

Report No. 2016-182  
March 2016

**STATE OF FLORIDA AUDITOR GENERAL**

**Financial Audit**

**FLORIDA INTERNATIONAL UNIVERSITY**

For the Fiscal Year Ended  
June 30, 2015



Sherrill F. Norman, CPA  
Auditor General

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During the 2014-15 fiscal year, Dr. Mark B. Rosenberg served as President and the following individuals served as Members of the Board of Trustees:

|  |   |
|--|---|
| Albert Maury, Chair                                  | Alexis Calatayud <sup>b</sup>                   |
| Claudia Puig, <sup>a</sup> Vice Chair from 3-26-15   | Marcelo Claire                                  |
| Michael M. Adler to 3-18-15, <sup>a</sup> Vice Chair | Mayi de la Vega                                 |
| Sukrit Agrawal                                       | Gerald C. Grant Jr.                             |
| Cesar L. Alvarez, J.D.                               | C. Delano Gray <sup>c</sup> to 7-31-14          |
| Dr. Jose J. Armas, M.D.                              | Natasha Lowell from 3-19-15                     |
| Jorge L. Arrizurieta                                 | Justo L. Pozo from 3-19-15                      |
| Robert T. Barlick Jr. to 3-18-15                     | Dr. Kathleen L. Wilson <sup>c</sup> from 8-1-14 |

Notes: <sup>a</sup> Vice-Chair served through 3-18-15. Vice-Chair position remained vacant from 3-19-15, through 3-25-15.

<sup>b</sup> Student body president.

<sup>c</sup> Faculty Senate Chair.

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 team leader was Allen Jova, CPA, and the audit was supervised by Hector J. Quevedo, CPA.

Please address inquiries regarding this report to Jaime Hoelscher, CPA, Audit Supervisor, by e-mail at [jaimehoelscher@aud.state.fl.us](mailto:jaimehoelscher@aud.state.fl.us) or by telephone at (850) 412-2868.

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**FLORIDA INTERNATIONAL UNIVERSITY**  
**TABLE OF CONTENTS**

|   | Page<br>No. |
|---|-------------|
| SUMMARY .....   | i           |
| INDEPENDENT AUDITOR'S REPORT .....  | 1           |
| Report on the Financial Statements .....  | 1           |
| Other Reporting Required by <i>Government Auditing Standards</i> .....  | 3           |
| MANAGEMENT'S DISCUSSION AND ANALYSIS .....  | 4           |
| <b>BASIC FINANCIAL STATEMENTS</b>   |             |
| Statement of Net Position .....   | 16          |
| Statement of Revenues, Expenses, and Changes in Net Position .....  | 18          |
| Statement of Cash Flows .....   | 20          |
| Notes to Financial Statements .....   | 22          |
| <b>OTHER REQUIRED SUPPLEMENTARY INFORMATION</b>   |             |
| Schedule of Funding Progress – Other Postemployment Benefits Plan .....   | 60          |
| Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan .....  | 60          |
| Schedule of University Contributions – Florida Retirement System Pension Plan.....  | 61          |
| Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan.....  | 61          |
| Schedule of University Contributions – Health Insurance Subsidy Pension Plan .....  | 61          |
| Notes to Required Supplementary Information.....  | 62          |
| <b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....</b> |             |
| Internal Control Over Financial Reporting .....   | 63          |
| Compliance and Other Matters .....  | 64          |
| Purpose of this Report .....  | 64          |

# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida International University (a component unit of the State of Florida) 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, 2015. 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 will be presented in a separate report.

## 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.



Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

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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, 2015, 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, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those 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 solely 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 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, 2015, 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.

### ***Emphasis of Matter***

As discussed in Notes 2 and 3 to the financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple-employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion is not modified with respect to this matter.

### ***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, Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of University Contributions – Florida Retirement System Pension Plan, Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of University Contributions – Health Insurance Subsidy Pension 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 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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Florida International University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 28, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2015, and should be read in conjunction with the financial statements and notes thereto. 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, 2015, and June 30, 2014.

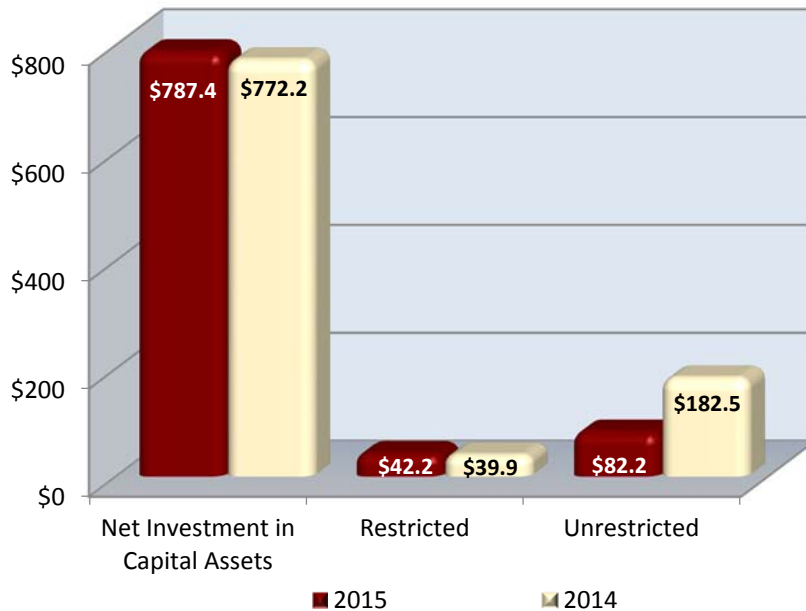
### FINANCIAL HIGHLIGHTS

The University's assets and deferred outflows of resources totaled \$1.4 billion at June 30, 2015. This balance reflects a \$75.1 million, or 5.6 percent, increase as compared to the 2013-14 fiscal year. Contributing to the increase during fiscal year 2014-15 were the \$16.6 million increase in receivables due from the State for capital construction projects and an increase in capital assets of \$38.9 million, net of depreciation. These increases were offset by a \$16.4 million decrease in restricted investments used for the construction of the new parking garage. Deferred outflows of resources increased \$46.1 million due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Liabilities and deferred inflows of resources increased by \$157.9 million, or 47.1 percent, totaling \$493.3 million at June 30, 2015, as compared to \$335.4 million at June 30, 2014. Liabilities increased by \$102.4 million, or 30.5 percent, totaling \$437.8 million at June 30, 2015, as compared to \$335.4 million at June 30, 2014. Deferred inflows of resources increased \$55.5 million due to the adoption of GASB Statement No. 68. As a result, the University's net position decreased by \$82.8 million, resulting in a year-end balance of \$911.8 million. The increases in liabilities, deferred outflows and inflows of resources, and a decrease in net position were the result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 68. The accounting standard requires the University, as a participating employer in the Florida Retirement System (FRS), to recognize its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. Changes in liabilities are recognized through the Statement of Revenues, Expenses, and Changes in Net Position, or reported as deferred outflows or inflows of resources on the Statement of Net Position, depending on the nature of the charge. The initial adoption also resulted in a decrease to beginning net position of \$88.8 million.

Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University's comparative total net position by category for the fiscal years ended June 30, 2015, and June 30, 2014, is shown in the following graph:



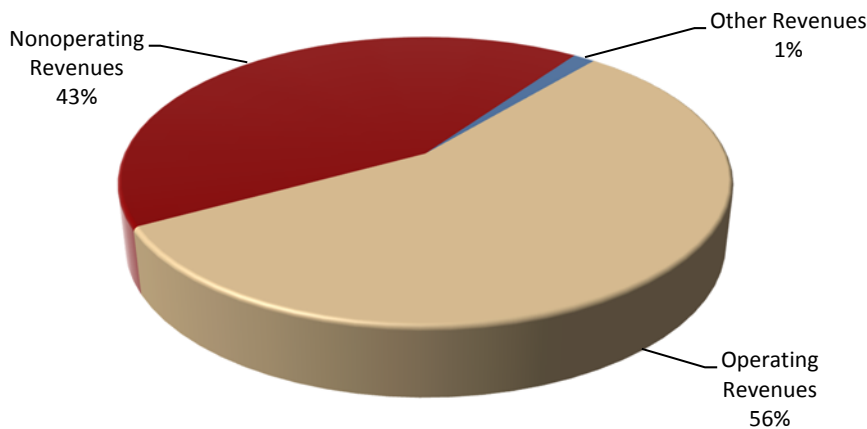
**Net Position:**  
(In Millions)



The University's operating revenues totaled \$498.7 million for the 2014-15 fiscal year, representing an \$8.3 million, or 1.7 percent increase over the 2013-14 fiscal year. Major components of operating revenues are student tuition and fees, auxiliary enterprise revenues, and grants and contracts. Net tuition and fees revenue increased \$4.3 million while auxiliary enterprise revenue increased \$2.5 million. Operating expenses totaled \$873.6 million for the 2014-15 fiscal year, representing an increase of \$25.5 million, or 3 percent, compared to the 2013-14 fiscal year due mainly to an increase in compensation and employee benefits of \$24.9 million.

The following chart provides a graphical presentation of University revenues by category for the 2014-15 fiscal year:

**Total Revenues:**



## OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report consists of 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. These component units include:

- Florida International University Foundation, Inc. (Foundation)
- FIU Athletics Finance Corporation (Finance Corporation)
- Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (Health Care Network)

Based on the application of the criteria for determining component units, the Foundation, Finance Corporation, and Health Care Network are included within the University reporting entity as discretely presented component units. Information regarding these 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.

### **The Statement of Net Position**

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

## Condensed Statement of Net Position at June 30:

(In Millions)

|                                       | <u>2015</u>     | <u>2014</u>     |
|---------------------------------------|-----------------|-----------------|
| <b>Assets</b>                         |                 |                 |
| Current Assets                        | \$ 371.3        | \$ 366.4        |
| Capital Assets, Net                   | 961.7           | 922.8           |
| Other Noncurrent Assets               | 26.0            | 40.8            |
| <b>Total Assets</b>                   | <u>1,359.0</u>  | <u>1,330.0</u>  |
| <b>Deferred Outflows of Resources</b> | <u>46.1</u>     | <u>-</u>        |
| <b>Liabilities</b>                    |                 |                 |
| Current Liabilities                   | 75.8            | 60.0            |
| Noncurrent Liabilities                | 362.0           | 275.4           |
| <b>Total Liabilities</b>              | <u>437.8</u>    | <u>335.4</u>    |
| <b>Deferred Inflows of Resources</b>  | <u>55.5</u>     | <u>-</u>        |
| <b>Net Position</b>                   |                 |                 |
| Net Investment in Capital Assets      | 787.4           | 772.2           |
| Restricted                            | 42.2            | 39.9            |
| Unrestricted                          | 82.2            | 182.5           |
| <b>Total Net Position</b>             | <u>\$ 911.8</u> | <u>\$ 994.6</u> |

Total assets as of June 30, 2015, increased by \$29 million, or 2.2 percent. This increase is primarily due to a \$16.6 million increase in receivables due from the State for capital construction projects and an increase in capital assets of \$38.9 million, net of depreciation, offset by a \$16.4 million decrease in restricted investments used for the construction of the new parking garage and a \$10.1 million decrease in cash and cash equivalents. Deferred outflows of resources increased \$46.1 million due to the implementation of GASB Statement No. 68. Total liabilities as of June 30, 2015, increased by \$102.4 million, or 30.5 percent. The increase was primarily due to new liabilities recorded for the University's proportionate share of the FRS net pension liabilities, the increase in deferred revenue related to capital construction projects, the increase in other postemployment benefit (OPEB) and compensated absences liabilities offset by reductions in long-term debt from current year principal payments. Deferred inflows of resources increased \$55.5 million due to the adoption of GASB Statement No. 68.

