

# FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES FINANCE AND AUDIT COMMITTEE

Wednesday, March 14, 2012 8.30 am Florida International University Modesto A. Maidique Campus Graham Center Ballrooms

### Committee Membership:

Sukrit Agrawal, Chair; Michael M. Adler, Vice Chair; Cesar L. Alvarez; Thomas A. Breslin; Gerald C. Grant, Jr.

#### Liaison:

Richard Brilliant, Foundation Board of Directors

**6. Reports** (For Information Only)

6.1 Treasury Report

### **AGENDA**

Call to Order and Chair's Remarks Sukrit Agrawal 2. **Approval of Minutes** Sukrit Agrawal Follow-up to Item from Previous Meeting Andrew S. Fierman Differences in Financial Statements by Marcum LLP 4. Action Items FA1. FIU Research Foundation, Inc. Financial Audit, FY 2010-11 Kenneth A. Jessell FA2. Investment Policy Amendment Kenneth A. Jessell 5. **Discussion Items** (No Action Required) 5.1 Office of Internal Audit Status Report Allen Vann 5.2 Budget Variance Analysis - Second Quarter 2012 Kenneth A. Jessell **Foundation Report** Richard Brilliant

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The Florida International University Board of Trustees Finance and Audit Committee Agenda March 14, 2012 Page 2

### 6. Reports (Continued...)

6.2 Athletics Update Pete Garcia

6.3 University Compliance Report Leyda Benitez

6.4 Construction Status Update John Cal

6.5 Business Services Update Aime Martinez

6.6 Emergency Management Update Amy B. Aiken

6.7 Division of Research Andres G. Gil

### 7. New Business

- 7.1 Review of Financial and Operational Audits for Fiscal Year Ended June 30, 2011
- 7.2 Senior Management Discussion of Audit Processes

### 8. Concluding Remarks and Adjournment

Sukrit Agrawal

Next Finance and Audit Committee Meeting is scheduled for June 6, 2012

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Approval of Minutes of the Meeting held November 22, 2011

### **Proposed Committee Action:**

Approval of Minutes of the Finance and Audit Committee meeting held on Tuesday, November 22, 2011, at the Modesto A. Maidique Campus, Graham Center Ballrooms.

### **Background Information:**

Committee members will review and approve the Minutes of the Finance and Audit meeting held on Tuesday, November 22, 2011, at the Modesto A. Maidique Campus, Graham Center Ballrooms.

**Supporting Documentation:** Finance and Audit Committee Meeting Minutes:

November 22, 2011

Facilitator/Presenter: Committee Chair Sukrit Agrawal

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# FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES FINANCE AND AUDIT COMMITTEE MINUTES NOVEMBER 22, 2011

### 1. Call to Order and Chair's Remarks

The Florida International University Board of Trustees' Finance and Audit Committee meeting was called to order by Committee Chair Sukrit Agrawal at 10:50 am on Tuesday, November 22, 2011, at the Modesto A. Maidique Campus, Graham Center Ballrooms.

The following attendance was recorded:

#### Present

Sukrit Agrawal, *Chair*Michael M. Adler, *Vice Chair*Cesar L. Alvarez
Thomas A. Breslin
Gerald C. Grant, Jr.

Trustee Jorge L. Arrizurieta and University President Mark B. Rosenberg were also in attendance.

Committee Chair Agrawal welcomed all Trustees, faculty and staff. He also welcomed Trustee Gerald C. Grant, Jr. and thanked him for agreeing to serve as a member of the Committee, noting that his expertise will prove to be invaluable to the Committee. Committee Chair Agrawal extended a cordial welcome to FIU Foundation Board of Directors Vice Chair T. Gene Prescott, noting that he would later provide the Foundation Report.

On behalf of the Committee, Chair Agrawal thanked Trustee Mayi de la Vega for her prior service as a member of the Finance and Audit Committee, noting that the Board continues to rely on her contributions and insight as she selflessly devotes her time and efforts to other Committee assignments.

#### 2. Approval of Minutes

Committee Chair Agrawal asked that the Committee approve the Minutes of the meeting held on August 17, 2011. A motion was made and passed to approve the Minutes of the Finance and Audit Committee Meeting held on Wednesday, August 17, 2011.

