
Infrastructure and Other Improvements	4.5	4.1
Furniture and Equipment	34.2	33.6
Library Resources	42.6	45.7
Property Under Capital Leases and Leasehold Improvements	0.6	0.5
Works of Art and Historical Treasures	4.0	3.0
Computer Software	0.7	0.8
Capital Assets, Net	$ 852.9	$ 751.4

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, 2013, were incurred on the following projects: $49.5 million for Parkview Housing, $14.9 million for the Robert Stempel Public Health and Social Science Building, and $9.5 million for the Science Classroom Complex. The University's major construction commitments at June 30, 2013, are as follows:

	Amount (In Millions)
Total Committed	$ 270.5
Completed to Date	(146.2)
Balance Committed	$ 124.3

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

DEBT ADMINISTRATION

As of June 30, 2013, the University had $158.7 million in outstanding capital improvement debt payable representing a decrease of $7.1 million, or 4.3 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30, 2013, and June 30, 2012:

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

	2013	2012
Capital Improvement Debt	$ 158.7	$ 165.8
Capital Leases		0.3
Total	$ 158.7	$ 166.1

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The slow and steady economic improvement continued into the 2012-13 fiscal year and is a welcome trend in light of numerous national and global fiscal hurdles. Florida's economy was significantly impacted during the economic downturn and the recovery process has been lengthy. The limited available resources from the State hastened a change in the funding model, shifting to a greater reliance on tuition and heightened funding expectations from the governing board of the State University System (SUS). This was evidenced by the absence of legislative-based and differential tuition increases for the 2013-14 academic year. Base tuition rose by 1.7 percent due to statutory language that provides for an increase equal to the change in the consumer price index in the absence of any legislatively-approved increase. Additionally, performance-based funding is now reality and the Board of Governors is tasked with distributing $20 million allocated by the legislature to the SUS. We expect future economic gains will be tied to performance-based funding. In other positive results from the 2013 legislative session, the prior fiscal year non-recurring reduction of $300 million to the SUS was fully restored for the 2013-14 fiscal year; FIU's portion was $24.3 million.

The FIU Herbert Wertheim College of Medicine (HWCOM) received full accreditation from the Liaison Committee on Medical Education (LCME) in February 2013, and held its first commencement for 33 students from its 2009 inaugural class. State appropriations for the HWCOM increased by $3.2 million for the 2013-14 fiscal year, of which $0.7 million was for the medical school implementation, $1.8 million was for legislative budget requests (LBRs) on specific projects and programs, and $0.7 million was for health and retirement benefits. Total State appropriations for the HWCOM reached $30.1 million for the 2013-14 fiscal year.

Local, State, national, and global economic factors will continue to influence the resources available to the State. The economy is slowly recovering, but it is still too early to determine if the predictable and stable funding methods of the past will materialize and continue in the future. The SUS and FIU need to prepare for alternative funding strategies in order to participate in future allocations from the State and continue to provide educational opportunities to qualified students. The predominant theme for the upcoming years is one that requires maximizing resources through effective planning while focusing on student success. As the legislature and the Board of Governors place more emphasis on performance-based funding, FIU will strategically implement changes in order to excel or improve on the forthcoming performance measures while continuing to deliver Worlds Ahead programs.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary information, the financial statements and notes thereto, or requests for additional financial information should be addressed to the Chief Financial Officer and Senior Vice President for Finance and Administration, Dr. Kenneth Jessell, at Florida International University, 1120 Southwest 8th Street, Miami, Florida 33199.

BASIC FINANCIAL STATEMENTS

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION
June 30, 2013

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 11,601,314	$ 11,529,128
Investments	262,774,892	195,505,802
Accounts Receivable, Net	31,204,797	69,774,604
Loans and Notes Receivable, Net	1,070,472	
Due from State	56,271,906	
Due from Component Units/University	984,217	252,963
Inventories	250,098	
Other Current Assets	1,288,153	2,272,949
Total Current Assets	365,445,849	279,335,446
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	280,647	2,017,600
Restricted Investments	28,504,339	2,828,859
Loans and Notes Receivable, Net	2,050,460	
Depreciable Capital Assets, Net	674,311,582	16,138,328
Nondepreciable Capital Assets	178,565,951	2,500
Due from Component Units/University	6,915,807	
Other Noncurrent Assets	2,043,075	25,699,779
Total Noncurrent Assets	892,671,861	46,687,066
Total Assets	1,258,117,710	326,022,512
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives		2,156,186
LIABILITIES		
Current Liabilities:		
Accounts Payable	14,374,582	886,822
Construction Contracts Payable	20,249,357	
Salaries and Wages Payable	4,923,703	
Deposits Payable	3,229,086	
Due to State	304,381	
Due to Component Units/University	252,963	984,217
Unearned Revenue	21,320,583	1,693,187
Other Current Liabilities	214,904	205,235
Long-Term Liabilities - Current Portion:		
Bonds Payable		656,479
Capital Improvement Debt Payable	8,465,350	
Notes Payable		720,000
Compensated Absences Payable	2,416,751	
Liability for Self-Insured Claims	44,681	
Total Current Liabilities	75,796,341	5,145,940

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$	$ 31,753,843
Capital Improvement Debt Payable	150,217,974	
Notes Payable		6,920,000
Compensated Absences Payable	31,756,761	
Due to Component Units/University		6,915,807
Other Postemployment Benefits Payable	26,197,000	
Unearned Revenue	32,592,946	719,360
Liability for Self-Insured Claims	31,049	
Other Long-Term Liabilities	2,431,463	5,196,457
Total Noncurrent Liabilities	243,227,193	51,505,467
Total Liabilities	319,023,534	56,651,407
NET POSITION		
Net Investment in Capital Assets	696,348,935	6,153,447
Restricted for Nonexpendable:		
Endowment		194,151,119
Restricted for Expendable:		
Debt Service	2,868,839	
Loans	487,003	
Capital Projects	15,278,667	
Other	41,794,111	53,898,662
Unrestricted	182,316,621	17,324,063
TOTAL NET POSITION	$ 939,094,176	$271,527,291

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

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $96,797,580	$ 251,226,703	$
Federal Grants and Contracts	73,691,576	
State and Local Grants and Contracts	6,528,178	
Nongovernmental Grants and Contracts	11,053,453	
Sales and Services of Educational Departments	438,946	
Sales and Services of Auxiliary Enterprises	101,809,515	
Sales and Services of Component Units		2,578,877
Gifts and Donations		35,492,206
Interest on Loans and Notes Receivable	43,279	
Other Operating Revenues	17,716,973	7,175,108
Total Operating Revenues	462,508,623	45,246,191
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	470,438,146	
Services and Supplies	159,132,639	17,791,929
Utilities and Communications	15,977,665	157,165
Scholarships, Fellowships, and Waivers	87,936,402	
Depreciation	39,586,091	665,505
Other Operating Expenses		6,911,738
Total Operating Expenses	773,070,943	25,526,337
Operating Income (Loss)	(310,562,320)	19,719,854
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	173,819,413	
Federal and State Student Financial Aid	107,919,392	
Investment Income	13,314,091	21,617,493
Other Nonoperating Revenues	10,557,659	
Gain on Disposal of Capital Assets	180,464	
Interest on Capital Asset-Related Debt	(7,110,940)	(1,484,745)
Other Nonoperating Expenses	(240,477)	
Net Nonoperating Revenues	298,439,602	20,132,748
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(12,122,718)	39,852,602
State Capital Appropriations	59,413,278	
Capital Grants, Contracts, Donations, and Fees	4,122,866	
Other Expenses		(860,408)
Increase in Net Position	51,413,426	38,992,194
Net Position, Beginning of Year	887,680,750	232,535,097
Net Position, End of Year	$ 939,094,176	$ 271,527,291