### **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 2014-15 and 2013-14 fiscal years:

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

|   | <b>2014-15</b> | <b>2013-14</b> |
|---|----------------|----------------|
| Operating Revenues                                  | \$ 498.7       | \$ 490.4       |
| Less, Operating Expenses                            | 873.6          | 848.1          |
| <b>Operating Loss</b>                               | (374.9)        | (357.7)        |
| Net Nonoperating Revenues                           | 368.7          | 368.5          |
| <b>Income (Loss) Before Other Revenues</b>          | (6.2)          | 10.8           |
| Other Revenues                                      | 12.2           | 44.7           |
| <b>Increase In Net Position</b>                     | 6.0            | 55.5           |
| Net Position, Beginning of Year                     | 994.6          | 939.1          |
| Adjustment to Beginning Net Position (1)            | (88.8)         | -              |
| <b>Net Position, Beginning of Year, as Restated</b> | 905.8          | 939.1          |
| <b>Net Position, End of Year</b>                    | \$ 911.8       | \$ 994.6       |

Note: (1) As discussed in Notes 2 and 3 to the financial statements, the University's beginning net position for the 2014-15 fiscal year was decreased in conjunction with the implementation of GASB Statement No. 68.

**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 gives or receives something of equal or similar value.

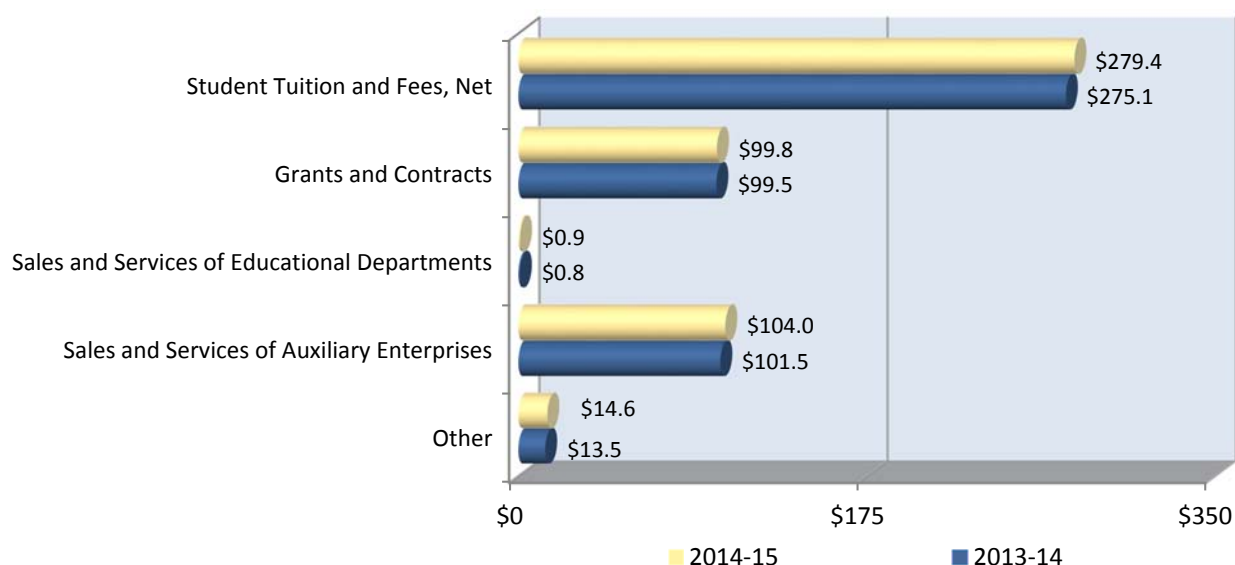
The following summarizes the operating revenues by source that were used to fund operating activities for the 2014-15 and 2013-14 fiscal years:

| <b>Operating Revenues<br/>For the Fiscal Years<br/>(In Millions)</b> |                |                |
|--|----------------|----------------|
|  | <b>2014-15</b> | <b>2013-14</b> |
| Student Tuition and Fees, Net  | \$ 279.4       | \$ 275.1       |
| Grants and Contracts   | 99.8           | 99.5           |
| Sales and Services of Educational Departments                        | 0.9            | 0.8            |
| Sales and Services of Auxiliary Enterprises                          | 104.0          | 101.5          |
| Other  | 14.6           | 13.5           |
| <b>Total Operating Revenues</b>                                      | \$ 498.7       | \$ 490.4       |

The following chart presents the University's operating revenues for the 2014-15 and 2013-14 fiscal years:

## Operating Revenues:

(In Millions)



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

- Net student tuition and fees revenue increased \$4.3 million or 1.6 percent. This increase was primarily driven by an increase of 3 percent in undergraduate student enrollment, which generated more revenue from the tuition differential and non-resident tuition. Additionally, revenues from professional programs increased due to increased fees and student enrollment in these programs. The fees for the College of Law and the College of Medicine increased by 6 percent and 2.5 percent, respectively.
- Sales and services of auxiliary enterprises revenue, increased \$2.5 million, or 2.5 percent. The increase was mainly due to an increase of 10.5 percent in student enrollment in online distance learning courses. Revenues from these programs increased by \$1.4 million. Also, the addition of two new online programs in the College of Education contributed approximately \$1 million to the overall increase in revenue.
- Other operating revenue increased \$1.1 million or 8.1 percent. This increase was primarily due to revenue generated from the College of Medicine affiliation agreements with local health providers and revenue from the Center for Internet Augmented Research & Assessment (CIARA) Program.

### 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.

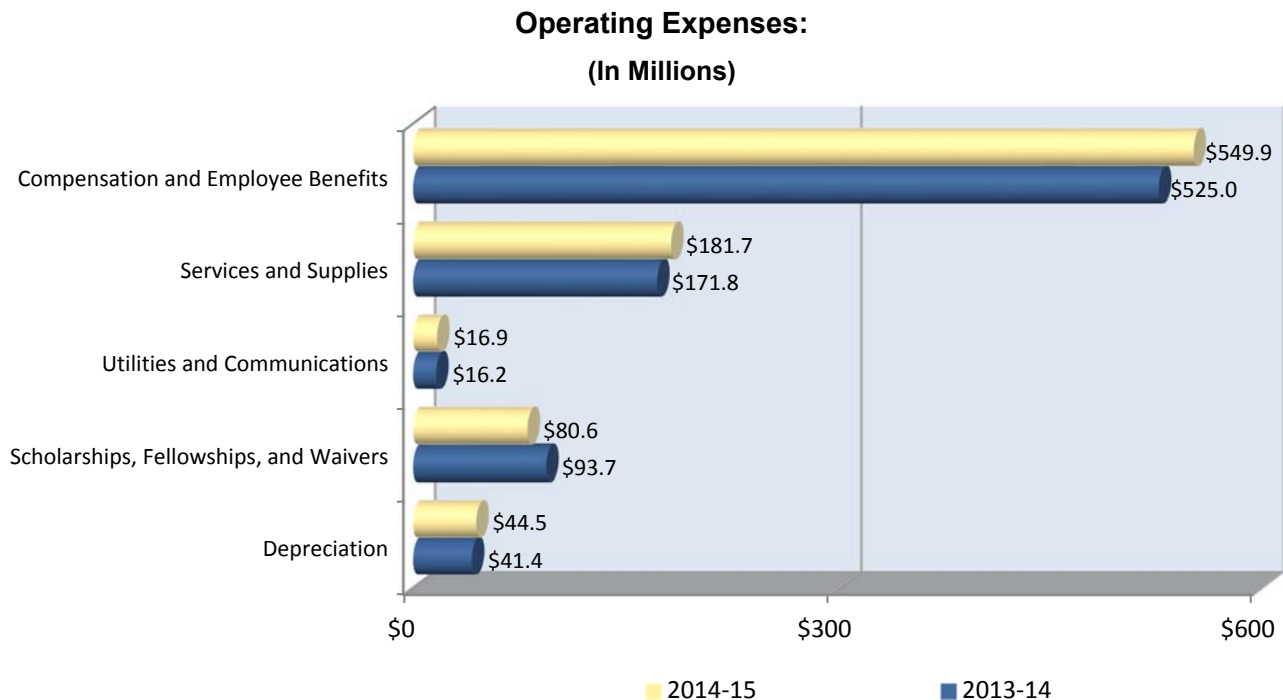
The following summarizes operating expenses by natural classification for the 2014-15 and 2013-14 fiscal years:

## Operating Expenses

(In Millions)

|  | 2014-15         | 2013-14         |
|--|-----------------|-----------------|
| Compensation and Employee Benefits     | \$ 549.9        | \$ 525.0        |
| Services and Supplies                  | 181.7           | 171.8           |
| Utilities and Communications           | 16.9            | 16.2            |
| Scholarships, Fellowships, and Waivers | 80.6            | 93.7            |
| Depreciation                           | 44.5            | 41.4            |
| <b>Total Operating Expenses</b>        | <b>\$ 873.6</b> | <b>\$ 848.1</b> |

The following chart presents the University's operating expenses for the 2014-15 and 2013-14 fiscal years:



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

Compensation and employee benefits increased \$24.9 million, or 4.7 percent. This increase was primarily due to an increase in the number of employees combined with a 1.5 percent across the board salary increase and a 1.5 percent merit increase for eligible employees. Additionally, there were increases in healthcare insurance matching costs.

- Services and supplies expenses increased \$9.9 million, or 5.8 percent. This increase was mainly related to increases in materials and supplies of \$3.7 million for noncapitalized furniture and computer equipment for new buildings placed in service and replacement of aging equipment, \$1 million for increased purchases of subscription materials, increased costs of \$1 million in rental of facilities, increased software licenses costs of \$1.1 million, and higher football game guarantee expenses of \$1 million.

- Scholarships, fellowships, and waivers expenses decreased by \$13.1 million, or 14 percent. This decrease is driven by a recategorization of approximately \$10.1 million from scholarship operating expenses to scholarship allowance in operating revenues based on the June 30, 2015, scholarship allowance computation.
- Depreciation expense increased by \$3.1 million, or 7.5 percent. This increase was driven by the depreciation of new buildings placed in service during the year.

### **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, certain gifts and grants, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2014-15 and 2013-14 fiscal years:

#### **Nonoperating Revenues (Expenses):**

(In Millions)

|   | <u>2014-15</u>         | <u>2013-14</u>         |
|---|------------------------|------------------------|
| State Noncapital Appropriations         | \$ 247.8               | \$ 225.9               |
| Federal and State Student Financial Aid | 110.8                  | 110.8                  |
| Investment (Loss) Income                | (4.2)                  | 23.6                   |
| Other Nonoperating Revenues             | 22.5                   | 19.6                   |
| Loss on Disposal of Capital Assets      | (0.1)                  | (0.2)                  |
| Interest on Capital Asset-Related Debt  | (7.9)                  | (7.8)                  |
| Other Nonoperating Expenses             | (0.2)                  | (3.4)                  |
| <b>Net Nonoperating Revenues</b>        | <b><u>\$ 368.7</u></b> | <b><u>\$ 368.5</u></b> |

Net nonoperating revenues increased by \$0.2 million, due mainly to the following:

- State noncapital appropriations increased \$21.9 million, or 9.7 percent, due to an increase of \$16 million in incremental funding under the Board of Governors' performance model, additional appropriations for health and retirement benefits of \$3.8 million, and for plant operations and maintenance of \$2.1 million.
- Investment income decreased by \$27.8 million. This decrease offset the increases in other nonoperating revenue categories and was primarily due to an increase in investment unrealized losses.
- Other nonoperating revenue increased by \$2.9 million or 14.8 percent, primarily due to increased contributions from component units in support of University activities.
- Other nonoperating expenses decreased \$3.2 million primarily due to deferred capital improvement debt payable costs written off during the prior year.