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#### 3. Action Items

### FA1. Authorize Student Debt Collection Regulation

Senior Vice President of Administration and Chief Financial Officer Kenneth A. Jessell presented the Student Debt Collection Regulation for Committee review, noting that FIU Regulation-1109 provides procedures for the collection of funds owed to the University by its current or former students. He added that as is required by Florida Law, the University is to exert every effort to collect all delinquent accounts that are owed.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend for Board of Trustees' approval the Student Debt Collection Regulation.

### FA2. Authorize Employee Debt Collection Regulation

Sr. VP and CFO Jessell presented the Employee Debt Collection Regulation for Committee review, noting that FIU Regulation-1111 provides procedures for the collection of funds owed to the University by its current or former employees. He added that the University established Rule 6C8-6.007 entitled "Collection of Funds Owed to the University by its Employees" on October 23, 1985, which provided a process for collecting employees' debts. He noted that due to legislative changes, this FIU Rule was repealed together with other FIU Rules, adding that these Rules have been or are being replaced by FIU regulations.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend for Board of Trustees' approval the Employee Debt Collection Regulation.

### FA3. Amendment to Signature Authority – Authorization to Sign Checks for Certain Foreign Research Program Accounts

Sr. VP and CFO Jessell presented the Amendment to Signature Authority – Authorization to Sign Checks for Certain Foreign Research Program Accounts for Committee review and requested the Board approve an amendment to an existing Signature Authority related to the following projects: West African Water, Sanitation Hygiene Program and the Rwanda Integrated Water Security Program. He noted that access to the bank accounts by local Program staff will be kept to the minimum persons necessary to effectively perform the Programs. He added that controls will be followed to ensure that the bank accounts are used appropriately for Program purposes and that FIU personnel on the main campus maintain oversight and monitoring of the bank accounts' use.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend that the FIU Board of Trustees amend the Signature Authority - Authorization to Sign Checks for Certain Foreign Research Program Accounts to reflect the following changes:

For the West African Water, Sanitation Hygiene Program:

Remove: Ms. Salimata Marico, Mali Program Coordinator for West Africa Program

Approve: Mr. Adama Ouedraogo, West Africa Program Office Manager

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For the Rwanda Integrated Water Security Program:

Approve: Dr. David Mutekanga - Director

Mr. Egide Nkuranga - Deputy Director Ms. Macklean Rwivanga - Office Manager

### FA4. FIU Direct Support Organizations Financial Audits, FY2010-2011

Sr. VP and CFO Jessell presented the FIU Direct Support Organizations FY 2010-2011 Financial Audits for Committee review. He reported that *Marcum, LLP* performed the financial audits for: the FIU Foundation, Inc.; the FIU Athletics Finance Corp; and the FIU Academic Health Center Health Care Network Faculty Group Practice, Inc. He noted that the audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*. He further reported that the results of the respective audits did not identify any deficiencies in internal control over financial reporting that were considered to be material weaknesses.

Sr. VP and CFO Jessell noted that the FIU Research Foundation, Inc. 2010-2011 Financial Audit would be presented for review and consideration at the next regularly scheduled Finance and Audit Committee Meeting.

### FA4-A. FIU Foundation, Inc.

Sr. VP and CFO Jessell noted that the FIU Foundation, Inc. Board of Directors Executive Committee approved the 2010-2011 financial audit at its November 21, 2011 meeting and was submitting the audit to the Board of Trustees for approval.

A motion was made and passed that the FIU Board of Trustees' Finance and Audit Committee recommend for Board of Trustees' approval the Florida International University Foundation, Inc. and Subsidiaries Financial Audit for the 2010-2011 Fiscal Year and authorize the President and CEO of the FIU Foundation, Inc. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

### FA4-B. FIU Athletics Finance Corporation

Sr. VP and CFO Jessell noted that the FIU Athletics Finance Corp. Board of Directors approved the 2010-2011 financial audit at its November 17, 2011 meeting and was submitting the audit to the Board of Trustees for approval.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend for Board of Trustees' approval the Florida International University Athletics Finance Corporation Financial Audit for the 2010-2011 Fiscal Year and authorize the Executive Director of the FIU Athletics Finance Corp. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

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### FA4-C. FIU Academic Health Center Health Care Network Faculty Group Practice, Inc.