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

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 252,152,779
Grants and Contracts	91,204,225
Sales and Services of Educational Departments	438,945
Sales and Services of Auxiliary Enterprises	102,269,028
Interest on Loans and Notes Receivable	41,240
Payments to Employees	(457,676,316)
Payments to Suppliers for Goods and Services	(172,134,326)
Payments to Students for Scholarships and Fellowships	(87,936,402)
Loans Issued to Students	(5,302,849)
Collection on Loans to Students	5,070,326
Other Operating Receipts	21,960,983
Net Cash Used by Operating Activities	(249,912,367)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	173,819,413
Federal and State Student Financial Aid	107,929,024
Federal Direct Loan Program Receipts	254,931,125
Federal Direct Loan Program Disbursements	(259,368,913)
Operating Subsidies and Transfers	(593,394)
Net Change in Funds Held for Others	(12,970,841)
Other Nonoperating Receipts	12,490,983
Net Cash Provided by Noncapital Financing Activities	276,237,397
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	103,108,162
Capital Grants, Contracts, Donations, and Fees	2,720,871
Proceeds from Sale of Capital Assets	76,472
Other Disbursements for Capital Projects	(105,795)
Capital Subsidies and Transfers	(233,162)
Purchase or Construction of Capital Assets	(173,761,025)
Principal Paid on Capital Debt and Leases	(7,085,726)
Interest Paid on Capital Debt and Leases	(7,468,558)
Net Cash Used by Capital and Related Financing Activities	(82,748,761)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	893,677,378
Purchase of Investments	(836,480,829)
Investment Income	7,926,560
Net Cash Provided by Investing Activities	65,123,109
Net Increase in Cash and Cash Equivalents	8,699,378
Cash and Cash Equivalents, Beginning of Year	3,182,583
Cash and Cash Equivalents, End of Year	$ 11,881,961

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2013

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (310,562,320)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	39,586,091
Change in Assets and Liabilities:	
Receivables, Net	2,084,471
Inventories	240,427
Other Assets	(468,571)
Accounts Payable	3,108,794
Salaries and Wages Payable	4,923,703
Deposits Payable	2,708,133
Compensated Absences Payable	826,126
Unearned Revenue	765,847
Liability for Self-Insured Claims	(137,068)
Other Postemployment Benefits Payable	7,012,000
NET CASH USED BY OPERATING ACTIVITIES	$ (249,912,367)

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 5,513,893
Gains from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	$ 180,464

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

**FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Florida International University College of Medicine Self-Insurance Program (Program) was created June 18, 2009, by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes, and provides professional and general liability protection for faculty, medical residents, and students of the College of Medicine. During the 2012-13 fiscal year, University management determined that the Program no longer qualified to be reported as a blended component unit. However, the Program became part of the University and the financial activities were reported as a part of the University for the 2012-13 fiscal year

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 to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. 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 International University Foundation, Inc. (Foundation), – The purpose of the Foundation is to encourage, solicit, receive, and administer gifts and bequests of property and funds for the advancement of the University and its objectives.

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- Florida International University Research Foundation, Inc. (Research Foundation), – The purpose of the Research Foundation includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of the University through income from contracts, grants, and other sources, including, but not limited to, income derived from or related to the development and commercialization of University work products.
- FIU Athletics Finance Corporation (Finance Corporation) – The purpose of the Finance Corporation includes the support to the University in matters pertaining to the financing of the University's football stadium and, subsequently, the management and operation of the facility.
- The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network), – The purpose of the Health Care Network is to improve and support health education at the University.

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

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

- Management's Discussion and Analysis
- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - 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, deferred outflows of resources, and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues,

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

expenses, gains, losses, assets, deferred outflows of resources, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

The University's discretely presented component units use the economic resources measurement focus and accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting except for the Foundation, which follows FASB standards of accounting and financial reporting for not-for-profit organizations.

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

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

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

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal 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.

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Concentration of Credit Risk – Component Units

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents in banks, investments, and promises to give.

In addition to insurance provided by the Federal Depository Insurance Corporation (FDIC), the Foundation, the Finance Corporation, the Health Care Network, and the Research Foundation deposits, with the exception of the Research Foundation's deposits held in Tanzania and Burkina Faso in West Africa, are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution, eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits, with the exception noted above, are insured or collateralized with securities held by the entity or its agent in the entity's name.

Financial instruments that potentially subject the Finance Corporation to concentration of credit risk consist principally of cash in banks and investments.

In February 2012, the Research Foundation opened a bank account in Burkina Faso in West Africa to support the operations pertaining to the West Africa Water Supply, Sanitation and Hygiene (WA-WASH) Program under a U.S. Agency for International Development (USAID) grant. The balance in this account of $151,794 as of June 30, 2013, is not FDIC-insured and is subject to foreign exchange risk. The Research Foundation maintains its cash balances with high quality financial institutions, which the Research Foundation believes limits these risks.

Capital Assets. University capital assets consist of land; works of art and historical treasures; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; property under capital leases and leasehold improvements; and computer software. 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 $250 for library resources, $5,000 for tangible personal property, and $50,000 for new buildings, leasehold improvements, and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 15 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 5 years
- Leasehold Improvements – Various based on lease terms
- Computer Software – 5 years

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Depreciable assets of the Foundation are stated at cost and are net of accumulated depreciation of $3,783,007. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Depreciable assets of the Health Care Network are stated at cost and are net of accumulated depreciation of $350,361. Depreciation is provided using the straight-line method over the estimated useful lives from 5 to 15 years for the assets.

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, compensated absences payable, other postemployment benefits payable, unearned revenue, liability for self-insured claims, and other long-term liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Although there were no issuance costs paid from debt proceeds, it is the University's policy to report such costs as deferred charges and amortize them over the life of the debt using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality 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.

The University's investments at June 30, 2013, are reported at fair value, as follows:

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Investment Type	Amount
External Investment Pools:	
State Treasury Special Purpose Investment Account	$ 44,717,864
SBA Florida PRIME	5,063
SBA Fund B Surplus Funds Trust Fund	4,232
SBA Debt Service Accounts	2,858,984
Mutual Funds:	
Limited Partnerships	24,062,197
Equities	82,912,153
Fixed Income and Bond Mutual Funds	94,003,352
Commodities	22,575,955
Money Market Funds	20,139,431
Total University Investments	$ 291,279,231

External Investment Pools

State Treasury Special Purpose Investment Account

The University reported investments at fair value totaling $44,717,864 at June 30, 2013, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. 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.