### **Other Revenues**

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues for the 2014-15 and 2013-14 fiscal years:

### Other Revenues:

(In Millions)

|  | <u>2014-15</u> | <u>2013-14</u> |
|--|----------------|----------------|
| State Capital Appropriations                   | \$ 3.3         | \$ 39.3        |
| Capital Grants, Contracts, Donations, and Fees | 8.9            | 5.4            |
| <b>Total</b>                                   | <u>\$ 12.2</u> | <u>\$ 44.7</u> |

Total other revenues decreased by \$32.5 million, or 72.7 percent, due to a \$36 million decrease in State capital appropriation revenue for construction projects. This decrease was partially offset by a \$3.5 million increase in capital grants and 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 2014-15 and 2013-14 fiscal years:

### Condensed Statement of Cash Flows:

(In Millions)

|   | <u>2014-15</u> | <u>2013-14</u> |
|---|----------------|----------------|
| Cash Provided (Used) by:                                    |                |                |
| Operating Activities  | \$ (319.1)     | \$ (292.9)     |
| Noncapital Financing Activities                             | 375.2          | 358.1          |
| Capital and Related Financing Activities                    | (80.9)         | (67.8)         |
| Investing Activities  | 14.7           | 6.4            |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b> | (10.1)         | 3.8            |
| Cash and Cash Equivalents, Beginning of Year                | 15.7           | 11.9           |
| <b>Cash and Cash Equivalents, End of Year</b>               | <u>\$ 5.6</u>  | <u>\$ 15.7</u> |

Major sources of funds came from State noncapital appropriations (\$247.8 million), Federal Direct Loan program receipts (\$280 million), net student tuition and fees (\$276 million), grants and contracts (\$99.5 million), sales and services of auxiliary enterprises (\$103.2 million), proceeds from sales and maturities of investments (\$762.4 million), and Federal and State student financial aid (\$109.9 million). Major uses of funds were for payments made to and on behalf of employees (\$541 million), payments to suppliers (\$194.7 million), disbursements to students for Federal Direct Loan program (\$281.4 million), purchases of capital assets (\$87.5 million), purchases of investments (\$760.5 million) and payments to and on behalf of students for scholarships and fellowships (\$80.6 million).



|  |
|--|
| <b>CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,<br/>AND DEBT ADMINISTRATION</b> |
|--|

**Capital Assets**

At June 30, 2015, the University had \$1.4 billion in capital assets, less accumulated depreciation of \$479.1 million, for net capital assets of \$961.7 million. Depreciation charges for the current fiscal year totaled \$44.5 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)

|  | 2015            | 2014            |
|--|-----------------|-----------------|
| Land   | \$ 28.7         | \$ 28.7         |
| Works of Art and Historical Treasures                      | 4.3             | 4.2             |
| Construction in Progress                                   | 125.3           | 172.5           |
| Buildings  | 723.2           | 636.6           |
| Infrastructure and Other Improvements                      | 4.4             | 4.1             |
| Furniture and Equipment                                    | 38.5            | 35.9            |
| Library Resources  | 34.6            | 38.3            |
| Property Under Capital Lease and<br>Leasehold Improvements | 1.5             | 1.6             |
| Computer Software  | 1.2             | 0.9             |
| <b>Capital Assets, Net</b>                                 | <b>\$ 961.7</b> | <b>\$ 922.8</b> |

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

**Capital Expenses and Commitments**

Major capital expenses through June 30, 2015, were incurred on the following projects: \$25 million for Parking Garage Six, \$9.9 million for the Mixed-Use Auxiliary Building, and \$8.1 million for the Student Academic Support Complex. The University's construction commitments at June 30, 2015, are as follows:

|                          | Amount<br>(In Millions) |
|--------------------------|-------------------------|
| Total Committed          | \$ 191.3                |
| Completed to Date        | (125.3)                 |
| <b>Balance Committed</b> | <b>\$ 66.0</b>          |

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

**Debt Administration**

As of June 30, 2015, the University had \$174.3 million in outstanding capital improvement debt payable and a capital lease payable representing a decrease of \$9.2 million, or 5 percent, from the prior fiscal

year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

**Long-Term Debt, at June 30:**

(In Millions)

|                          | <u>2015</u>     | <u>2014</u>     |
|--------------------------|-----------------|-----------------|
| Capital Improvement Debt | \$ 173.7        | \$ 182.5        |
| Capital Lease            | 0.6             | 1.0             |
| <b>Total</b>             | <u>\$ 174.3</u> | <u>\$ 183.5</u> |

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

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

Florida’s economy has made tremendous strides toward recovery and stability since the great recession. Consistent with the last 2 years, Florida’s general revenue collections exceeded projections with growth of over \$1.5 billion, or 5.7 percent compared to the 2013-14 fiscal year. The Legislature reinvested the majority of these funds in critical services and educational programs across the State. The State 2015-16 fiscal year budget includes \$400 million in performance funds for the State University System (SUS), of which \$150 million represents the State investment and \$250 million is the SUS investment from base funds. The \$150 million State investment granted by the Legislature consists of \$100 million of new funds to the SUS and \$50 million re-investment of prior year performance funds from the State. Florida International University (FIU) tied for third with 39 points and received a total of \$45.7 million, of which \$11.6 million was incremental to the prior year’s budget. The Florida Board of Governors (BOG) will continue to rank each SUS institution against the 10 performance metrics measures. The performance based funding model holds universities accountable for performance results and promotes a strategic focus and greater return on the State’s investment. FIU’s strategic plan, FIUBeyondPossible2020, is seamlessly aligned with the performance metrics and the BOG and Florida legislative goals. In other positive results from the 2015 Legislative Session, FIU received \$5.1 million in Legislative Budget Requests (LBRs) for specific projects and programs.

The Legislature continues to focus on college affordability as was evidenced by one notable legislative change - the implementation of a sales tax exemption for text books, instructional materials, and college meal plans for the 2015-16 academic year. This will help to alleviate some of the students' cost in the current year; however, the Legislature will re-evaluate this tax exemption in the next legislative session. Additionally, the absence of a legislated undergraduate base tuition increase combined with the inability to increase existing differential tuition rates resulted in FIU undergraduate tuition rates remaining unchanged for the 2015-16 academic year.

The FIU Herbert Wertheim College of Medicine (HWCOC) is currently at full capacity of 480 students. The HWCOC general revenue state appropriations for the 2015-16 fiscal year increased by \$0.5 million to reach \$31.4 million; \$1.3 million increase for a Legislative Budget Request, offset by a reduction of

\$0.8 million for a prior year, non-recurring allocation. The HWCOM received the final year of additional funding under the medical school implementation plan in the 2014-15 fiscal year.

The State Legislature is in full support of the 10-metric performance based funding model for the allocation of new funds. The BOG continues to work on adjusting and fine-tuning the performance funding model to ensure reliability and validity of the results. FIU will continue to demonstrate to the Legislature that the institution is providing a satisfactory return on investment to students and the State. FIU's strategic plan, FIUBeyondPossible2020, focuses on initiatives that invest in students, faculty, staff, and infrastructure. FIU's commitment to produce degrees that empower graduates to put learning and research to work on a regional, national, and global platform is paramount. Our students have very strong community connections as a significant number of FIU graduates live and work in South Florida. When combined with our efforts to increase the degrees awarded in programs of strategic emphasis, and achieving our goal towards graduating students sooner in targeted industries, FIU students will continue to make a significant contribution to the economic development of our community in South Florida and the State of Florida.

#### REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental 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, 11200 Southwest 8<sup>th</sup> Street, Miami, Florida 33199.

# BASIC FINANCIAL STATEMENTS

## Florida International University A Component Unit of the State of Florida Statement of Net Position

June 30, 2015

|   | University           | Component<br>Units |
|---|----------------------|--------------------|
| <b>ASSETS</b>                                 |                      |                    |
| Current Assets:                               |                      |                    |
| Cash and Cash Equivalents                     | \$ 5,381,408         | \$ 12,823,300      |
| Investments                                   | 275,004,658          | 232,847,600        |
| Accounts Receivable, Net                      | 25,821,055           | 83,126,880         |
| Loans and Notes Receivable, Net               | 649,645              | -                  |
| Due from State                                | 61,234,489           | -                  |
| Due from Component Units/University           | 2,816,534            | 204,637            |
| Inventories                                   | 383,933              | -                  |
| Other Current Assets                          | 43,143               | 2,563,834          |
| <b>Total Current Assets</b>                   | <b>371,334,865</b>   | <b>331,566,251</b> |
| Noncurrent Assets:                            |                      |                    |
| Restricted Cash and Cash Equivalents          | 245,732              | 1,018,637          |
| Restricted Investments                        | 14,591,846           | 2,668,905          |
| Loans and Notes Receivable, Net               | 1,997,170            | -                  |
| Depreciable Capital Assets, Net               | 803,407,753          | 18,183,292         |
| Nondepreciable Capital Assets                 | 158,267,596          | 447,225            |
| Due from Component Units/University           | 9,165,843            | -                  |
| Other Noncurrent Assets                       | -                    | 22,561,045         |
| <b>Total Noncurrent Assets</b>                | <b>987,675,940</b>   | <b>44,879,104</b>  |
| <b>TOTAL ASSETS</b>                           | <b>1,359,010,805</b> | <b>376,445,355</b> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>         |                      |                    |
| Deferred Amounts Related to Pensions          | 46,105,876           | -                  |
| Accumulated Decrease in Fair Value of Hedging |                      |                    |
| Derivatives                                   | -                    | 2,446,631          |
| Deferred Amount on Debt Refundings            | -                    | 286,160            |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>   | <b>46,105,876</b>    | <b>2,732,791</b>   |
| <b>LIABILITIES</b>                            |                      |                    |
| Current Liabilities:                          |                      |                    |
| Accounts Payable                              | 21,182,089           | 625,248            |
| Construction Contracts Payable                | 10,156,546           | -                  |
| Salaries and Wages Payable                    | 8,077,855            | -                  |
| Deposits Payable                              | 1,965,451            | -                  |
| Due to State                                  | 193,465              | -                  |
| Due to Component Units/University             | 126,724              | 2,786,225          |
| Unearned Revenue                              | 19,950,249           | 2,385,919          |
| Other Current Liabilities                     | 215,193              | 285,092            |
| Long-Term Liabilities - Current Portion:      |                      |                    |
| Bonds Payable                                 | -                    | 697,270            |
| Capital Improvement Debt Payable              | 9,185,280            | -                  |
| Notes Payable                                 | -                    | 745,000            |
| Capital Lease Payable                         | 205,385              | -                  |
| Compensated Absences Payable                  | 3,025,078            | -                  |
| Liability for Self-Insured Claims             | 42,549               | -                  |
| Net Pension Liability                         | 1,498,805            | -                  |
| <b>Total Current Liabilities</b>              | <b>75,824,669</b>    | <b>7,524,754</b>   |

**Florida International University**  
**A Component Unit of the State of Florida**  
**Statement of Net Position (Continued)**

**June 30, 2015**

|                                       | <b>University</b>     | <b>Component<br/>Units</b> |
|---------------------------------------|-----------------------|----------------------------|
| <b>LIABILITIES (Continued)</b>        |                       |                            |
| Noncurrent Liabilities:               |                       |                            |
| Bonds Payable                         | -                     | 30,718,607                 |
| Capital Improvement Debt Payable      | 164,464,887           | -                          |
| Notes Payable                         | -                     | 5,420,000                  |
| Capital Lease Payable                 | 415,125               | -                          |
| Compensated Absences Payable          | 37,015,664            | -                          |
| Due to Component Units/University     | -                     | 9,165,843                  |
| Other Postemployment Benefits Payable | 47,684,000            | -                          |
| Net Pension Liability                 | 72,588,597            | -                          |
| Unearned Revenue                      | 37,563,784            | -                          |
| Liability for Self-Insured Claims     | 47,981                | -                          |
| Other Noncurrent Liabilities          | 2,259,101             | 4,991,911                  |
| <b>Total Noncurrent Liabilities</b>   | <b>362,039,139</b>    | <b>50,296,361</b>          |
| <b>TOTAL LIABILITIES</b>              | <b>437,863,808</b>    | <b>57,821,115</b>          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                       |                            |
| Deferred Amounts Related to Pensions  | 55,500,417            | -                          |
| <b>NET POSITION</b>                   |                       |                            |
| Net Investment in Capital Assets      | 787,404,672           | 11,304,247                 |
| Restricted for Nonexpendable:         |                       |                            |
| Endowment                             | -                     | 206,408,578                |
| Restricted for Expendable:            |                       |                            |
| Debt Service                          | 2,863,043             | -                          |
| Loans                                 | 443,294               | -                          |
| Capital Projects                      | 14,432,328            | -                          |
| Other                                 | 24,459,938            | 95,709,060                 |
| Unrestricted                          | 82,149,181            | 7,935,146                  |
| <b>TOTAL NET POSITION</b>             | <b>\$ 911,752,456</b> | <b>\$ 321,357,031</b>      |