Sr. VP and CFO Jessell noted that the FIU Academic Health Center Health Care Network Faculty Group Practice, Inc. Board of Directors approved the 2010-2011 financial audit at its October 19, 2011 meeting and was submitting the audit to the Board of Trustees for approval.

A motion was made and passed that the FIU Board of Trustees Finance and Audit Committee recommend for Board of Trustees' approval the Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. Financial Audit for the 2010-2011 Fiscal Year and authorize the Executive Director of the Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

### 4. Discussion Items

### 4.1 Office of Internal Audit Status Report

Office of Internal Audit Director, Allen Vann, presented the Internal Audit Report, providing updates on recently completed investigations, work in progress and consulting activities aimed at supporting University initiatives.

### 4.2. Budget Variance Analysis – First Quarter 2012

Sr. VP and CFO Jessell presented the Budget Variance Analysis for the first quarter of the 2011-2012 fiscal year and provided a summary of University revenues and expenditures. He reported that the University and direct support organizations' operating revenues were above estimates by \$22 million (or eight percent), which can be attributed to State match receivables on gifts and other contributions in addition to higher demand than anticipated for market rate and continuing education programs. He also reported that University and direct support organizations' operating expenses were below estimates by \$9 million (or four percent) due to factors such as vacant positions and delays of critical expenditures.

### 4.3 Foundation Report

T. Gene Prescott, FIU Foundation, Inc. Board of Directors Vice Chair, noted that Foundation Treasurer and Liaison to the Finance and Audit Committee Richard Brilliant sent his regrets as he was not able to attend. Foundation Vice Chair Prescott presented an update on fundraising, noting that to date \$10.9 million has been raised towards the \$37 million University goal. He stated that Senior Vice President for University Advancement/President and CEO of the FIU Foundation Inc. Howard R. Lipman is working closely with the Board of Directors to continue to build the infrastructure that is critical for a successful fundraising program and the capital campaign.

### 4.4 Priorities for the 2012 Legislative Session

Vice President of Governmental Relations Stephen A. Sauls led a discussion on the priorities for the 2012 Legislative Session, noting that the primary objective for FIU's 2012-2013 appropriation will be

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to maintain current funding levels for University programs. He added that minimizing further state funding reductions was imperative as the University remains committed to educating and graduating current students and also meeting the community's need for access to a quality public university. He reported that other priorities included funding for the Herbert Wertheim College of Medicine to continue its accreditation plan and prepare for its sixth year, approval of fixed capital outlay priorities funded by the Public Education Capital Outlay Trust Fund for university projects, the continuation of the Matching Gifts Program for University donors, funding for University faculty and staff compensation, as well as funding for the "New Florida" initiative that is critical to build a new knowledge-based sector of the Florida economy.

University President Mark B. Rosenberg led a discussion on the challenges the University was facing. He noted that institutions within the State University System are competing for limited and declining State capital revenues. He added that despite limited financial resources, the University's infrastructure must continue to grow in order to provide services, and activities that not only support teaching and learning but also are essential to student life and meeting the needs of the South Florida community. He stated that as reliance on state appropriations has declined over the past few years, the University has an even greater urgency to seek efficiencies and diversify funding beyond traditional government sources. He further noted that the growth of the University's infrastructure is guided by the Board-approved Worlds Ahead Strategic Plan, adding that fixed capital outlay priorities not only account for new projects but also for critical maintenance on existing buildings.

President Rosenberg stated that the proposed budget presented by the House of Representatives changes eligibility criteria for Pell Grants, noting that this could result in the loss of aid to students who are current recipients. He added that at FIU, the number of students who qualify for Pell Grants has increased over the past few years and now is equivalent to approximately 48 percent of undergraduate students. He further noted that Pell Grants provide the opportunity to academically qualified and talented students that are financially needy to pursue the dream of a college education.