State Board of Administration Florida PRIME

At June 30, 2013, the University reported investments totaling $5,063 in the Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The University's investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, at June 30, 2013, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 40 days as of June 30, 2013. A portfolio's WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

State Board of Administration Fund B Surplus Funds Trust Fund

The Fund B Surplus Funds Trust Fund (Fund B) is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, and is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B on

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

December 4, 2007. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2013, the University reported investments at fair value of $4,232 in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2013. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

State Board of Administration Debt Service Accounts

The University reported investments totaling $2,858,984 at June 30, 2013, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Fixed Income and Bond Mutual Funds

The University invested in various mutual funds in accordance with the University's investment policy. The following risks apply to the University's fixed income and bond mutual fund investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(6), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due. The future maturities of the securities held in the fixed income and bond mutual funds at June 30, 2013, are as follows:

University Debt Investment Maturities

Type of Investment	Investment Maturities (In Years)				
	Fair Market Value	Less Than 1	1-5	6-10	More Than 10
Fixed Income Mutual Fund	$ 54,525,162	$ 2,617,209	$ 24,814,401	$ 19,443,672	$ 7,649,880
TIPS Index Fund	19,835,377	11,124	7,208,278	7,271,735	5,344,240
High Yield Bond Mutual Fund	19,642,813	1,231,629	9,329,329	8,105,713	976,142
Total	$ 94,003,352	$ 3,859,962	$ 41,352,008	$ 34,821,120	$ 13,970,262

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the securities held in the fixed income and bond mutual funds had credit quality ratings by a nationally-recognized agency (i.e., Standard & Poor's or Moody's), as follows:

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

University Debt Investment Credit Quality Ratings

Type of Investment	Fair Value	AAA / Aaa	AA / Aa	A	BBB / Baa to Not Rated
Fixed Income					
Mutual Fund	$ 54,525,162	$ 32,191,656	$ 1,897,476	$ 8,042,461	$ 12,393,569
TIPS Index Fund	19,835,377	19,830,211			5,166
High Yield Bond					
Mutual Fund	19,642,813	2,121			19,640,692
Total	$ 94,003,352	$ 52,023,988	$ 1,897,476	$ 8,042,461	$ 32,039,427

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the University's investment in a single issuer. The University's investment policy addresses the issue of concentration of credit risk by establishing the following restrictions:

- Maximum position in an individual security (excluding government securities) must not exceed 5 percent of the account market value.
- Maximum position in any one issuer (excluding government securities) must not exceed 5 percent of the account market value.

Component Units Investments

The Foundation's investments at June 30, 2013, are reported at fair value as follows:

Investment Type	Amount
Domestic Common Stocks and Equity Funds	$ 101,862,656
Fixed Income Securities and Funds	42,438,084
Hedge Funds and Interest in Private Equity	
Partnerships and Limited Liability Companies	40,216,998
International Equity Securities	10,175,762
Subtotal	194,693,500
Plus Accrued Income	272,597
Total	$ 194,966,097

Concentration of Credit Risk: The Foundation maintains certain investment accounts with financial institutions that are not insured by the FDIC. These funds may be subject to insurance by Securities Investor Protection Corporation, subject to various limitations. The Foundation believes that the number, diversity, and financial strength of the issuers mitigates the credit risks associated with all investments.

The Finance Corporation investments are made in accordance with the trust indenture dated April 1, 2007. The investments at June 30, 2013, are reported at fair value, as follows:

FLORIDA INTERNATIONAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Investment Type	Amount
External Investment Pools:	
Florida State Board of Administration:	
Fund B	$ 370,324
Money Market Funds	2,998,240
Total	$ 3,368,564

Concentration of Credit Risk: The Finance Corporation maintains investment accounts with financial institutions that are not insured by the FDIC. Fund shares are not guaranteed by the United States Government. Current and future portfolio holdings are subject to risk. At June 30, 2013, $3,368,564 was held in these accounts. The Finance Corporation believes that the number, diversity, and financial strength of the issuers mitigate the credit risks associated with all investments.

At June 30, 2013, the Finance Corporation reported investments in a Federated Government Obligations Fund at fair value of $2,998,240. This is a money market mutual fund seeking to provide current income consistent with stability of principal by investing in a portfolio of short-term, U.S. Treasury and Government securities. The Fund prices of fixed-income securities generally fall when interest rates rise. Interest rate changes have a greater effect on the price of fixed-income securities with longer maturities. The money market mutual fund WAM at June 30, 2013, is 53 days while the WAL is 88 days. The Fund is rated AAAm by Standard & Poor's, Aaa-mf by Moody's, and AAAmmf by Fitch. The Fund complies with the requirements of SEC Rule 2a7, which sets forth portfolio quality and diversification restrictions for money market mutual funds.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable.

As of June 30, 2013, the University reported the following amounts as accounts receivable:

Description	Amount
Student Tuition and Fees	$ 23,061,708
Contracts and Grants	8,076,571
Other	66,518
Total Accounts Receivable	$ 31,204,797

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

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Student tuition and fees receivable, contracts and grants receivable, other

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receivables, and loans and notes receivable, are reported net of allowances of $20,802,645, $668,721, $508,036, and $1,402,626, respectively, at June 30, 2013.

4. DUE FROM STATE

This amount consists of $56,271,906 of Public Education Capital Outlay funds due from the State for the construction of University facilities.

5. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net position.
- 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 comprised of telephone, information technology, and pharmaceutical supplies, and items maintained at the University's duplicating service center. Merchandise inventories are reported on the statement of net position, and are valued at cost using the first-in, first-out method.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 30,989,550	$	$ 2,600,000	$ 28,389,550
Works of Art and Historical Treasures	2,985,469	1,008,960	32,390	3,962,039
Construction in Progress	79,787,982	125,218,286	58,791,906	146,214,362
Total Nondepreciable Capital Assets	$ 113,763,001	$ 126,227,246	$ 61,424,296	$ 178,565,951
Depreciable Capital Assets:				
Buildings	$ 784,021,283	$ 60,540,307	$	$ 844,561,590
Infrastructure and Other Improvements	17,091,809	828,709	1,097	17,919,421
Furniture and Equipment	109,123,146	9,290,272	4,943,175	113,470,243
Library Resources	104,280,221	5,382,444	4,451,225	105,211,440
Property Under Capital Leases and Leasehold Improvements	637,652	414,077	299,160	752,569
Computer Software	1,826,295	253,939	41,649	2,038,585
Total Depreciable Capital Assets	1,016,980,406	76,709,748	9,736,306	1,083,953,848
Less, Accumulated Depreciation:				
Buildings	231,149,485	21,668,922		252,818,407
Infrastructure and Other Improvements	13,021,821	433,369	1,097	13,454,093
Furniture and Equipment	75,460,356	8,505,112	4,666,643	79,298,825
Library Resources	58,545,720	8,539,445	4,451,225	62,633,940
Property Under Capital Leases and Leasehold Improvements	145,109	97,837	119,537	123,409
Computer Software	996,985	341,406	24,799	1,313,592
Total Accumulated Depreciation	379,319,476	39,586,091	9,263,301	409,642,266
Total Depreciable Capital Assets, Net	$ 637,660,930	$ 37,123,657	$ 473,005	$ 674,311,582

7. UNEARNED REVENUE

Unearned revenue includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2013, to spend the funds. Unearned revenue also includes prepaid stadium rental income received from the Finance Corporation, contracts and grants payments received in advance, nonrefundable admission fees, student housing fees, athletic revenues, and conference center fees received prior to fiscal year-end related to subsequent accounting periods.