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 Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

|  | <u>University</u>     | <u>Component<br/>Units</u> |
|--|-----------------------|----------------------------|
| <b>REVENUES</b>  |                       |                            |
| Operating Revenues:  |                       |                            |
| Student Tuition and Fees, Net of Scholarship Allowances of \$124,395,476 (\$10,384,134 Pledged for Parking Facility Capital Improvement Debt)  | \$ 279,373,175        | \$ -                       |
| Federal Grants and Contracts   | 77,703,669            | -                          |
| State and Local Grants and Contracts   | 9,662,667             | -                          |
| Nongovernmental Grants and Contracts   | 12,452,607            | -                          |
| Sales and Services of Educational Departments  | 900,540               | -                          |
| Sales and Services of Auxiliary Enterprises (\$29,104,905 Pledged for Housing Facility Capital Improvement Debt and \$5,264,179 Pledged for Parking Facility Capital Improvement Debt) | 104,018,158           | -                          |
| Sales and Services of Component Units  | -                     | 7,105,618                  |
| Gifts and Donations  | -                     | 38,949,383                 |
| Interest on Loans and Notes Receivable   | 43,727                | -                          |
| Other Operating Revenues   | 14,522,875            | 9,261,743                  |
| <b>Total Operating Revenues</b>  | <b>498,677,418</b>    | <b>55,316,744</b>          |
| <b>EXPENSES</b>  |                       |                            |
| Operating Expenses:  |                       |                            |
| Compensation and Employee Benefits   | 549,930,299           | -                          |
| Services and Supplies  | 181,722,464           | 27,268,039                 |
| Utilities and Communications   | 16,932,431            | 206,584                    |
| Scholarships, Fellowships, and Waivers   | 80,552,887            | -                          |
| Depreciation   | 44,475,833            | 899,838                    |
| Other Operating Expenses   | -                     | 12,240,693                 |
| <b>Total Operating Expenses</b>  | <b>873,613,914</b>    | <b>40,615,154</b>          |
| <b>Operating Income (Loss)</b>   | <b>(374,936,496)</b>  | <b>14,701,590</b>          |
| <b>NONOPERATING REVENUES (EXPENSES)</b>  |                       |                            |
| State Noncapital Appropriations  | 247,848,804           | -                          |
| Federal and State Student Financial Aid  | 110,805,778           | -                          |
| Investment Income (Loss)   | (4,184,659)           | 6,456,507                  |
| Other Nonoperating Revenues  | 22,376,394            | -                          |
| Loss on Disposal of Capital Assets   | (52,498)              | (836,157)                  |
| Interest on Capital Asset-Related Debt   | (7,868,121)           | (1,454,855)                |
| Other Nonoperating Expenses  | (213,831)             | -                          |
| <b>Net Nonoperating Revenues</b>   | <b>368,711,867</b>    | <b>4,165,495</b>           |
| <b>Income (Loss) Before Other Revenues or Expenses</b>   | <b>(6,224,629)</b>    | <b>18,867,085</b>          |
| State Capital Appropriations   | 3,292,811             | -                          |
| Capital Grants, Contracts, Donations, and Fees   | 8,898,576             | -                          |
| Other Expenses   | -                     | (484,695)                  |
| <b>Increase in Net Position</b>  | <b>5,966,758</b>      | <b>18,382,390</b>          |
| Net Position, Beginning of Year  | 994,612,982           | 302,974,641                |
| Adjustment to Beginning Net Position   | (88,827,284)          | -                          |
| <b>Net Position, Beginning of Year, as Restated</b>  | <b>905,785,698</b>    | <b>302,974,641</b>         |
| <b>Net Position, End of Year</b>   | <b>\$ 911,752,456</b> | <b>\$ 321,357,031</b>      |

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

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**Florida International University**  
**A Component Unit of the State of Florida**  
**Statement of Cash Flows**

**For the Fiscal Year Ended June 30, 2015**

|   | <b>University</b>    |
|---|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |
| Student Tuition and Fees, Net                                   | \$ 276,021,013       |
| Grants and Contracts  | 99,463,986           |
| Sales and Services of Educational Departments                   | 900,540              |
| Sales and Services of Auxiliary Enterprises                     | 103,153,035          |
| Interest on Loans and Notes Receivable                          | 49,011               |
| Payments to Employees   | (541,008,169)        |
| Payments to Suppliers for Goods and Services                    | (194,730,573)        |
| Payments to Students for Scholarships and Fellowships           | (80,552,887)         |
| Loans Issued to Students  | (4,732,897)          |
| Collection on Loans to Students                                 | 5,118,356            |
| Other Operating Receipts  | 17,208,676           |
|   | <b>(319,109,909)</b> |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                      |
| State Noncapital Appropriations                                 | 247,848,804          |
| Federal and State Student Financial Aid                         | 109,938,932          |
| Federal Direct Loan Program Receipts                            | 279,958,053          |
| Federal Direct Loan Program Disbursements                       | (281,430,924)        |
| Operating Subsidies and Transfers                               | (2,253,632)          |
| Net Change in Funds Held for Others                             | 554,189              |
| Other Nonoperating Receipts                                     | 20,952,735           |
| Other Nonoperating Disbursements                                | (350,081)            |
|   | <b>375,218,076</b>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                      |
| State Capital Appropriations                                    | 11,424,683           |
| Capital Grants, Contracts, Donations, and Fees                  | 8,527,063            |
| Other Receipts for Capital Projects                             | 3,786,383            |
| Capital Subsidies and Transfers                                 | (7,821)              |
| Purchase or Construction of Capital Assets                      | (87,504,662)         |
| Principal Paid on Capital Debt and Lease                        | (8,681,490)          |
| Interest Paid on Capital Debt and Lease                         | (8,433,207)          |
|   | <b>(80,889,051)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |
| Proceeds from Sales and Maturities of Investments               | 762,419,938          |
| Purchase of Investments   | (760,451,208)        |
| Investment Income   | 12,728,795           |
|   | <b>14,697,525</b>    |
| <b>Net Decrease in Cash and Cash Equivalents</b>                | <b>(10,083,359)</b>  |
| Cash and Cash Equivalents, Beginning of Year                    | 15,710,499           |
|   | <b>\$ 5,627,140</b>  |



**Florida International University  
A Component Unit of the State of Florida  
Statement of Cash Flows (Continued)**

**For the Fiscal Year Ended June 30, 2015**

|   | <b>University</b>       |
|---|-------------------------|
| <b>RECONCILIATION OF OPERATING LOSS</b>   |                         |
| <b>TO NET CASH USED BY OPERATING ACTIVITIES</b>   |                         |
| Operating Loss  | \$ (374,936,496)        |
| Adjustments to Reconcile Operating Loss<br>to Net Cash Used by Operating Activities:                  |                         |
| Depreciation Expense  | 44,475,833              |
| Changes in Assets, Liabilities, Deferred Outflows of Resources,<br>and Deferred Inflows of Resources: |                         |
| Receivables, Net  | (1,600,484)             |
| Inventories   | (28,318)                |
| Other Assets  | 796                     |
| Accounts Payable  | 3,747,875               |
| Salaries and Wages Payable  | 1,579,096               |
| Deposits Payable  | 254,867                 |
| Compensated Absences Payable  | 2,352,372               |
| Unearned Revenue  | 43,191                  |
| Liability for Self-Insured Claims   | 10,700                  |
| Other Postemployment Benefits Payable   | 10,336,000              |
| Net Pension Liability   | (27,795,697)            |
| Deferred Outflows of Resources Related to Pensions  | (33,050,061)            |
| Deferred Inflows of Resources Related to Pensions   | 55,500,417              |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>  | <b>\$ (319,109,909)</b> |

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

|  |                 |
|--|-----------------|
| Unrealized losses on investments were recognized as a reduction 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. | \$ (16,862,311) |
| Losses 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.                           | \$ (52,498)     |

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

# **NOTES TO FINANCIAL STATEMENTS**

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## **1. Summary of Significant Accounting Policies**

**Reporting Entity.** The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 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, and selecting 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.

**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 Statutes authorize these organizations to receive, hold, invest, and administer property and to make expenses 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 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.

Financial activities of the Research Foundation are not included in the University's financial statements. The total assets and operating revenues related to the Research Foundation are \$150,584 and \$0, respectively. The amounts represent less than 1 percent of the total aggregate component units' assets and operating revenues.

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Controller's Office. 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, liabilities, and deferred inflows of resources, 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, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 of 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 difference 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.

**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, and the Health Care Network deposits 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 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.

**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

Depreciable assets of the Foundation are stated at cost and are net of accumulated depreciation of \$4,978,127. 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 \$185,423. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 5 to 15 years.

**Noncurrent Liabilities.** Noncurrent liabilities include capital improvement debt payable, capital lease payable, compensated absences payable, other postemployment benefits payable, net pension liability, 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 and deferred losses on refunding. The University amortizes debt premiums over the life of the debt using the straight-line method. Deferred losses on refunding are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method.

**Pensions.** For purposes of measuring the net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary

net position of the Florida Retirement System (FRS) defined benefit pension plan and the Health Insurance Subsidy (HIS) defined benefit pension plan and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

## **2. Reporting Change**

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities of the defined benefit pension plans. The University participates in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by the Florida Department of Management Services, Division of Retirement. The effects of implementing this Statement are discussed in a subsequent note.

## **3. Adjustment to Beginning Net Position**

The beginning net position of the University was decreased by \$88,827,284 due to the adoption of a new GASB Pronouncement, Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 requires the University to recognize its proportionate share of the net pension liabilities and related pension amounts of the cost-sharing multiple-employer FRS and HIS defined benefit pension plans.

## **4. Investments**

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements 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; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; 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; and other investments approved by the 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, 2015, are reported at fair value, as follows:

| <u>Investment Type</u>                            | <u>Amount</u>         |
|---|-----------------------|
| External Investment Pool:                         |                       |
| State Treasury Special Purpose Investment Account | \$ 54,765,640         |
| SBA Debt Service Accounts                         | 2,850,335             |
| Mutual Funds:                                     |                       |
| Limited Partnerships                              | 26,591,226            |
| Equities  | 76,534,180            |
| Fixed Income and Bond Mutual Funds                | 94,078,429            |
| Commodities                                       | 18,619,987            |
| Money Market Funds                                | 16,156,707            |
| <b>Total University Investments</b>               | <b>\$ 289,596,504</b> |

## **External Investment Pools**

### **State Treasury Special Purpose Investment Account**

The University reported investments at fair value totaling \$54,765,640 at June 30, 2015, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.67 years, and fair value factor of 1.0013 at June 30, 2015. 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 Debt Service Accounts**

The University reported investments totaling \$2,850,335 at June 30, 2015, 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 6 months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk and 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, 2015, 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    | \$ 41,641,110                    | \$ 3,585,304        | \$ 14,095,514        | \$ 18,671,872        | \$ 5,288,420         |
| TIPS Index Fund             | 20,567,686                       | 12,647              | 6,670,001            | 9,214,186            | 4,670,852            |
| High Yield Bond Mutual Fund | 19,325,990                       | 290,411             | 4,282,522            | 13,191,560           | 1,561,497            |
| Credit Fixed Income         | 12,543,643                       | 1,791,062           | 3,663,941            | 2,783,478            | 4,305,162            |
| <b>Total</b>                | <b>\$ 94,078,429</b>             | <b>\$ 5,679,424</b> | <b>\$ 28,711,978</b> | <b>\$ 43,861,096</b> | <b>\$ 15,825,931</b> |

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, 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:

### 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    | \$ 41,641,110        | \$ 25,355,274        | \$ 1,299,202        | \$ 5,813,098        | \$ 9,173,536           |
| TIPS Index Fund             | 20,567,686           | 20,555,345           | -                   | -                   | 12,341                 |
| High Yield Bond Mutual Fund | 19,325,990           | 529                  | -                   | 173,929             | 19,151,532             |
| Credit Fixed Income         | 12,543,643           | 1,273,714            | 98,369              | 3,853,393           | 7,318,167              |
| <b>Total</b>                | <b>\$ 94,078,429</b> | <b>\$ 47,184,862</b> | <b>\$ 1,397,571</b> | <b>\$ 9,840,420</b> | <b>\$ 35,655,576</b>   |

*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.