Trustee Cesar L. Alvarez noted that state universities are often not recognized as an investment but viewed rather as an expense and inquired as to the University's efforts in aligning its efforts with the needs of the business community. VP Sauls noted that the University continues to actively align degree production with Florida workforce needs, adding that FIU has been at the forefront in engaging with the community. Provost and Executive Vice President Douglas Wartzok noted that each of the Colleges works with an advisory board that is comprised of community leaders that review and discuss the growth opportunities in the region. Trustee Gerald C. Grant, Jr. congratulated the University on key partnerships, such as the collaboration with Florida Power and Light that offers student internships that often lead to permanent positions.

### 4.5 Division of Research – Bonding Research Facility

Vice President of Research Andres G. Gil reported that there are 17 existing laboratories available for renovation or retrofitting for the current fiscal year and there is very limited dry laboratory space for growth among current faculty and students. He added that this space is insufficient for the

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projected growth in research activities by current faculty and projected growth in new faculty research, as well as projected growth in graduate students and postdoctoral fellows. He stated that while new buildings scheduled to open in 2013 will provide 65 new laboratories, the projected need will be 106, representing an approximate shortfall of 41 laboratories.

VP Gil reported that in order to meet the needs related to the planned growth in research activities, doctorate programs, faculty hiring, and new specialized research areas, the Division of Research will seek to request Board approval for construction and financing of the "Research I" building dedicated to research functions. He stated that the facility will meet the projected research needs and will encompass a minimum of 80,958 gross square feet. He added that the mixed-used research building will meet the expansion needs of the entire research enterprise at FIU, while simultaneously enhancing the research breadth and quality for University faculty and students.

### 5. Reports

Committee Chair Agrawal requested that the Treasury Report, Athletics Update, University Compliance Report, Construction Status Update, Business Services Update, and Emergency Management Update be accepted as written. There were no objections.

#### 6. New Business

Committee Chair Agrawal noted that as is stipulated in the Finance and Audit Committee Charter, senior management is excused from the conversation with the Office of Internal Audit. He announced that it was not obligatory for members of the public to exit the meeting, noting that it was acceptable for anyone to remain present for the discussion. The Committee confirmed that the Office of Internal Audit experienced no restrictions in scope, resources and records access. Trustee Cesar L. Alvarez recommended that Chair Agrawal consider requesting senior management to provide an outside CPA to present an overview to the Committee on navigating through the University's financial statements, which are based on government/not-for-profit fund accounting principles.

### 7. Concluding Remarks and Adjournment

With no other business, Committee Chair Sukrit Agrawal adjourned the meeting of the Florida International University Board of Trustees Finance and Audit Committee on Tuesday, November 22, 2011, at 12:30 pm.

Trustee requests:
There were no Trustee requests.

*MB 12.1.11* 

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Follow up to Item from Previous Meeting

### **Proposed Committee Action:**

None. For discussion only.

### **Background Information:**

In response to Board member request for follow up, Mr. Andrew S. Fierman, CPA of Marcum LLP will provide a presentation on the differences in financial statements.

**Supporting Documentation:** N/A

Facilitator/Presenter: Andrew S. Fierman

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Agenda Item 4 FA1

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Florida International University Research Foundation, Inc. Financial Audit, 2010-2011

### **Proposed Committee Action:**

Recommend approval by the Florida International University Board of Trustees of the Florida International University Research Foundation, Inc. Financial Audit for the 2010-2011 Fiscal Year and authorize the Executive Director of the Florida International University Research Foundation, Inc. to take all actions necessary pertaining to this Financial Audit, including filing the report with the Auditor General.

### **Background information:**

Pursuant to Regulation FIU-1502 (2)(f), the Florida International University Research Foundation, Inc. must submit an independently conducted financial audit of its accounts and records, which should be approved by its governing board and recommended by the University President to the Florida International University Board of Trustees for review and approval.

The Florida International University Research Foundation, Inc. Financial Audit for 2010-2011 was submitted and approved by the Florida International University Research Foundation, Inc. Board of Directors on February 22, 2012, and the University President is recommending its approval.

Florida Board of Governors Regulation 9.011(4), University Direct Support Organizations and Health Services Support Organizations, states in relevant part:

Support organizations shall provide for an annual audit conducted pursuant to university regulations or policies. The annual audit report shall be submitted to the university board of trustees or designee, the Board of Governors, and the Auditor General for review.