As of June 30, 2013, the University reported the following amounts as unearned revenue:

Description	Amount
Capital Appropriations	$ 13,233,268
Contracts and Grants	4,014,432
Admission Fees	1,753,445
Stadium Rental Income	1,304,083
Student Housing Fees	852,970
Athletic Revenues	85,919
Conference Center Fees	76,466
Total Unearned Revenue	$ 21,320,583

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8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2013, include capital improvement debt payable, compensated absences payable, other postemployment benefits payable, liability for self-insured claims, the long-term portion of unearned revenue, and other long-term liabilities.

Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	$ 165,830,943	$	$ 7,147,619	$ 158,683,324	$ 8,465,350
Capital Leases Payable	295,726		295,726		
Compensated Absences Payable	33,347,386	3,325,965	2,499,839	34,173,512	2,416,751
Other Postemployment Benefits Payables	19,185,000	8,614,000	1,602,000	26,197,000	
Unearned Revenue (1)	49,239,496	8,917,235	25,563,785	32,592,946	
Liability for Self-Insured Claims	212,798		137,068	75,730	44,681
Other Long-Term Liabilities (1)	2,498,645		67,182	2,431,463	
Total Long-Term Liabilities	$ 270,609,994	$ 20,857,200	$ 37,313,219	$ 254,153,975	$ 10,926,782

Note: (1) Unearned Revenue was reported as part of Other Long-Term Liabilities totaling $51,738,141 at June 30, 2012.

__Capital Improvement Debt Payable__. The University had the following capital improvement debt payable outstanding at June 30, 2013:

Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2004A Student Apartments	$ 53,915,000	$ 35,638,285	4.00 - 5.00	2034
2011 Student Apartments Refunding	22,210,000	21,774,527	3.00 - 5.00	2025
2012 Student Apartments	53,655,000	54,167,259	3.00 - 4.25	2041
Total Student Housing Debt	129,780,000	111,580,071		
Parking Garage Debt:				
1995 Parking Garage	7,780,000	1,753,330	5.375	2016
1999 Parking Garage	7,530,000	3,145,785	5.40 - 5.625	2019
2002 Parking Garage	22,915,000	12,588,664	3.75 - 4.60	2022
2009 Parking Garage A&B	32,000,000	29,615,474	2.25 - 6.875	2039
Total Parking Garage Debt	70,225,000	47,103,253		
Total Capital Improvement Debt	$ 200,005,000	$ 158,683,324		

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

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The University has pledged a portion of future housing rental revenues, traffic and parking fees, and an assessed transportation fee per student to repay $200,005,000 of 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, parking fees, and assessed transportation fees per student and are payable through 2041. The University has committed to appropriate each year from the housing rental income, parking fees, and assessed transportation fees per student amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is $250,324,612, and principal and interest paid for the current year totaled $14,246,451. During the 2012-13 fiscal year, housing rental income, traffic and parking fees, and assessed transportation fees totaled $25,976,149, $5,285,491, and $9,105,488, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	$ 8,095,000	$ 7,180,382	$ 15,275,382
2015	8,430,000	6,855,999	15,285,999
2016	8,780,000	6,487,368	15,267,368
2017	6,430,000	6,097,542	12,527,542
2018	6,695,000	5,819,127	12,514,127
2019-2023	33,450,000	24,603,160	58,053,160
2024-2028	29,330,000	17,980,209	47,310,209
2029-2033	24,980,000	11,657,575	36,637,575
2034-2038	21,365,000	5,546,163	26,911,163
2039-2041	9,735,000	807,087	10,542,087
Subtotal	157,290,000	93,034,612	250,324,612
Plus: Net Bond Discounts, Premiums, and Losses on Bond Refundings	1,393,324		1,393,324
Total	$ 158,683,324	$ 93,034,612	$ 251,717,936

<u>Compensated Absences Payable</u>. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2013, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $34,173,512. The current portion of the compensated absences liability, $2,416,751, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to the total accrued leave liability.

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

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer, defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for 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 provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2012-13 fiscal year, 369 retirees received postemployment healthcare benefits. The University provided required contributions of $1,602,000 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 $2,335,000, which represents 0.8 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the University's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

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Description	Amount
Normal Cost (Service Cost for One Year)	$ 4,770,000
Amortization of Unfunded Actuarial Accrued Liability	3,415,000
Interest on Normal Cost and Amortization	327,000
Annual Required Contribution	8,512,000
Interest on Net OPEB Obligation	767,000
Adjustment to Annual Required Contribution	(665,000)
Annual OPEB Cost (Expense)	8,614,000
Contribution Toward the OPEB Cost	(1,602,000)
Increase in Net OPEB Obligation	7,012,000
Net OPEB Obligation, Beginning of Year	19,185,000
Net OPEB Obligation, End of Year	$ 26,197,000

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010-11	$ 5,222,000	26.4%	$ 12,082,000
2011-12	8,561,000	17.0%	19,185,000
2012-13	8,614,000	18.6%	26,197,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $101,015,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $101,015,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $305,657,917 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 33 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

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employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the University's 2012-13 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 8.29, 9.16, and 8.13 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 10.43, 4.92, and 8.80 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.50 percent in the fourth year, grading identically to 5 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was 24 years.

Other Long-Term Liabilities. Primarily represent the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This Federal advance payable amount will ultimately be returned to the Federal Government should the University cease making Federal Perkins Loans or has excess cash in the loan program.

9. COMPONENT UNITS DEBT ISSUES

Notes Payable – Florida International University Foundation, Inc.

On January 20, 2000, the Miami-Dade County Educational Facilities Authority (the Authority) issued $13 million tax-exempt revenue bonds (Florida International University Foundation Project – Series 1999). These bonds are payable from and secured by a pledge of payments to be made to the Authority under a loan agreement dated December 1, 1999, between the Foundation and the Authority.

The bonds are secured by an irrevocable letter of credit issued by a commercial bank as described below. The Foundation will finance the payments to the Authority under the loan agreement with lease payments received from the University under an operating lease (see note 14). The $13 million original principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The variable rate on fifty percent of the original issue, $6.5 million, has been synthetically fixed at 4.63 percent through February 1, 2015, by way of an interest rate swap agreement with a commercial bank (see note 10). The bond proceeds were used to acquire, construct, and equip a multi-function support complex located on the Modesto A. Maidique campus and to pay issuance costs. As of June 30, 2013, the outstanding principal balance due under this note payable was $7.54 million. For the year ended June 30, 2013, total interest incurred and paid was $324,453.