### **Discretely Presented Component Units Investments**

The Foundation's investments at June 30, 2015, are reported at fair value as follows:

| Investment Type     | Amount                |
|---------------------|-----------------------|
| Domestic Equities   | \$ 38,928,909         |
| Global Equities     | 61,461,624            |
| Real Assets         | 12,232,126            |
| Fixed Income        | 30,919,505            |
| Hedge Funds         | 60,539,187            |
| Private Investments | 26,931,445            |
| <b>Subtotal</b>     | <b>231,012,796</b>    |
| Plus Accrued Income | 13,756                |
| <b>Total</b>        | <b>\$ 231,026,552</b> |



*Concentration of Credit Risk:* The Foundation maintains certain investment accounts with financial institutions which are not insured by the FDIC. These funds may be subject to insurance by Securities Investor Protection Corporation, subject to various limitations. At June 30, 2015, approximately \$230,500,000 was held in these accounts. 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. The money market mutual fund investment is reported at fair value of \$4,489,954 at June 30, 2015.

*Credit Risk:* At June 30, 2015, the Finance Corporation money market mutual fund investments were rated AAAM by Standard & Poor's.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the investments in a single issuer. All of the Finance Corporation's investments at June 30, 2015 are held with Regions Morgan Keegan money market mutual funds. According to the bond indenture, the Finance Corporation can invest the bond proceeds in these investment vehicles; there are no stated limitations on the amount that can be invested in any one issuer. The short term nature of the investments is due to liquidity needs, since those funds are being used for operating expenses, debt service payments and stadium construction costs.

## 5. Receivables

**Accounts Receivable.** Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2015, the University reported the following amounts as accounts receivable:

| <u>Description</u>               | <u>Amount</u>               |
|----------------------------------|-----------------------------|
| Student Tuition and Fees         | \$ 18,573,048               |
| Contracts and Grants             | 7,166,476                   |
| Other                            | 81,531                      |
| <b>Total Accounts Receivable</b> | <b><u>\$ 25,821,055</u></b> |

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

**Allowance for Doubtful Receivables.** Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$13,829,773, and \$1,687,651, respectively, at June 30, 2015.

## 6. Due From State

The amount due from State consists of \$45,569,379 of Public Education Capital Outlay and \$15,665,110 from the Capital Improvement Fee Trust Fund for construction of University facilities.

## 7. Due From and to Component Units/University

The University's financial statements are reported for the fiscal year ended June 30, 2015. One component unit is not presented (see Note 1). Additionally, component units' due from and due to amounts include receivables and payables between the various component units. Accordingly, amounts reported by the University as due from and to component units on the statement of net position do not agree with amounts reported by the component units as due from and to the University.

## 8. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015, is shown in the following table:

| <u>Description</u>  | <u>Beginning<br/>Balance</u> | <u>Additions</u>     | <u>Reductions</u>     | <u>Ending<br/>Balance</u> |
|---|------------------------------|----------------------|-----------------------|---------------------------|
| Nondepreciable Capital Assets:                              |                              |                      |                       |                           |
| Land  | \$ 28,671,778                | \$ -                 | \$ -                  | \$ 28,671,778             |
| Works of Art and Historical Treasures                       | 4,204,249                    | 73,003               | -                     | 4,277,252                 |
| Construction in Progress                                    | 172,454,441                  | 65,906,584           | 113,042,459           | 125,318,566               |
| <b>Total Nondepreciable Capital Assets</b>                  | <b>\$ 205,330,468</b>        | <b>\$ 65,979,587</b> | <b>\$ 113,042,459</b> | <b>\$ 158,267,596</b>     |
| Depreciable Capital Assets:                                 |                              |                      |                       |                           |
| Buildings   | \$ 912,657,538               | \$ 112,418,591       | \$ 105,545            | \$ 1,024,970,584          |
| Infrastructure and Other Improvements                       | 17,998,121                   | 795,207              | -                     | 18,793,328                |
| Furniture and Equipment                                     | 116,039,713                  | 12,145,762           | 3,042,542             | 125,142,933               |
| Library Resources   | 104,405,937                  | 4,574,687            | 128,672               | 108,851,952               |
| Property Under Capital Leases and Leasehold<br>Improvements | 1,789,567                    | -                    | -                     | 1,789,567                 |
| Computer Software   | 2,360,448                    | 603,058              | 17,625                | 2,945,881                 |
| <b>Total Depreciable Capital Assets</b>                     | <b>1,155,251,324</b>         | <b>130,537,305</b>   | <b>3,294,384</b>      | <b>1,282,494,245</b>      |
| Less, Accumulated Depreciation:                             |                              |                      |                       |                           |
| Buildings   | 276,050,950                  | 25,745,367           | -                     | 301,796,317               |
| Infrastructure and Other Improvements                       | 13,891,895                   | 447,850              | -                     | 14,339,745                |
| Furniture and Equipment                                     | 80,131,219                   | 9,508,573            | 2,990,544             | 86,649,248                |
| Library Resources   | 66,021,701                   | 8,334,064            | 128,671               | 74,227,094                |
| Property Under Capital Leases and Leasehold<br>Improvements | 214,431                      | 101,224              | -                     | 315,655                   |
| Computer Software   | 1,436,804                    | 338,755              | 17,126                | 1,758,433                 |
| <b>Total Accumulated Depreciation</b>                       | <b>437,747,000</b>           | <b>44,475,833</b>    | <b>3,136,341</b>      | <b>479,086,492</b>        |
| <b>Total Depreciable Capital Assets, Net</b>                | <b>\$ 717,504,324</b>        | <b>\$ 86,061,472</b> | <b>\$ 158,043</b>     | <b>\$ 803,407,753</b>     |

## 9. Unearned Revenue

Unearned revenue at June 30, 2015, includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education to spend the funds. Also included are contracts and grant payments received in advance, nonrefundable admission fees, prepaid stadium rental income received from the Finance Corporation, food service revenue, conference center fees, land use fees and athletic revenues received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2015, the University reported the following amounts as unearned revenue.

| <u>Description</u>            | <u>Amount</u>        |
|-------------------------------|----------------------|
| Capital Appropriations        | \$ 13,503,029        |
| Contracts and Grants          | 2,848,205            |
| Admission Fees                | 1,386,300            |
| Stadium Rental Income         | 1,304,083            |
| Food Service Revenue          | 727,065              |
| Conference Center Fees        | 124,384              |
| Land Use Fees                 | 52,381               |
| Athletic Revenues             | 4,802                |
| <b>Total Unearned Revenue</b> | <b>\$ 19,950,249</b> |

## 10. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2015, include capital improvement debt payable, capital lease payable, compensated absences payable, other postemployment benefits payable, the long-term portion of unearned revenue, liability for self-insured claims, net pension liability, and other long-term liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2015, is shown below:

| <u>Description</u>                       | <u>Beginning<br/>Balance</u> | <u>Additions</u>     | <u>Reductions</u>    | <u>Ending<br/>Balance</u> | <u>Current<br/>Portion</u> |
|--|------------------------------|----------------------|----------------------|---------------------------|----------------------------|
| Capital Improvement Debt Payable         | \$ 182,480,253               | \$ -                 | \$ 8,830,086         | \$ 173,650,167            | \$ 9,185,280               |
| Capital Lease Payable                    | 1,037,000                    | -                    | 416,490              | 620,510                   | 205,385                    |
| Compensated Absences Payable             | 37,688,370                   | 5,707,345            | 3,354,973            | 40,040,742                | 3,025,078                  |
| Other Postemployment<br>Benefits Payable | 37,348,000                   | 11,438,000           | 1,102,000            | 47,684,000                | -                          |
| Unearned Revenue                         | 26,392,393                   | 12,527,855           | 1,356,464            | 37,563,784                | -                          |
| Liability for Self-Insured Claims        | 79,830                       | 40,510               | 29,810               | 90,530                    | 42,549                     |
| Net Pension Liability (1)                | 101,883,099                  | 40,760,535           | 68,556,232           | 74,087,402                | 1,498,805                  |
| Other Long-Term Liabilities              | 2,228,562                    | 30,539               | -                    | 2,259,101                 | -                          |
| <b>Total Long-Term Liabilities</b>       | <b>\$ 389,137,507</b>        | <b>\$ 70,504,784</b> | <b>\$ 83,646,055</b> | <b>\$ 375,996,236</b>     | <b>\$ 13,957,097</b>       |

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68. See Notes 2 and 3 to the financial statements.

**Capital Improvement Debt Payable.** The University had the following capital improvement debt payable outstanding at June 30, 2015:

| <b>Capital Improvement Debt<br/>Type and Series</b> | <b>Amount<br/>of Original<br/>Debt</b> | <b>Amount<br/>Outstanding<br/>(1)</b> | <b>Interest<br/>Rates<br/>(Percent)</b> | <b>Maturity<br/>Date<br/>To</b> |
|---|--|---------------------------------------|---|---------------------------------|
| Student Housing Debt:                               |  |                                       |   |                                 |
| 2004A Student Apartments                            | \$ 53,915,000                          | \$ 29,533,745                         | 4.00 to 5.00                            | 2034                            |
| 2011 Student Apartments Refunding                   | 22,210,000                             | 18,635,440                            | 3.00 to 5.00                            | 2025                            |
| 2012 Student Apartments                             | 53,655,000                             | 52,034,012                            | 3.00 to 4.25                            | 2041                            |
| <b>Total Student Housing Debt</b>                   | <b>129,780,000</b>                     | <b>100,203,197</b>                    |   |                                 |
| Parking Garage Debt:                                |  |                                       |   |                                 |
| 2009 Parking Garage A&B                             | 32,000,000                             | 28,195,000                            | 4.50 to 6.875                           | 2039                            |
| 2013A Parking Garage                                | 48,365,000                             | 45,251,970                            | 3.00 to 5.25                            | 2043                            |
| <b>Total Parking Garage Debt</b>                    | <b>80,365,000</b>                      | <b>73,446,970</b>                     |   |                                 |
| <b>Total Capital Improvement Debt</b>               | <b>\$ 210,145,000</b>                  | <b>\$ 173,650,167</b>                 |   |                                 |

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

The University has pledged a portion of future housing rental revenues, traffic and parking fees, and an assessed transportation fee per student to repay \$210,145,000 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 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 2043. 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 \$278,321,913, and principal and interest paid for the current year totaled \$16,629,765. During the 2014-15 fiscal year, housing rental income, traffic and parking fees, and assessed transportation fees totaled \$29,104,905, \$5,264,179, and \$10,384,134, respectively.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2015, are as follows:

| <u>Fiscal Year Ending June 30</u>             | <u>Principal</u>      | <u>Interest</u>       | <u>Total</u>          |
|---|-----------------------|-----------------------|-----------------------|
| 2016  | \$ 8,615,000          | \$ 7,995,015          | \$ 16,610,015         |
| 2017  | 6,920,000             | 7,605,390             | 14,525,390            |
| 2018  | 7,220,000             | 7,293,610             | 14,513,610            |
| 2019  | 7,545,000             | 6,954,130             | 14,499,130            |
| 2020  | 7,285,000             | 6,608,790             | 13,893,790            |
| 2021-2025                                     | 35,880,000            | 28,487,434            | 64,367,434            |
| 2026-2030                                     | 31,540,000            | 21,127,194            | 52,667,194            |
| 2031-2035                                     | 31,265,000            | 13,575,238            | 44,840,238            |
| 2036-2040                                     | 27,030,000            | 6,074,450             | 33,104,450            |
| 2041-2043                                     | 8,590,000             | 710,662               | 9,300,662             |
| <b>Subtotal</b>                               | 171,890,000           | 106,431,913           | 278,321,913           |
| Net Premiums and Losses<br>on Bond Refundings | 1,760,167             | -                     | 1,760,167             |
| <b>Total</b>                                  | <u>\$ 173,650,167</u> | <u>\$ 106,431,913</u> | <u>\$ 280,082,080</u> |

**Capital Lease Payable – Related Party Transaction.** Land and a building in the amount of \$1,037,000 are being acquired under a capital lease agreement with the Foundation. The stated interest rate is 6.6 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2015, are as follows:

| <u>Fiscal Year Ending June 30</u>        | <u>Amount</u>     |
|--|-------------------|
| 2016                                     | \$ 250,212        |
| 2017                                     | 250,212           |
| 2018                                     | 205,003           |
| <b>Total Minimum Payments</b>            | 705,427           |
| Less, Amount Representing Interest       | 84,917            |
| <b>Present Value of Minimum Payments</b> | <u>\$ 620,510</u> |

**Compensated Absences Payable.** Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2015, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$40,040,742. The current portion of the compensated absences liability, \$3,025,078, is the amount expected to be paid in the coming fiscal year, and represents a historical percentage of leave used applied to total accrued leave liability.