**Supporting Documentation:** Florida International University Research Foundation,

Inc. Financial Audit, 2010-2011

Facilitator/Presenter: Kenneth A. Jessell

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(A Direct Support Organization)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

(A Direct Support Organization)

### TABLE OF CONTENTS

| Independent Auditors' Report  | 1-2   |
|---|-------|
| Management's Discussion and Analysis  | 3-8   |
| Basic Financial Statements  |       |
| Statement of Net Assets – Research Foundation   | 9     |
| Statement of Financial Position – iWASH Initiative Limited  |       |
| Statement of Revenues, Expenses and Changes in Net Assets – Research Foundation   | 11    |
| Statement of Comprehensive Income and Statement of changes in Equity –  |       |
| iWASH Initiative Limited  | 12    |
| Statement of Cash Flows – Research Foundation   |       |
| Statement of Cash Flows – iWASH Initiative Limited.   |       |
| Notes to Financial Statements   |       |
| Compliance Section  Independent Auditors' 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  | 29-30 |



#### INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors and the
Assistant Vice President of Direct Support Organizations
Florida International University Research Foundation, Incorporated
Miami, Florida

We have audited the accompanying statement of net assets of Florida International University Research Foundation, Incorporated (the Research Foundation), a direct support organization and a component unit of Florida International University, as of June 30, 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Florida International Research iWASH Initiative Limited (iWASH Limited), a component unit of the Research Foundation, as of and for the period ended December 31, 2010, which were prepared in accordance with International Financial Reporting Standards and the Tanzania Companies Act. Those financial statements were audited by other independent auditors, in accordance with International Standards on Auditing, whose report thereon has been furnished to us, and our opinion on the financial statements insofar as it relates to the amounts and disclosures included for the Florida International Research iWash Limited are based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.



In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Research Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America and, with respect to iWASH Limited, in accordance with International Financial Reporting Standards and the Tanzania Companies Act.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2012 on our consideration of the Research Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 to 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Miami, FL

February 14, 2012

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the Florida International University Research Foundation, Incorporated (the "Research Foundation") for the fiscal year ended June 30, 2011, and should be read in conjunction with the financial statements and notes thereto. The MD&A, financial statements and notes thereto, are the responsibility of management.

#### FINANCIAL HIGHLIGHTS

The Research Foundation's assets totaled \$141.7 thousand at June 30, 2011. This balance reflects a \$499.4 thousand, or 78 percent, decrease from the 2010 fiscal year, resulting primarily from a decrease in cash of \$499.4 thousand. While assets decreased, liabilities also decreased by \$523.1 thousand, or 100 percent, totaling \$468 at June 30, 2011, compared to \$523.8 thousand at June 30, 2010. As a result, the Research Foundation's net assets increased slightly by \$23.7 thousand reaching a year-end balance of \$141.3 thousand.

The Research Foundation operating expenses totaled \$19.2 thousand for the 2011 fiscal year, representing an increase of 21 percent over the 2010 fiscal year due mainly to an increase in professional fees.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

The Research Foundation's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

### The Statement of Net Assets

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

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

|  | ,  | 2011  | ,  | 2010  |
|--|----|-------|----|-------|
| Assets Current assets                  | \$ | 141.7 | \$ | 641.1 |
| Total Assets                           |    | 141.7 |    | 641.1 |
| <b>Liabilities</b> Current liabilities |    | 0.4   |    | 522.6 |
| Total Liabilities                      |    | 0.4   |    | 522.6 |
| Net Assets Unrestricted                |    | 141.3 |    | 118.5 |
| <b>Total Net Assets</b>                | \$ | 141.3 | \$ | 118.5 |

The statement of net assets reflects the Research Foundation's stable growth. Current assets mainly depict cash. The current assets decrease is mainly a result of cash being used to repay the note payable related to the Settlement Agreement with the Department of Justice on behalf of various agencies of the United States government.

In summary, total assets decreased by \$499.4 thousand, or 78 percent, while total liabilities decreased by \$523.1 thousand, or 100 percent. As a result, the net assets balance at June 30, 2011, had a favorable increase of \$23.7 thousand.

For more detailed information, see the statement of net assets on page 9 of the financial statements.