On December 1, 1999, the Foundation entered into a letter of credit agreement with a commercial bank that permitted the Foundation to borrow up to $13 million through December 15, 2004, bearing interest at the prime

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rate plus 2 percent. On November 29, 2004, this agreement was extended, with the same terms and conditions, through December 15, 2009. There were two additional extensions subsequent to that date through July 30, 2010. The Foundation must pay an annual commitment fee of 0.45 percent on the unused portion of the commitment. Borrowings under the financing agreement mature 90 days after the date of the borrowing.

Under the letter of credit agreement and loan agreement noted above, the Foundation is obligated under certain debt covenants with which they are in compliance.

The bonds were repurchased by the Trustee under a commercial bank letter of credit due to the diminishing ability to remarket the variable rate demand bonds in the public marketplace. On July 30, 2010, the bank converted the variable rate demand bonds into a five year tax exempt qualified loan. After the initial five year period, the bank would have the right to require the Foundation to refinance the bank qualified loan or could agree to extend the maturity date for an additional five year period. The Foundation agrees to pay interest at a rate of 67 percent of the one-month London Interbank Offered Rate (LIBOR) plus 1.68 percent. As of June 30, 2013, the interest rate was 1.80 percent. The bond maturity date of May 1, 2022, remains unchanged as does the swap agreement. On July 30, 2010, the Foundation paid $52,213 in refinancing fees to complete this transaction. Since the terms remained substantially the same and the present value of the cash outflows is not substantially different, this is not considered an exchange of debt instruments.

The aggregate maturities of the notes payable, as of June 30, 2013, are shown in the following table:

Fiscal Year Ending June 30	Amount
2014	$ 720,000
2015	755,000
2016	745,000
2017	785,000
2018	825,000
Thereafter	3,810,000
Total	$ 7,640,000

Notes Payable – The Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.

On June 1, 2009, the Health Care Network entered into a loan agreement totaling $100,000 with the University in order to fund startup costs associated with the operations. This agreement was amended on January 25, 2010, reducing the total principal payment due to $51,100. The loan matured on May 31, 2013, and was paid in full prior to June 30, 2013.

On August 27, 2010, the Health Care Network entered into a loan agreement totaling $5,321,198 with the University in order to provide working capital and build out capital to fund the expansion of the faculty practice plan and the establishment of the ambulatory care center and other University clinical activities. Interest on the loan accrues at 2 percent simple interest and the loan is scheduled to mature on June 1, 2030. Drawdowns on the loan for the fiscal year ended June 30, 2013, totaled $4,915,807 and relate principally to expenses paid directly by the University on behalf of Health Care Network. The loan also includes approximately $104,000 of accrued

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interest as of June 30, 2013. Payments on the loan are scheduled to begin on June 1, 2015, at which time drawdowns on the loan will be completed and a final amortization schedule will be available.

Estimated principal and interest payments for the life of the amounts due to the University based on the balances as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	$	$ 98,316	$ 98,316
2015		98,316	98,316
2016		98,316	98,316
2017		98,316	98,316
2018	334,857	98,316	433,173
2019-2023	1,777,460	388,404	2,165,864
2024-2028	1,962,459	203,405	2,165,864
2029-2030	841,031	25,314	866,345
Total	$ 4,915,807	$ 1,108,703	$ 6,024,510

Bonds Payable – FIU Athletics Finance Corporation

On December 1, 2009, the Finance Corporation issued $30,000,000 of Miami-Dade County Industrial Development Authority Revenue Bonds Series 2009A and $5,310,000 of Miami-Dade County Industrial Development Authority Taxable Revenue Bonds Series 2009B.

These bonds were issued and secured under and pursuant to the Trust Indenture. Repayments of the bonds will be payable from pledged revenues, which are all operating and nonoperating revenues. Principal payments for the bonds began March 1, 2010. Interest payments are made on a quarterly basis. The interest rate on the Series 2009A bonds is equal to the sum of 63.7 percent of the three-month LIBOR plus 1.90 percent. The interest rate on the Series 2009B bonds shall be at a rate equal to the three-month LIBOR plus 2.65 percent. The total proceeds from the new bond issues were used solely to retire and refund the outstanding Series 2007A and Series 2007B bonds and pay costs of issuance of the bonds and other refinancing costs. The bonds are secured by operating and nonoperating revenues as well as University athletic fees, not to exceed 5 percent of the total athletic fees collected. Total principal due at June 30, 2013, was $32,748,923.

The Finance Corporation has funded a debt service reserve fund in accordance with the bond indenture requirement of maintaining an amount equal to the maximum allowable debt service on the bond in the current and any future fiscal year. This debt service reserve fund currently totals $2,828,860 and is included in restricted investments.

The Finance Corporation is required to maintain minimum deposits of $2,000,000 with a commercial bank. The deposit is to be held in an interest-bearing additional reserve fund and is included in restricted cash.

The interest rate on these bonds is both fixed and variable and is subject to a swap agreement (see note 10) that was entered into to reduce the exposure to market risks from changing interest rates. Interest is computed on the basis of the actual number of days elapsed over a year of 365 or 366 days.

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The aggregate maturities of these bonds as of June 30, 2013, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2014	$ 656,479	$ 1,677,592	$ 2,334,071
2015	676,567	1,719,051	2,395,618
2016	697,270	1,684,647	2,381,917
2017	1,090,035	1,649,191	2,739,226
2018	1,300,000	1,592,684	2,892,684
2019-2023	7,442,857	6,849,539	14,292,396
2024-2028	9,285,714	4,659,023	13,944,737
2029-2033	11,600,001	1,925,965	13,525,966
Subtotal	32,748,923	21,757,692	54,506,615
Less: Amount Deferred on Refunding	(338,601)		(338,601)
Total	$ 32,410,322	$ 21,757,692	$ 54,168,014

10. DERIVATIVE FINANCIAL INSTRUMENTS – COMPONENT UNITS

The Foundation and the Finance Corporation entered into derivative instruments (i.e., interest rate swap agreements) to reduce their exposure to market risks from changing interest rates. For interest rate swap agreements, the differential to be paid or received is accrued and recognized as interest expense and may change as market interest rates change. These interest rate swap agreements, and a related Letter of Credit agreement entered into by the Finance Corporation, are discussed below.

Florida International University Foundation, Inc.

On February 1, 2000, the Foundation entered into an interest rate swap agreement with a commercial bank on a notional amount of $6,500,000 which represents 50 percent of the principal amount of the bond issue, as described in note 9. Under the original interest rate swap agreement, the Foundation agreed to pay a fixed rate of 5.03 percent per annum and receive variable rates based on 67 percent of the one-month U.S. Dollar London Interbank Offered Rate (LIBOR). Effective October 1, 2005, the Foundation renegotiated the interest rate swap agreement reducing the interest rate swap to 4.63 percent per annum. The renegotiated interest rate swap agreement expires on February 1, 2015. The derivative liability, included with reported other long-term liabilities at June 30, 2013, was $264,027.