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

*Plan Description.* Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for 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 annual report of a public employee retirement system or another entity.

*Funding Policy.* Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded other postemployment benefit (OPEB) costs or the net OPEB obligation. Premiums necessary for funding the Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2014-15 fiscal year, 348 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,102,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,524,000, which represents 0.7 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:

| <u>Description</u>                                      | <u>Amount</u>               |
|---|-----------------------------|
| Normal Cost (Service Cost for One Year)                 | \$ 7,015,000                |
| Amortization of Unfunded Actuarial<br>Accrued Liability | 3,792,000                   |
| Interest on Normal Cost and Amortization                | <u>432,000</u>              |
| <b>Annual Required Contribution</b>                     | 11,239,000                  |
| Interest on Net OPEB Obligation                         | 1,494,000                   |
| Adjustment to Annual Required Contribution              | <u>(1,295,000)</u>          |
| <b>Annual OPEB Cost (Expense)</b>                       | 11,438,000                  |
| Contribution Toward the OPEB Cost                       | <u>(1,102,000)</u>          |
| <b>Increase in Net OPEB Obligation</b>                  | 10,336,000                  |
| Net OPEB Obligation, Beginning of Year                  | <u>37,348,000</u>           |
| <b>Net OPEB Obligation, End of Year</b>                 | <u><u>\$ 47,684,000</u></u> |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2015, and for the 2 preceding fiscal years were as follows:

| <u>Fiscal Year</u> | <u>Annual<br/>OPEB Cost</u> | <u>Percentage of<br/>Annual<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|--------------------|-----------------------------|---|--------------------------------|
| 2012-13            | \$ 8,614,000                | 18.6%   | \$ 26,197,000                  |
| 2013-14            | 12,314,000                  | 9.4%  | 37,348,000                     |
| 2014-15            | 11,438,000                  | 9.6%  | 47,684,000                     |

*Funded Status and Funding Progress.* As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$120,121,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$120,121,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$355,458,891 for the 2014-15 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 33.8 percent.

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

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing

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

The University's OPEB actuarial valuation as of July 1, 2013, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2015, and the University's 2014-15 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 7.21 percent, 7.89 percent, and 7.59 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 6.95 percent, 7.64 percent, and 7.75 percent for the first 3 years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 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, 2015, was 22 years.

**Unearned Revenue.** Long-term unearned revenue at June 30, 2015, includes Public Education Capital Outlay and Capital Improvement Fee Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education to spend the funds. Also included are prepaid stadium rental income received from the Finance Corporation, land use fees, and other unearned revenues received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2015, the University reported the following amounts as long-term unearned revenue:

| <u>Description</u>            | <u>Amount</u>               |
|-------------------------------|-----------------------------|
| Stadium Rental Income         | \$ 22,060,740               |
| Capital Appropriations        | 12,514,127                  |
| Land Use Fees                 | 2,065,950                   |
| Other Unearned Revenues       | <u>922,967</u>              |
| <b>Total Unearned Revenue</b> | <b><u>\$ 37,563,784</u></b> |

**Net Pension Liability.** As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit pension plans. As of June 30, 2015, the University's proportionate share of the net pension liabilities totaled \$74,087,402. Note 13 includes a complete discussion of defined benefit pension plans.

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



## 11. Discretely Presented 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 17). 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, had 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 12). 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, 2015, the outstanding principal balance due under this note payable was \$6.2 million. For the year ended June 30, 2015, total interest incurred and paid was \$208,532.

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 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 5 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 5 year period. The Foundation agrees to pay interest at a rate of 67 percent of the 1-month London Interbank Offered Rate (LIBOR) plus 1.68 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, 2015, are shown in the following table:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>       |
|-----------------------------------|---------------------|
| 2016                              | \$ 745,000          |
| 2017                              | 785,000             |
| 2018                              | 825,000             |
| 2019                              | 865,000             |
| 2020                              | 910,000             |
| Thereafter                        | 2,035,000           |
| <b>Total</b>                      | <b>\$ 6,165,000</b> |

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

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, 2015, totaled \$5,321,198 and relate principally to expenses paid directly by the University on behalf of Health Care Network. The loan also includes approximately \$203,000 of accrued interest as of June 30, 2015. The first payment of \$112,366 of interest on the original loan was made in June 2015.

In June of 2015 the Health Care Network renegotiated the loan agreement with the University and borrowed an additional \$3,109,385. The total loaned by the University to the Health Care Network is \$8,663,962 and the terms are for 21 years at a 2 percent annual interest rate.

In addition, as of July 1, 2015, the Health Care Network will operate as a management services organization for the University. The Health Care Network will retain 15 percent of gross patient service charges as a management fee. The remaining 85 percent of gross patient service charges will be transferred to the University. All cash collections after July 1, 2015, on patient accounts receivable at June 30, 2015, will be transferred to the University. Therefore, the net patient accounts receivable of \$163,384 has been recorded as due to the University at June 30, 2015.

Estimated principal and interest payments for the life of the amounts due to the University based on the balances as of June 30, 2015, are as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Principal</u>    | <u>Interest</u>     | <u>Total</u>        |
|-----------------------------------|---------------------|---------------------|---------------------|
| 2016                              | \$ 295,440          | \$ 172,679          | \$ 468,119          |
| 2017                              | 306,030             | 166,770             | 472,800             |
| 2018                              | 316,878             | 160,650             | 477,528             |
| 2019                              | 327,991             | 154,312             | 482,303             |
| 2020                              | 339,374             | 147,752             | 487,126             |
| 2021-2025                         | 1,877,482           | 632,201             | 2,509,683           |
| 2026-2030                         | 2,206,083           | 431,619             | 2,637,702           |
| 2031-2035                         | 2,575,678           | 196,574             | 2,772,252           |
| 2036                              | 389,006             | 7,780               | 396,786             |
| <b>Total</b>                      | <b>\$ 8,633,962</b> | <b>\$ 2,070,337</b> | <b>\$10,704,299</b> |

## **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 3-month LIBOR plus 1.90 percent. The interest rate on the Series 2009B bonds shall be at a rate equal to the 3 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, 2015, was \$31,415,877.

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 \$2,668,905 and is included in restricted investments.

The Finance Corporation is required to maintain minimum deposits of \$1,000,000 with a 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 12) 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.

The aggregate maturities of these bonds as of June 30, 2015, are as follows:

| <b><u>Fiscal Year Ending June 30</u></b> | <b><u>Principal</u></b> | <b><u>Interest</u></b> | <b><u>Total</u></b>  |
|--|-------------------------|------------------------|----------------------|
| 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                                     | 1,357,143               | 1,522,802              | 2,879,945            |
| 2020                                     | 1,421,429               | 1,449,849              | 2,871,278            |
| 2021-2025                                | 8,135,714               | 6,031,311              | 14,167,025           |
| 2026-2030                                | 10,150,000              | 3,637,678              | 13,787,678           |
| 2031-2033                                | 7,264,286               | 792,888                | 8,057,174            |
| <b>Total</b>                             | <b>\$ 31,415,877</b>    | <b>\$ 18,361,050</b>   | <b>\$ 49,776,927</b> |

## **12. Derivative Financial Instruments – Discretely Presented 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 11. 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 1-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 expired on February 1, 2015.

### **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 3-month LIBOR. The interest rate swap agreement has a maturity date of March 1, 2033.

*Fair Value.* As of June 30, 2015, the Finance Corporation interest rate swap agreement has a derivative liability of \$4,165,629 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, 2015, the fair value of the Series 2007A ineffective interest rate swap agreement was \$1,718,999, 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 2009A bonds reflects a higher rate due to not terminating this interest rate swap agreement. Accordingly, the fair value of \$1,718,999 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 outflow of resources in the amount of \$2,446,631.

*Credit Risk.* As of June 30, 2015, 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 & Poor's and BBB by Fitch Ratings.

*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 3-month LIBOR rate, there is limited basis risk.

*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 Investor Services, (b) "BBB+" as determined by Standard & Poor's, or (c) "BBB" as determined by Fitch Ratings.

*Swap Payments and Associated Debt.* Using rates as of June 30, 2015, 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<br>June 30 | Variable-Rate Bond   |                     | Interest Rate<br>Swap, Net | Total                |
|-------------------------------|----------------------|---------------------|----------------------------|----------------------|
|                               | Principal            | Interest            |                            |                      |
| 2016                          | \$ -                 | \$ 436,690          | \$ 718,310                 | \$ 1,155,000         |
| 2017                          | 260,000              | 436,690             | 718,310                    | 1,415,000            |
| 2018                          | 910,000              | 431,283             | 709,417                    | 2,050,700            |
| 2019                          | 950,000              | 412,360             | 678,290                    | 2,040,650            |
| 2020                          | 995,000              | 392,605             | 645,795                    | 2,033,400            |
| 2021-2025                     | 5,695,000            | 1,633,220           | 2,686,480                  | 10,014,700           |
| 2026-2030                     | 7,105,000            | 985,047             | 1,620,303                  | 9,710,350            |
| 2031-2033                     | 5,085,000            | 214,705             | 353,170                    | 5,652,875            |
| <b>Total</b>                  | <b>\$ 21,000,000</b> | <b>\$ 4,942,600</b> | <b>\$ 8,130,075</b>        | <b>\$ 34,072,675</b> |

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

## **13. Retirement Plans – Defined Benefit Pension Plans**

### **General Information about the Florida Retirement System (FRS)**

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered 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. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of 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' Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The University's FRS and HIS pension expense totaled \$10,297,809 for the 2014-15 fiscal year.

### **FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement

benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan 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 to eligible participants.