### The Statement of Revenues, Expenses and Changes in Net Assets

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

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following summarizes the Research Foundation's activity for the 2011 and 2010 fiscal years:

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

| (====================================== |          |          |
|---|----------|----------|
|   | 2011     | 2010     |
| Operating Expenses                      | \$ 19.2  | \$ 15.8  |
| Operating Loss                          | (19.2)   | (15.8)   |
| Net non-operating expenses              | (44.9)   | (41.2)   |
| Net non-operating revenues              | 3.4      | 58.3     |
| Expenses before transfers               | (60.7)   | 1.3      |
| Transfer from FIU                       | 83.5     |          |
| Changes in Net Assets                   | 22.8     | 1.3      |
| Net Assets - Beginning of Year          | 118.5    | 117.2    |
| Net Assets - End of Year                | \$ 141.3 | \$ 118.5 |

### **Operating Revenues**

The Research Foundation categorizes revenues as either operating or non-operating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. There were no operating revenues in the current year.

### **Operating Expenses**

The Research Foundation categorizes expenses as operating or non-operating. GASB allows financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The Research Foundation has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net assets.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following summarizes the operating expenses by natural classifications for the 2011 and 2010 fiscal years:

### Operating Expenses (In Thousands)

|                                 | 2  | 011  |    | 2010 |
|---------------------------------|----|------|----|------|
| Professional fees               | \$ | 17.9 | \$ | 15.0 |
| Other operating expenses        |    | 1.3  |    | 0.8  |
| <b>Total Operating Expenses</b> | \$ | 19.2 | \$ | 15.8 |

Operating expenses totaled \$19.2 thousand for the 2011 fiscal year. This represents a 21 percent increase over the 2010 fiscal year and was primarily due to an increase in professional fees of \$2.9 thousand.

### Non-Operating Revenues and Expenses

Non-operating revenues include interest income, gain on maturity of the derivative instrument, and any payments paid to or received from the University in relation to the Settlement Agreement for interest on the note payable. Non-operating expenses include interest related to the note payable and return of funds to FIU.

The following summarizes the Research Foundation's non-operating revenues and expenses for the 2011 and 2010 fiscal years:

### Non-operating Revenues (Expenses) (In Thousands)

|   | <br>2011     | 2010         |
|---|--------------|--------------|
| Non-operating revenue (expenses)          | \$<br>(44.9) | \$<br>19.5   |
| Interest expense                          | -            | (41.2)       |
| Unrealized gain on derivative instrument  | -            | 38.8         |
| Gain on maturity of derivative instrument | <br>3.4      | <br><u>-</u> |
| Net Non-operating Revenues (Expenses)     | \$<br>(41.5) | \$<br>17.1   |

Non-operating expenses increased by \$58 thousand from the prior year due mainly to an increase in non operating expenses for the final transfer of excess funds to the University related to the Settlement Agreement. In the past the University had transferred funds to the Research Foundation for the payment of interest and principal on the note payable.

(A Direct Support Organization)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### TRANSFERS

Transfers for the 2011 fiscal year totaled \$83 thousand primarily related to the transfer of royalty income from the University to support the operating expenses of the Research Foundation.

### **DEBT ADMINISTRATION**

As of June 30, 2011, the Research Foundation had no outstanding notes payable since the final principal payment of \$515 thousand was paid on July 1, 2010, representing the final maturity of the note and swap agreement.

Additional information about the Research Foundation's note payable is presented in the notes to financial statements on page 19.

### **BLENDED COMPONENT UNIT**

#### Florida International Research iWASH Initiative Limited

Florida International Research iWASH Initiative Limited was incorporated under the Tanzania Companies Act of 2002 on February 22, 2010. The company, Florida International Research iWASH Initiative Limited, is a "not for profit company."

In January 2010, Florida International University received a cooperative agreement funding award to support the Tanzania Integrated Water, Sanitation and Hygiene Program (iWASH). The company was established in Tanzania by the Florida International University Research Foundation, Inc. in order to implement the iWASH program in Tanzania. The funding is obligated under the USAID Strategic Assistance Objective #13 "Biodiversity Conserved in Targeted Landscapes through Livelihood Driven Approaches," and is under the bilateral Economic and Technical Cooperation Agreement signed between the Government of the United Republic of Tanzania and the Government of the United States of America. Current funding is for the period January 1, 2010 through August 31, 2013. The company has a year end of December 31 and the financial statements included herein cover the first year of operations, as such no comparative management discussion and analysis is provided for this company. For additional information on this component unit, see the blended component unit section in Note 1 of the financial statements on page 15.