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FIU Athletics Finance Corporation

Objectives. As a means to lower its borrowing costs and increase its savings, the Finance Corporation entered into an interest rate swap agreement in connection with its $30,000,000 2009A Miami-Dade County Industrial Development Authority Revenue Bond issuance. The intention of the interest rate swap agreement was to effectively change the Finance Corporation's variable interest rate on the bonds to a synthetic fixed rate of 5.50 percent, which is the fixed rate payable by the Finance Corporation under the interest rate swap agreement of 3.60 percent plus 1.90 percent.

Terms. On December 22, 2009, the Finance Corporation entered into an interest rate swap agreement to hedge the floating rate on $21,000,000 of the principal amount of the 2009A bonds. This represents the fixed portion of the tax exempt bonds payable mentioned above. Under the interest rate swap agreement, the Finance Corporation agrees to pay a fixed rate of 3.60 percent and receive a variable rate equal to 63.7 percent of the three-month LIBOR. The interest rate swap agreement has a maturity date of March 1, 2033.

Fair Value. As of June 30, 2013, the Finance Corporation interest rate swap agreement has a derivative liability of $4,068,875 as included with reported other long-term liabilities in the statement of net position. The negative fair value was determined using Mark-to-Market Value and represents the closing mid-market values.

As of June 30, 2013, the fair value of the Series 2007A ineffective interest rate swap agreement was $1,912,689, which is included with reported other long-term liabilities. This interest rate swap agreement was not terminated when the bonds were refunded in December 2009. The interest rate on the refunding Series 2009 bonds reflects a higher rate due to not terminating this interest rate swap agreement. Accordingly, the fair value of $1,912,689 of the ineffective Series 2007A interest rate swap agreement is being amortized over the remaining life of the refunding Series 2009A bonds.

The synthetic instrument method evaluates the effectiveness of a potential hedging derivative instrument by quantitative approach. The synthetic instrument method evaluates effectiveness by combining the hedgeable item and the potential hedging derivative instrument to simulate a third synthetic instrument. A potential hedging derivative instrument is effective if its total variable cash flows substantially offset the variable cash flows of the hedgeable item. The Finance Corporation determined that it met the criteria of the synthetic instrument method. Therefore, the change in the fair value of the effective interest rate swap agreement is presented in the component units column of the statement of net position as a deferred outflows of resources in the amount of $2,156,186.

Credit Risk. As of June 30, 2013, the Finance Corporation was not exposed to credit risk because the interest rate swap agreement had a negative fair value. However, should interest rates change and the fair value of the interest rate swap agreement become positive, the Finance Corporation would be exposed to credit risk in the amount of the derivative's fair value. The interest rate swap agreement counterparty was rated Baa3 by Moody's Investors Service, BBB by Standard and Poor's and BBB- by Fitch.

Basis Risk. Basis risk arises when different indexes are used in connection with a derivative. Given that both the bond and the interest rate swap agreement are based on 63.7 percent of the three-month LIBOR rate, there is limited basis risk.

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Termination Risk. The derivative contract uses the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes an "additional termination event". That is, the interest rate swap agreement may be terminated if: (i) the loan or other indebtedness in connection with which a transaction entered into by the Finance Corporation for the purpose or with the effect of altering the net combined payment from a floating to fixed or a fixed to floating rate basis is repaid, whether upon acceleration of principal, at maturity, or otherwise, or for any other reason ceases to be an obligation of the Finance Corporation, with or without the consent of the counterparty; or (ii) any credit support document expires, terminates, or ceases to be of full force and effect. Also, the interest rate swap agreement may be terminated or assigned by the Finance Corporation if the counterparty's long-term, senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below at least two of the following: a) "Baa3" as determined by Moody's; or b) "BBB-" as determined by Standard and Poor's; or c) "BBB-" as determined by Fitch.

Swap Payments and Associated Debt. Using rates as of June 30, 2013, debt service requirements of the variable-rate portion of the debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

Fiscal Year Ending	Variable-Rate Bond		Interest Rate	
June 30	Principal	Interest	Swap, Net	Total
2014	$	$ 399,368	$ 755,632	$ 1,155,000
2015		399,368	755,632	1,155,000
2016		399,368	755,632	1,155,000
2017	260,000	399,368	755,632	1,415,000
2018	910,000	394,424	746,276	2,050,700
2019-2023	5,210,000	1,696,270	3,209,456	10,115,726
2024-2028	6,500,000	1,153,794	2,183,056	9,836,850
2029-2033	8,120,000	476,959	902,440	9,499,399
Total	$ 21,000,000	$ 5,318,919	$ 10,063,756	$ 36,382,675

Note: As rates vary, variable-rate bond interest payments and net swap payments will vary.

11. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS Investment Plan (Investment Plan).

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

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

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

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2012-13 fiscal year were as follows:

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Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Florida Retirement System, Special Risk	3.00	14.90
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
Florida Retirement System, Reemployed Retiree	(B)	(B)

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, totaled $9,998,061, $7,113,640, and $7,771,995, respectively, which were equal to the required contributions for each fiscal year.

There were 531 University participants in the Investment Plan during the 2012-13 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled $1,856,423, which was equal to the required contribution for the 2012-13 fiscal year.

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

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in FRS for eight 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, 5.64 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by

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

There were 2,153 University participants during the 2012-13 fiscal year. The University's contributions to the Program totaled $10,449,163 and employee contributions totaled $9,088,117 for the 2012-13 fiscal year.

12. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2013, are as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
Mixed-use Auxiliary Building	$ 35,703,112	$ 3,155,434	$ 32,547,678
Student Academic Support Center	18,460,254	441,023	18,019,231
Robert Stempel College of Public Health and Social Science	29,863,143	14,932,165	14,930,978
International Hurricane Center	15,000,000	2,083,147	12,916,853
FIU Ambulatory Care Center	10,015,500	81,248	9,934,252
Utilities/Infrastructure/Capital Renewal	15,527,674	7,816,504	7,711,170
Science Classroom Complex	15,454,059	9,589,852	5,864,207
Parkview Housing	52,805,661	49,538,887	3,266,774
Subtotal	192,829,403	87,638,260	105,191,143
Projects with Balance Committed Under $3 Million	77,725,005	58,576,102	19,148,903
Total	$ 270,554,408	$ 146,214,362	$ 124,340,046

13. OPERATING LEASE COMMITMENTS

The University leased building space under operating leases, which expire in 2027. These leased assets and the related commitments are not reported on the University's statement of net position. 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
2014	$ 4,472,450
2015	3,490,886
2016	3,576,352
2017	3,689,818
2018	3,830,285
2019-2023	15,503,343
2024-2027	1,155,000
Total Minimum Payments Required	$ 35,718,134

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14. OPERATING LEASE COMMITMENTS – RELATED PARTY TRANSACTIONS

Florida International University Foundation, Inc.