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-participating 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. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

*Benefits Provided.* Benefits under the Plan are computed on the basis of age, and/or years of service, average final compensation, and credit service. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

| <u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>    | <u>% Value</u> |
|--|----------------|
| <b>Regular Class members initially enrolled before July 1, 2011</b>      |                |
| Retirement up to age 62 or up to 30 years of service                     | 1.60           |
| Retirement at age 63 or with 31 years of service                         | 1.63           |
| Retirement at age 64 or with 32 years of service                         | 1.65           |
| Retirement at age 65 or with 33 or more years of service                 | 1.68           |
| <b>Regular Class members initially enrolled on or after July 1, 2011</b> |                |
| Retirement up to age 65 or up to 33 years of service                     | 1.60           |
| Retirement at age 66 or with 34 years of service                         | 1.63           |
| Retirement at age 67 or with 35 years of service                         | 1.65           |
| Retirement at age 68 or with 36 or more years of service                 | 1.68           |
| <b>Special Risk Regular</b>  |                |
| Service from December 1, 1970 through September 30, 1974                 | 2.00           |
| Service on and after October 1, 1974                                     | 3.00           |
| <b>Senior Management Service Class</b>                                   | 2.00           |

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living

adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

*Contributions.* The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2014-15 fiscal year were as follows:

| <u>Class</u>  | <u>Percent of Gross Salary</u> |                     |
|---|--------------------------------|---------------------|
|   | <u>Employee</u>                | <u>Employer (1)</u> |
| FRS, Regular  | 3.00                           | 7.37                |
| FRS, Senior Management Service  | 3.00                           | 21.14               |
| FRS, Special Risk   | 3.00                           | 19.82               |
| Deferred Retirement Option Program - Applicable to<br>Members from All of the Above Classes | 0.00                           | 12.28               |
| FRS, Reemployed Retiree   | (2)                            | (2)                 |

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

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

The University's contributions to the Plan totaled \$13,836,828 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At June 30, 2015, the University reported a liability of \$32,080,257 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the University's proportionate share was 0.525779099 percent, which was an increase of 0.145262507 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the University recognized pension expense of \$7,000,945. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



| <u>Description</u>  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ -                                      | \$ 1,985,222                             |
| Change of assumptions   | 5,555,767                                 | -  |
| Net difference between projected and actual earnings on FRS pension plan investments                                | -   | 53,515,195                               |
| Changes in proportion and differences between University FRS contributions and proportionate share of contributions | 21,036,914                                | -  |
| University FRS contributions subsequent to the measurement date   | 13,836,828                                | -  |
| <b>Total</b>  | <b>\$ 40,429,509</b>                      | <b>\$ 55,500,417</b>                     |

The deferred outflows of resources related to pensions totaling \$13,836,828, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>          |
|-----------------------------------|------------------------|
| 2016                              | \$ (8,735,882)         |
| 2017                              | (8,735,882)            |
| 2018                              | (8,735,882)            |
| 2019                              | (8,735,882)            |
| 2020                              | 4,642,917              |
| Thereafter                        | 1,392,875              |
| <b>Total</b>                      | <b>\$ (28,907,736)</b> |

*Actuarial Assumptions.* The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.60 percent  |
| Salary Increases          | 3.25 percent, average, including inflation                                |
| Investment Rate of Return | 7.65 percent, net of pension plan investment expense, including inflation |

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

| <b>Asset Class</b>            | <b>Target Allocation (1)</b> | <b>Annual Arithmetic Return</b> | <b>Compound Annual (Geometric) Return</b> | <b>Standard Deviation</b> |
|-------------------------------|------------------------------|---------------------------------|---|---------------------------|
| Cash                          | 1.00%                        | 3.11%                           | 3.10%                                     | 1.65%                     |
| Intermediate-Term Bonds       | 18.00%                       | 4.18%                           | 4.05%                                     | 5.15%                     |
| High Yield Bonds              | 3.00%                        | 6.79%                           | 6.25%                                     | 10.95%                    |
| Broad US Equities             | 26.50%                       | 8.51%                           | 6.95%                                     | 18.90%                    |
| Developed Foreign Equities    | 21.20%                       | 8.66%                           | 6.85%                                     | 20.40%                    |
| Emerging Market Equities      | 5.30%                        | 11.58%                          | 7.60%                                     | 31.15%                    |
| Private Equity                | 6.00%                        | 11.80%                          | 8.11%                                     | 30.00%                    |
| Hedge Funds / Absolute Return | 7.00%                        | 5.81%                           | 5.35%                                     | 10.00%                    |
| Real Estate (Property)        | 12.00%                       | 7.11%                           | 6.35%                                     | 13.00%                    |
| <b>Total</b>                  | <b>100.00%</b>               |                                 |   |                           |
| Assumed Inflation - Mean      |                              | 2.60%                           |   | 2.00%                     |

Note: (1) As outlined in the Plan's investment policy.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

*Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

|   | <b>1% Decrease (6.65%)</b> | <b>Current Discount Rate (7.65%)</b> | <b>1% Increase (8.65%)</b> |
|---|----------------------------|--------------------------------------|----------------------------|
| University's proportionate share of the net pension liability | \$ 137,211,520             | \$ 32,080,257                        | \$ (55,368,894)            |

*Pension Plan Fiduciary Net Position.* Detailed information about the pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

### **HIS Pension Plan**

*Plan Description.* The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under section 112.363, Florida Statutes and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$1,806,322 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2015, the University reported a liability of \$42,007,145 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within 1 year, net of the University's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportionate share of the net pension liability was based on the University's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the University's proportionate share was 0.449262551 percent, which was an increase of 0.031413453 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the University recognized pension expense of \$3,296,864. In addition, the University reported deferred outflows of resources related to pensions from the following sources:

| <u>Description</u>  | <u>Deferred Outflows<br/>of Resources</u> |
|---|---|
| Change of assumptions   | \$ 1,494,781                              |
| Net difference between projected and actual earnings on HIS pension plan investments                                    | 20,165                                    |
| Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions | 2,355,099                                 |
| University contributions subsequent to the measurement date   | 1,806,322                                 |
| <b>Total</b>  | <b>\$ 5,676,367</b>                       |

The deferred outflows of resources related to pension, totaling \$1,806,322, resulting from University contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year Ending June 30</u> | <u>Amount</u>       |
|-----------------------------------|---------------------|
| 2016                              | \$ 625,990          |
| 2017                              | 625,990             |
| 2018                              | 625,990             |
| 2019                              | 625,990             |
| 2020                              | 620,948             |
| Thereafter                        | 745,137             |
| <b>Total</b>                      | <b>\$ 3,870,045</b> |

*Actuarial Assumptions.* The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                     |  |
|---------------------|--|
| Inflation           | 2.60 percent                               |
| Salary Increases    | 3.25 percent, average, including inflation |
| Municipal Bond Rate | 4.29 percent                               |

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the Florida Retirement System Actuarial Assumptions Conference reviewed the actuarial assumptions for the HIS Plan.

*Discount Rate.* The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

*Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

|   | <u>1%<br/>Decrease<br/>(3.29%)</u> | <u>Current<br/>Discount Rate<br/>(4.29%)</u> | <u>1%<br/>Increase<br/>(5.29%)</u> |
|---|------------------------------------|--|------------------------------------|
| University's proportionate share of the net pension liability | \$ 47,779,726                      | \$ 42,007,145                                | \$ 37,188,692                      |

*Pension Plan Fiduciary Net Position.* Detailed information about pension HIS Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

**14. Retirement Plans – Defined Contribution Pension Plans**

**FRS Investment Plan.** The State Board of Administration (SBA) administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA’s annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

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 the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member’s account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2014-15 fiscal year were as follows:

| <u>Class</u>                   | <u>Percent of<br/>Gross<br/>Compensation</u> |
|--------------------------------|--|
| FRS, Regular                   | 6.30   |
| FRS, Senior Management Service | 7.67   |
| FRS, Special Risk Regular      | 14.00  |

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage

is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled \$2,162,771 for the fiscal year ended June 30, 2015.

**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 8 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 5.14 percent of the participant's salary to the participant's account, 2.54 percent to cover the unfunded actuarial liability of the FRS pension plan, 0.01 percent to cover administrative costs, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by 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.

The University's contributions to the Program totaled \$16,367,723 and employee contributions totaled \$10,692,260 for the 2014-15 fiscal year.

## 15. Construction Commitments

The University's construction commitments at June 30, 2015, are as follows:

| <u>Project Description</u>                         | <u>Total<br/>Commitment</u> | <u>Completed<br/>to Date</u> | <u>Balance<br/>Committed</u> |
|--|-----------------------------|------------------------------|------------------------------|
| Student Academic Support Center                    | \$ 30,938,383               | \$ 9,302,514                 | \$ 21,635,869                |
| User Paid Construction Projects                    | 26,363,329                  | 22,337,856                   | 4,025,473                    |
| Recreation Center Expansion                        | 15,223,487                  | 214,457                      | 15,009,030                   |
| Auxiliary Construction Projects                    | 8,442,907                   | 3,057,664                    | 5,385,243                    |
| <b>Subtotal</b>                                    | <u>80,968,106</u>           | <u>34,912,491</u>            | <u>46,055,615</u>            |
| Projects with Balances Committed Under \$3 Million | <u>110,363,662</u>          | <u>90,406,075</u>            | <u>19,957,587</u>            |
| <b>Total</b>                                       | <u><u>\$191,331,768</u></u> | <u><u>\$125,318,566</u></u>  | <u><u>\$ 66,013,202</u></u>  |

## 16. Operating Lease Commitments

The University leased building space under operating leases, which expire in 2034. 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. Included in the annual payments below are the minimum payments required for the operating lease due to the Foundation as described in Note 17. Future minimum lease commitments for these noncancelable operating leases are as follows:

| <u>Fiscal Year Ending June 30</u>      | <u>Amount</u>               |
|--|-----------------------------|
| 2016                                   | \$ 4,442,954                |
| 2017                                   | 4,573,752                   |
| 2018                                   | 4,731,897                   |
| 2019                                   | 4,825,396                   |
| 2020                                   | 4,922,255                   |
| 2021-2025                              | 13,314,592                  |
| 2026-2030                              | 5,932,457                   |
| 2031-2034                              | 4,910,474                   |
| <b>Total Minimum Payments Required</b> | <b><u>\$ 47,653,777</u></b> |

## **17. 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 \$1,678,177 and \$1,375,281 for the fiscal years ended June 30, 2015, and June 30, 2014, 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 position 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, 2015:

| <u>Fiscal Year Ending June 30</u>      | <u>Amount</u>       |
|--|---------------------|
| 2016                                   | \$ 1,363,000        |
| 2017                                   | 1,363,000           |
| 2018                                   | 1,418,000           |
| 2019                                   | 1,418,000           |
| 2020                                   | 1,418,000           |
| Thereafter                             | 2,836,000           |
| <b>Total Minimum Payments Required</b> | <b>\$ 9,816,000</b> |

### **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:

| <u>Fiscal Year Ending June 30</u>      | <u>Amount</u>        |
|--|----------------------|
| 2016                                   | \$ 1,304,083         |
| 2017                                   | 1,304,083            |
| 2018                                   | 1,304,083            |
| 2019                                   | 1,304,083            |
| 2020                                   | 1,304,083            |
| 2021-2025                              | 6,520,416            |
| 2026-2030                              | 6,520,416            |
| 2031-2033                              | 3,803,576            |
| <b>Total Minimum Payments Required</b> | <b>\$ 23,364,823</b> |

### **18. 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.

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 \$2.2 million during the 2014-15 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 \$1.8 million during the 2014-15 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

## **19. 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 2014-15 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood losses. 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 annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for named windstorm and flood. 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 3 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 or 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.