The goal of Tanzania iWASH Program is to support sustainable, market-driven water supply, sanitation, and hygiene services to improve health and increase economic resiliency of the poor in targeted rural areas and small towns within an integrated water resource management framework.

The period from January to March 2010 was the "set up phase", during which the company was established. The iWASH Office in Morogoro was established in April 2010.

(A Direct Support Organization)

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The period from April to June 2010 was the program "development phase", which involved coordinating key partners to identify pilot areas, collect baseline data, and designing and planning interventions. In April 2010, the company starting hiring staff members and opened a bank account. The full activities of the program stated in July 2010.

By the end of December 2010, a total of sixteen new wells/boreholes were installed with locally manufactured rope pumps. Of these wells, fifteen are currently functioning under community management and are serving a total of 3,196 people in Kanga Village, Mvomero District. Drilling has started for an additional five wells in Bwage Village, and twenty wells in Dhinda Village. Hydro-geological surveys have been carried out in Mvumi Village to locate a site for drilling a deep borehole, which is expected to serve approximately 8,000 people. A gravity supply scheme is under construction in Pemba Village, expected to serve approximately 7,000 people. This component of the program is well on track, with activities relating to productive use of water starting in the third quarter of 2011.

### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The primary factor that will impact the Research Foundation in the future will be the University's ability to develop intellectual property rights.

### **REQUESTS FOR INFORMATION**

This financial statement is designed to provide a general overview of the Research Foundation's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Florida International University Research Foundation, Incorporated, 11200 S.W. 8<sup>th</sup> Street, Miami, Florida 33199.

(A Direct Support Organization)

### STATEMENT OF NET ASSETS

### **JUNE 30, 2011**

| Assets                     |            |
|----------------------------|------------|
| Current Assets             |            |
| Cash                       | \$ 141,725 |
| Liabilities                |            |
| <b>Current Liabilities</b> |            |
| Accounts payable           | 468        |
| Net Assets                 |            |
| Unrestricted net assets    | \$ 141,257 |

# FLORIDA INTERNATIONAL RESEARCH iWASH INITIATIVE LIMITED

(A Component Unit)

### STATEMENT OF FINANCIAL POSITION

### **DECEMBER 31, 2010**

| Assets Non current assets Property and equipment | \$<br>177,027 |               |
|--|---------------|---------------|
| Current assets                                   |               |               |
| Cash and cash equivalents                        | <br>70,083    |               |
| Total Assets                                     |               | \$<br>247,110 |
| Equity and Liabilities                           |               |               |
| Fund accounts                                    |               |               |
| Retained earnings                                | \$<br>        |               |
| Long term liabilities                            |               |               |
| Capital grant                                    | <br>116,055   |               |
| Current liabilities                              |               |               |
| Capital grant - current portion                  | 60,972        |               |
| Deferred grant                                   | 70,083        |               |
|  | <br>131,055   |               |
| Total Equity and Liabilities                     |               | \$<br>247,110 |

(A Direct Support Organization)

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

### FOR THE YEAR ENDED JUNE 30, 2011

| Operating Expenses Professional fees Other operating expenses  | \$<br>17,928<br>1,291       |                |
|--|-----------------------------|----------------|
| Operating Loss   |                             | \$<br>(19,219) |
| Nonoperating Revenues (Expenses) Interest income Gain on maturity of derivative instrument Return of funds to Florida International University (FIU) | <br>28<br>3,344<br>(44,952) |                |
| <b>Total Nonoperating Expenses</b>   |                             | <br>(41,580)   |
| <b>Expenses Before Transfers</b>   |                             | (60,799)       |
| Transfer from Florida International University (FIU)   |                             | <br>83,500     |
| Change in Net Assets   |                             | 22,701         |
| Net Assets - Beginning   |                             | <br>118,556    |
| Net Assets - Ending  |                             | \$<br>141,257  |

## FLORIDA INTERNATIONAL RESEARCH iWASH INITIATIVE LIMITED

(A Component Unit)