On December 1, 1999, the former Board of Regents of the State University System of the State of Florida for and on behalf of the University entered into a ground lease agreement with the Foundation. Under this agreement, the Foundation leases from the University the grounds on which a multi-function support complex facility was built on the Modesto A. Maidique campus. The consideration required to be paid by the Foundation is $10 annually. The ground lease will expire on December 31, 2024, or on the date the Foundation makes its final payment under a letter of credit agreement related to the financing of the facility. Total amounts paid to the Foundation under this agreement were $1,405,552 and $1,327,862 for the years ended June 30, 2013, and June 30, 2012, respectively.

On December 1, 1999, the former Board of Regents on behalf of the University also entered into a 20-year operating lease agreement with the Foundation for the facility. Under the terms of the operating lease, the University will pay the Foundation rent in the amount equal to all amounts due and payable by the Foundation under the letter of credit agreement, if any, and loan agreement related to the financing of the facility. The payments also include any costs of operating and maintaining the facility, in addition to amounts necessary to pay any unanticipated and extraordinary costs. The lease commenced during August 2002 when the facility became operational. The lease will terminate on May 1, 2022, which is the date of maturity of the loan agreement.

The facility under the above operating lease is not recorded as an asset on the statement of net position; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred.

The following schedule by years presents management's best estimate of future minimum rental payments for this noncancelable operating lease as of June 30, 2013:

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Fiscal Year Ending June 30	Amount
2014	$ 1,363,000
2015	1,363,000
2016	1,363,000
2017	1,363,000
2018	1,418,000
Thereafter	5,672,000
Total Minimum Payments Required	$ 12,542,000

FIU Athletics Finance Corporation

The University and the Finance Corporation entered into two 25-year ground sublease agreements dated April 1, 2007, rendering the rights to the Finance Corporation to issue a series of capital improvement bonds of which a portion of the proceeds, along with contributions from the University, was used to finance a stadium improvement project located on University premises. Under this agreement, the Finance Corporation prepaid to the University, for rental of the premises, the sum of $31,937,211.

The following schedule by years represents management's best estimate of future minimum rental expense that will be recognized for these sublease agreements:

Fiscal Year Ending June 30	Amount
2014	$ 1,304,083
2015	1,304,083
2016	1,304,083
2017	1,304,083
2018	1,304,083
2019-2023	6,520,416
2024-2028	6,520,416
2029-2033	6,411,742
Total	$ 25,972,989

15. GIFT AGREEMENT - FLORIDA INTERNATIONAL UNIVERSITY FOUNDATION, INC.

The Wolfsonian, Inc. (Wolfsonian), was established in 1986 to create and operate a museum and research center in Miami Beach, Florida, and to support a comprehensive program focused on the collection, exhibition, interpretation, preservation, research and publication of the decorative, or design and architectural arts. The Wolfsonian has been loaned the Mitchell Wolfson, Jr., collection of nearly 27,000 objects of art and rare books dating from the late nineteenth to the mid-twentieth century. It encompasses furniture, sculpture, paintings, books, graphics and other works of art on paper, as well as archives relating to the period. Through a series of academic study and fellowship programs, national and international traveling exhibitions, and scholarly initiatives, the Wolfsonian promotes public education and awareness of the social, historical, technological, political, economic, and artistic material culture of Europe and America in the 1885-1945 period.

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On July 1, 1997, the Foundation entered into a gift agreement (Agreement) with Mitchell Wolfson, Jr., the Wolfsonian, and the University, whereby Mitchell Wolfson, Jr., agreed to donate all rights, title, and interest in and to all objects constituting the Mitchell Wolfson, Jr., Collection of Decorative and Propaganda Arts to the Foundation, subject to a loan agreement made and entered into by the Wolfsonian and Mr. Wolfson, Jr., dated July 29, 1991. The loan agreement was extended through to July 2021.

The Foundation has elected to exercise the option of not capitalizing the items that meet the definition of "collection" as prescribed by accounting principles generally accepted in the United States. Therefore, the fair value of the donated Collection of Decorative and Propaganda Arts is not reflected in the University's financial statements. Purchases of collection items are recorded as decreases in unrestricted net position in the year in which the items are acquired, or as temporarily or permanently restricted net position if the assets used to purchase the items are restricted by donors. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net position classes.

As a result of the Agreement, the Wolfsonian amended its articles of incorporation and bylaws to provide that all its directors be appointed and removed at any time with or without cause by the Foundation, to effect a transfer of complete control of all of the assets, interest, and obligations of the Wolfsonian to the Foundation. On May 26, 1999, the Foundation passed a revision to the bylaws of the Wolfsonian to make the Foundation the sole voting member of the Wolfsonian.

The gifts are conditional upon the provisions outlined in the Agreement including, but not limited to, the Foundation continuing the museum and educational activities and operations that were conducted by the Wolfsonian. As a result of the Agreement, the University and Foundation have assumed all administrative functions and operating costs of the Wolfsonian.

The most significant of the obligations under the Agreement is for the University to provide the Wolfsonian with the same financial support from its general budget, as provided to other departments, and to continue the museum and educational activities and operations of the Wolfsonian. The University provided support of approximately $1.4 million during the 2012-13 fiscal year for Wolfsonian expenses which included salaries, equipment, administrative expenses, insurance premiums for the art collection, and building security. In addition, the University provided support of approximately $339,000 during the 2012-13 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

16. 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 2012-13 fiscal year, for property losses, the State retained the first $2 million per occurrence for all perils except named windstorm and flood. The State retained the first $2 million per occurrence with an annual aggregate retention of $40 million for named windstorm and flood losses. After the

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

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

University Self-Insurance Program. The Florida International University College of Medicine Self-Insurance Program was established pursuant to Section 1004.24, Florida Statutes, on June 18, 2009. The Self-Insurance Program provides professional and general liability protection for the Florida International University Board of Trustees for claims and actions arising from the clinical activities of the College of Medicine faculty, staff, and resident physicians. Liability protection is afforded to the students of the College. The Self-Insurance Program provides legislative claims bill protection.

The University is protected for losses that are subject to Section 768.28, Florida Statutes, to the extent of the waiver of sovereign immunity as described in Section 768.28(5), Florida Statutes. The Self-Insurance Program also provides: $1,000,000 per legislative claims bills inclusive of payments made pursuant to Section 768.28, Florida Statutes; $300,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; $300,000 per claim protection for participants who engage in approved community service and act as Good Samaritans; and student protections of $100,000 for a claim arising from an occurrence for any one person, $300,000 for all claims arising from an occurrence and professional liability required by a hospital or other health care facility for educational purposes not to exceed the per occurrence limit of $1,000,000.

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The Self-Insurance Program's estimated liability for unpaid claims at fiscal year-end is the result of management and actuarial analysis and includes an amount for claims that have been incurred but not reported.

Changes in the balances of claims liability for the Self-Insurance Program during the 2010-11, 2011-12, and 2012-13 fiscal years are presented in the following table:

Fiscal Year Ended	Claims Liabilities Beginning of Year	Current Claims and Changes in Estimates	Claim Payments	Claims Liabilities End of Year
June 30, 2011	$ 75,259	$ 182,510	$ (14,003)	$ 243,766
June 30, 2012	243,766	55,785	(86,753)	212,798
June 30, 2013	212,798	(137,068)		75,730

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 position are presented by natural classifications.