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 2013-14 and 2014-15 fiscal years are presented in the following table:

| <b>Fiscal Year Ended</b> | <b>Claims Liabilities Beginning of Year</b> | <b>Current Claims and Changes in Estimates</b> | <b>Claim Payments</b> | <b>Claims Liabilities End of Year</b> |
|--------------------------|---|--|-----------------------|---------------------------------------|
| June 30, 2014            | \$ 75,730                                   | \$ 26,536                                      | \$ (22,436)           | \$ 79,830                             |
| June 30, 2015            | 79,830                                      | 40,510   | (29,810)              | 90,530                                |

## 20. 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 an academic department 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:

| <u>Functional Classification</u>       | <u>Amount</u>         |
|--|-----------------------|
| Instruction                            | \$ 280,219,584        |
| Research                               | 96,101,391            |
| Public Services                        | 10,600,011            |
| Academic Support                       | 106,277,463           |
| Student Services                       | 61,033,490            |
| Institutional Support                  | 85,241,153            |
| Operation and Maintenance of Plant     | 55,684,640            |
| Scholarships, Fellowships, and Waivers | 80,552,887            |
| Depreciation                           | 44,475,833            |
| Auxiliary Enterprises                  | 53,427,462            |
| <b>Total Operating Expenses</b>        | <b>\$ 873,613,914</b> |

## 21. Segment Information

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

### Condensed Statement of Net Position

|                                  | <b>Housing<br/>Facility Capital<br/>Improvement<br/>Debt</b> | <b>Parking<br/>Facility Capital<br/>Improvement<br/>Debt</b> |
|----------------------------------|--|--|
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Assets</b>                    |  |  |
| Current Assets                   | \$ 21,057,172  | \$ 10,669,875  |
| Capital Assets, Net              | 127,009,972  | 105,744,565  |
| Other Noncurrent Assets          | 319,494  | 3,579,934  |
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Total Assets</b>              | <b>148,386,638</b>   | <b>119,994,374</b>   |
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Liabilities</b>               |  |  |
| Current Liabilities              | 7,218,804  | 6,229,809  |
| Noncurrent Liabilities           | 94,349,023   | 70,462,336   |
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Total Liabilities</b>         | <b>101,567,827</b>   | <b>76,692,145</b>  |
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Net Position</b>              |  |  |
| Net Investment in Capital Assets | 26,113,341   | 32,211,300   |
| Restricted - Expendable          | 5,071  | 2,862,940  |
| Unrestricted                     | 20,700,399   | 8,227,989  |
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Total Net Position</b>        | <b>\$ 46,818,811</b>   | <b>\$ 43,302,229</b>   |
|                                  | <u>                    </u>                                  | <u>                    </u>                                  |

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

|                                   | <b>Housing<br/>Facility Capital<br/>Improvement<br/>Debt</b> | <b>Parking<br/>Facility Capital<br/>Improvement<br/>Debt</b> |
|-----------------------------------|--|--|
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| Operating Revenues                | \$ 29,104,905  | \$ 15,648,313  |
| Depreciation Expense              | (3,573,984)  | (2,471,637)  |
| Other Operating Expenses          | (16,084,985)   | (8,560,381)  |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Operating Income</b>           | <b>9,445,936</b>   | <b>4,616,295</b>   |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| Nonoperating Revenues (Expenses): |  |  |
| Nonoperating Revenue              | 34,585   | -  |
| Interest Expense                  | (3,900,627)  | (3,899,055)  |
| Nonoperating Expense              | (148,672)  | (110,130)  |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Net Nonoperating Expenses</b>  | <b>(4,014,714)</b>   | <b>(4,009,185)</b>   |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Income Before Transfers</b>    | <b>5,431,222</b>   | <b>607,110</b>   |
| Net Transfers                     | -  | 2,865,852  |
| Capital Grants                    | -  | 595,421  |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Increase in Net Position</b>   | <b>5,431,222</b>   | <b>4,068,383</b>   |
| Net Position, Beginning of Year   | 41,387,589   | 39,233,846   |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |
| <b>Net Position, End of Year</b>  | <b>\$ 46,818,811</b>   | <b>\$ 43,302,229</b>   |
|                                   | <u>                    </u>                                  | <u>                    </u>                                  |

## Condensed Statement of Cash Flows

|  | <b>Housing<br/>Facility Capital<br/>Improvement<br/>Debt</b> | <b>Parking<br/>Facility Capital<br/>Improvement<br/>Debt</b> |
|--|--|--|
| Net Cash Provided (Used) by:                     |  |  |
| Operating Activities                             | \$ 13,004,215  | \$ 7,213,936   |
| Noncapital Financing Activities                  | 34,585   | -  |
| Capital and Related Financing Activities         | (12,160,915)   | (27,799,301)   |
| Investing Activities                             | (72,982)   | 21,547,611   |
| <b>Net Increase in Cash and Cash Equivalents</b> | 804,903  | 962,246  |
| Cash and Cash Equivalents, Beginning of Year     | 616,917  | 152,826  |
| <b>Cash and Cash Equivalents, End of Year</b>    | <b>\$ 1,421,820</b>  | <b>\$ 1,115,072</b>  |

### 22. Discretely Presented Component Units

The University has four component units. As discussed in Note 1, the financial activities of the Research Foundation are not included in the discretely presented component units' columns of the financial statements. The remaining three discretely presented 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:

## Condensed Statement of Net Position

|                                       | Direct-Support Organizations                                  |   |  |                |
|---------------------------------------|---|---|--|----------------|
|                                       | Florida<br>International<br>University<br>Foundation,<br>Inc. | FIU Athletics<br>Finance<br>Corporation | Florida<br>International<br>University<br>Academic<br>Health Center<br>Health Care<br>Network<br>Faculty Group<br>Practice, Inc. | Total          |
| <b>Assets:</b>                        |   |   |  |                |
| Current Assets                        | \$ 326,632,788  | \$ 3,578,449                            | \$ 1,355,014   | \$ 331,566,251 |
| Capital Assets, Net                   | 18,190,373  | -                                       | 440,144  | 18,630,517     |
| Other Noncurrent Assets               | 500,305   | 25,748,282                              | -  | 26,248,587     |
| <b>Total Assets</b>                   | 345,323,466   | 29,326,731                              | 1,795,158  | 376,445,355    |
| <b>Deferred Outflows of Resources</b> | -   | 2,732,791                               | -  | 2,732,791      |
| <b>Liabilities:</b>                   |   |   |  |                |
| Current Liabilities                   | 4,931,550   | 1,170,705                               | 1,422,499  | 7,524,754      |
| Noncurrent Liabilities                | 6,246,281   | 35,884,237                              | 8,165,843  | 50,296,361     |
| <b>Total Liabilities</b>              | 11,177,831  | 37,054,942                              | 9,588,342  | 57,821,115     |
| <b>Net Position:</b>                  |   |   |  |                |
| Net Investment in Capital Assets      | 11,304,247  | -                                       | -  | 11,304,247     |
| Restricted Nonexpendable              | 206,408,578   | -                                       | -  | 206,408,578    |
| Restricted Expendable                 | 95,709,060  | -                                       | -  | 95,709,060     |
| Unrestricted                          | 20,723,750  | (4,995,420)                             | (7,793,184)  | 7,935,146      |
| <b>Total Net Position</b>             | \$ 334,145,635  | \$ (4,995,420)                          | \$ (7,793,184)   | \$ 321,357,031 |

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

|   | Direct Support Organizations                                  |   |  | Total          |
|---|---|---|--|----------------|
|   | Florida<br>International<br>University<br>Foundation,<br>Inc. | FIU Athletics<br>Finance<br>Corporation | Florida<br>International<br>University<br>Academic<br>Health Center<br>Health Care<br>Network<br>Faculty Group<br>Practice, Inc. |                |
| Operating Revenues                          | \$ 45,569,475   | \$ 3,781,020                            | \$ 5,966,249   | \$ 55,316,744  |
| Depreciation Expense                        | (664,732)   | -                                       | (235,106)  | (899,838)      |
| Operating Expenses                          | (28,857,679)  | (2,457,568)                             | (8,400,069)  | (39,715,316)   |
| <b>Operating Income (Loss)</b>              | 16,047,064  | 1,323,452                               | (2,668,926)  | 14,701,590     |
| Net Nonoperating Revenues (Expenses)        |   |   |  |                |
| Investment Income (Loss)                    | 6,488,817   | (32,310)                                | -  | 6,456,507      |
| Interest Expense                            | -   | (1,342,489)                             | (112,366)  | (1,454,855)    |
| Loss on Disposal of Capital Assets          | -   | -                                       | (836,157)  | (836,157)      |
| <b>Net Nonoperating Revenues (Expenses)</b> | 6,488,817   | (1,374,799)                             | (948,523)  | 4,165,495      |
| Other Revenues, Expenses, Gains, and Losses | -   | (370,000)                               | (114,695)  | (484,695)      |
| <b>Increase (Decrease) in Net Position</b>  | 22,535,881  | (421,347)                               | (3,732,144)  | 18,382,390     |
| Net Position, Beginning of Year             | 311,609,754   | (4,574,073)                             | (4,061,040)  | 302,974,641    |
| <b>Net Position, End of Year</b>            | \$ 334,145,635  | \$ (4,995,420)                          | \$ (7,793,184)   | \$ 321,357,031 |

### 23. Subsequent Events

To achieve debt service savings from lower interest rates, the Board of Governors is issuing revenue refunding bonds. Sale and issuance of \$29,105,000 State of Florida, Board of Governors, Florida International University Housing Facility Revenue Bonds, Series 2015A, will be used to defease all of the outstanding State of Florida, Board of Regents, Florida International University Housing Facility Revenue Bonds Series 2004, maturing in the years 2016 through 2034. The sale and issuance was completed on July 21, 2015.

## OTHER REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Funding Progress – Other Postemployment Benefits Plan

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability (AAL)<br>(1)<br>(b) | Unfunded<br>AAL<br>(UAAL) (2)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>[(b-a)/c] |       |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|-------|
| 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% |
| 7/1/2013                       |  | -   | 120,121,000                            | 120,121,000              | 0%                        | 332,597,433   | 36.1% |

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

- (2) The July 1, 2013, unfunded actuarial accrued liability of \$120,121,000 was higher than the July 1, 2011, liability of \$101,015,000 primarily as a result of lower than expected increases in retiree contribution rates, an implicit subsidy resulting from less than the full cost of coverage now being paid by participants in four HMO plans, changes in demographic data and assumptions, and certain trend assumptions.

### Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

|   | 2014 (1)       | 2013 (1)       |
|---|----------------|----------------|
| University's proportion of the FRS net pension liability  | 0.525779099%   | 0.380516592%   |
| University's proportionate share of the FRS net pension liability   | \$ 32,080,257  | \$ 65,503,841  |
| University's covered-employee payroll (2)   | \$ 332,597,433 | \$ 305,657,917 |
| University's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll | 9.65%          | 21.43%         |
| FRS Plan fiduciary net position as a percentage of the FRS total pension liability                                | 96.09%         | 88.54%         |

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

- (2) Covered-employee payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.



**Schedule of University Contributions –  
Florida Retirement System Pension Plan**

|  | <u>2015 (1)</u>     | <u>2014 (1)</u>     |
|--|---------------------|---------------------|
| Contractually required FRS contribution                                  | \$ 13,836,828       | \$ 11,516,793       |
| FRS contributions in relation to the contractually required contribution | <u>(13,836,828)</u> | <u>(11,516,793)</u> |
| FRS contribution deficiency (excess)                                     | <u>\$ -</u>         | <u>\$ -</u>         |
| University's covered-employee payroll (2)                                | \$ 355,458,891      | \$ 332,597,433      |
| FRS contributions as a percentage of covered-employee payroll            | 3.89%               | 3.46%               |

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of the University's Proportionate Share  
of the Net Pension Liability –  
Health Insurance Subsidy Pension Plan**

|   | <u>2014 (1)</u> | <u>2013 (1)</u> |
|---|-----------------|-----------------|
| University's proportion of the HIS net pension liability  | 0.449262551%    | 0.417849098%    |
| University's proportionate share of the HIS net pension liability   | \$ 42,007,145   | \$ 36,379,258   |
| University's covered-employee payroll (2)   | \$ 130,882,051  | \$ 118,388,264  |
| University's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll | 32.10%          | 30.73%          |
| HIS Plan fiduciary net position as a percentage of the HIS total pension liability                                | 0.99%           | 1.78%           |

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of University Contributions –  
Health Insurance Subsidy Pension Plan**

|  | <u>2015 (1)</u>    | <u>2014 (1)</u>    |
|--|--------------------|--------------------|
| Contractually required HIS contribution                                      | \$ 1,806,322       | \$ 1,539,022       |
| HIS contributions in relation to the contractually required HIS contribution | <u>(1,806,322)</u> | <u>(1,539,022)</u> |
| HIS contribution deficiency (excess)   | <u>\$ -</u>        | <u>\$ -</u>        |
| University's covered-employee payroll (2)                                    | \$ 140,089,301     | \$ 130,882,051     |
| HIS contributions as a percentage of covered-employee payroll                | 1.29%              | 1.18%              |

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered-employee payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**1. Schedule of Net Pension Liability and Schedule of Contributions –  
Florida Retirement System Pension Plan**

*Changes of assumptions.* As of June 30, 2014, the inflation rate assumption decreased from 3 percent to 2.6 percent, the real payroll growth assumption decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

**2. Schedule of Net Pension Liability and Schedule of Contributions –  
Health Insurance Subsidy Pension Plan**

*Changes of assumptions.* As of June 30, 2014, the municipal bond rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.



Sherrill F. Norman, 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 ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 2015, 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 28, 2016, 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 from 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*.

The results of our operational audit of the University will be presented in a separate report.

### **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 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 results 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,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 28, 2016