The following are those same expenses presented in functional classifications as recommended by NACUBO:

Functional Classification	Amount
Instruction	$ 246,370,580
Research	84,343,898
Public Services	9,469,939
Academic Support	90,679,481
Student Services	53,686,798
Institutional Support	55,698,496
Operation and Maintenance of Plant	50,961,204
Scholarships, Fellowships, and Waivers	87,936,402
Depreciation	39,586,091
Auxiliary Enterprises	54,338,054
Total Operating Expenses	$ 773,070,943

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

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following financial information for the University's Housing and Parking facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Position

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Assets		
Current Assets	$ 21,730,087	$ 11,137,683
Capital Assets, Net	130,520,384	70,437,029
Other Noncurrent Assets	7,469,397	3,424,938
Total Assets	159,719,868	84,999,650
Liabilities		
Current Liabilities	13,764,643	3,527,579
Noncurrent Liabilities	106,220,911	44,343,698
Total Liabilities	119,985,554	47,871,277
Net Position		
Net Investment in Capital Assets	13,444,242	23,927,984
Restricted - Expendable	2,346,632	2,869,456
Unrestricted	23,943,440	10,330,933
Total Net Position	$ 39,734,314	$ 37,128,373

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Operating Revenues	$ 25,976,149	$ 14,391,068
Depreciation Expense	(2,818,898)	(2,059,735)
Other Operating Expenses	(16,656,970)	(7,495,888)
Operating Income	6,500,281	4,835,445
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	449,066	56,163
Interest Expense	(4,308,432)	(2,790,401)
Other Nonoperating Expenses	(79,239)	(32,411)
Net Nonoperating Expenses	(3,938,605)	(2,766,649)
Income Before Transfers	2,561,676	2,068,796
Net Transfers	(372,086)	340,768
Capital Grants		614,372
Increase in Net Position	2,189,590	3,023,936
Net Position, Beginning of Year	37,544,724	34,104,437
Net Position, End of Year	$ 39,734,314	$ 37,128,373

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Condensed Statement of Cash Flows

	Housing Facility Capital Improvement Debt	Parking Facility Capital Improvement Debt
Net Cash Provided (Used) by:		
Operating Activities	$ 10,604,842	$ 7,102,520
Capital and Related Financing Activities	(51,236,694)	(5,277,895)
Investing Activities	41,892,468	(1,590,207)
Net Increase in Cash and Cash Equivalents	1,260,616	234,418
Cash and Cash Equivalents, Beginning of Year	657,464	251,359
Cash and Cash Equivalents, End of Year	$ 1,918,080	$ 485,777

19. DISCRETELY PRESENTED COMPONENT UNITS

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

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

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Condensed Statement of Net Position

	Direct-Support Organizations				Total
	Florida International University Foundation, Inc.	Florida International University Research Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.	
Assets:					
Current Assets	$ 274,466,370	$ 536,203	$ 2,985,295	$ 1,347,578	$ 279,335,446
Capital Assets, Net	14,824,262			1,316,566	16,140,828
Other Noncurrent Assets	110,120		30,436,118		30,546,238
Total Assets	289,400,752	536,203	33,421,413	2,664,144	326,022,512
Deferred Outflows of Resources			2,156,186		2,156,186
Liabilities:					
Current Liabilities	3,233,062	309,468	1,339,931	263,479	5,145,940
Noncurrent Liabilities	8,047,582		38,542,078	4,915,807	51,505,467
Total Liabilities	11,280,644	309,468	39,882,009	5,179,286	56,651,407
Net Position:					
Net Investment in Capital Assets	6,153,447				6,153,447
Restricted Nonexpendable	194,151,119				194,151,119
Restricted Expendable	53,898,662				53,898,662
Unrestricted	23,916,880	226,735	(4,304,410)	(2,515,142)	17,324,063
Total Net Position	$ 278,120,108	$ 226,735	$ (4,304,410)	$ (2,515,142)	$ 271,527,291

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Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Direct-Support Organizations				Total
	Florida International University Foundation, Inc.	Florida International University Research Foundation, Inc.	FIU Athletics Finance Corporation	Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc.	
Operating Revenues	$ 40,308,416	$	$ 3,608,981	$ 1,328,794	$ 45,246,191
Depreciation Expense	(480,938)			(184,567)	(665,505)
Other Operating Expenses	(19,842,716)	(22,283)	(2,027,953)	(2,967,880)	(24,860,832)
Operating Income (Loss)	19,984,762	(22,283)	1,581,028	(1,823,653)	19,719,854
Nonoperating Revenues (Expenses)					
Investment Income	21,456,432		161,061		21,617,493
Interest Expense			(1,407,085)	(77,660)	(1,484,745)
Net Nonoperating Revenues (Expenses)	21,456,432		(1,246,024)	(77,660)	20,132,748
Other Revenues, Expenses, Gains, or Losses		60,000	(2,403,372)	1,482,964	(860,408)
Increase (Decrease) in Net Position	41,441,194	37,717	(2,068,368)	(418,349)	38,992,194
Net Position, Beginning of Year	236,678,914	189,018	(2,236,042)	(2,096,793)	232,535,097
Net Position, End of Year	$ 278,120,108	$ 226,735	$ (4,304,410)	$ (2,515,142)	$ 271,527,291

20. SUBSEQUENT EVENTS

To achieve debt service savings from lower interest rates, the Board of Governors is issuing revenue refunding bonds. Sale and issuance of the $48,365,000 State of Florida, Board of Governors, Florida International University Parking Facility Revenue Bonds, Series 2013A, will be used to defease all of the outstanding State of Florida, Board of Regents, Florida International University Parking Facility Revenue Bonds Series 1999 and 2002, maturing in the years 2014 through 2022, with the remaining portion used to finance the construction of a parking facility on the main campus of the University. The sale and issuance was completed on September 26, 2013.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Percentage of Covered Payroll [(b)-(a)/(c)]
7/1/2007	$	$ 48,762,000	$48,762,000	0%	$223,494,966	21.8%
7/1/2009		72,099,000	72,099,000	0%	239,559,653	30.1%
7/1/2011		101,015,000	101,015,000	0%	280,051,835	36.1%

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

Notes to Required Supplementary Information:

The July, 1, 2011, unfunded actuarial accrued liability of $101,015,000 was significantly higher than the July 1, 2009, liability of $72,099,000 as a result of changes in methodology used by the actuary to calculate this liability. The most significant modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and the passage of the Patient Protection and Affordable Care Act.

AUDITOR GENERAL

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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*

Report on the Financial Statements

We have audited, in accordance with the 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, the financial statements of Florida International 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 17, 2014, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who 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 of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to University management in our operational audit report No. 2014-060.

Purpose of this Report

The purpose of the **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*** is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

David W. Martin, CPA
Tallahassee, Florida
March 17, 2014