### STATEMENT OF COMPREHENSIVE INCOME AND STATEMENT OF CHANGES IN EQUITY

### FOR THE PERIOD ENDED DECEMBER 31, 2010

| <b>Statement of Comprehensive Income</b>          |                         |                    |
|---|-------------------------|--------------------|
| Income Grant income Amortization of capital grant | \$<br>150,437<br>60,972 |                    |
| Total Income                                      |                         | \$<br>211,409      |
| Expenditure Operating expenditure                 | <br>211,409             |                    |
| <b>Total Operating Expenditure</b>                |                         | <br>211,409        |
| Operating Surplus                                 |                         |                    |
| Other Comprehensive Income (Net Taxes)            |                         | <br>               |
| <b>Total Comprehensive Income</b>                 |                         | \$<br>             |
| Statement of Changes in Equity                    |                         | umulated<br>urplus |
| Balance - April 2010                              |                         | \$<br>             |
| Surplus for the Period                            |                         | <br>               |
| Balance - December 2010                           |                         | \$<br>             |

The accompanying notes are an integral part of these financial statements.

(A Direct Support Organization)

### STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED JUNE 30, 2011

| Cash Flows from Operating Activities Cash paid to FIU Cash paid for program activities                                | \$<br>(45,074)<br>(18,746)         |                |
|---|------------------------------------|----------------|
| Net Cash Used in Operating Activities   |                                    | \$<br>(63,820) |
| Cash Flows from Non-Capital Financing Activities Transfers from FIU Interest paid Repayment of note payable           | <br>83,500<br>(4,092)<br>(515,000) |                |
| Net Cash Used by Non-Capital Financing Activities   |                                    | (435,592)      |
| Cash Flows from Investing Activities Interest income  |                                    | <br>28         |
| Decrease in Cash  |                                    | (499,384)      |
| Cash - Beginning  |                                    | <br>641,109    |
| Cash - Ending   |                                    | \$<br>141,725  |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities Operating loss Return of funds to FIU | \$<br>(19,219)<br>(44,952)         |                |
| Changes in assets and liabilities:  Decrease in accounts payable  Decrease in due to FIU                              | <br>(507)<br>858                   |                |
| <b>Net Cash Provided by Operating Activities</b>  |                                    | \$<br>(63,820) |
| Non-Cash Investing and Financing Activities Gain on maturity of derivative instrument                                 |                                    | \$<br>3,344    |

The accompanying notes are an integral part of these financial statements.

# FLORIDA INTERNATIONAL RESEARCH iWASH INITIATIVE LIMITED

(A Component Unit)

### STATEMENT OF CASH FLOWS

### FOR THE PERIOD ENDED DECEMBER 31, 2010

| Cash Flow (Used in) from Operating Activities Operating surplus Depreciation Amortization of capital grant | \$<br>60,972<br>(60,972) |           |
|--|--------------------------|-----------|
| <b>Operating Profit before Working Capital Changes</b>   |                          |           |
| <b>Net Cash Flow from Operating Activities</b>   |                          | \$        |
| Cash Flow from Financing Activities Capital grant received Movement in deferred grant                      | 237,999<br>70,083        |           |
| <b>Cash Flow from Financing Activities</b>   |                          | 308,082   |
| Cash Flow from Investing Activities Acquisition of plant and equipments                                    | 237,999                  |           |
| <b>Cash Flow from Investing Activities</b>   |                          | 237,999   |
| Net Decrease in Cash and Cash Equivalents  |                          | 70,083    |
| Cash and Cash Equivalents - Beginning of Period  |                          |           |
| Cash and Cash Equivalents - End of Period  |                          | \$ 70,083 |

(A Direct Support Organization)

### NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

### I. FLORIDA INTERNATIONAL UNIVERSITY RESEARCH FOUNDATION, INCORPORATED

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

The Florida International University Research Foundation, Inc. (the Research Foundation or the Organization), a Florida not-for-profit corporation, is a direct support organization and a component unit of Florida International University (FIU or the University) and was organized in the State of Florida on November 25, 1997 for educational and scientific purposes. The articles of incorporation were amended and restated on July 29, 2010.

The Research Foundation is a tax-exempt organization as defined by Section 501(c)(3) of the Internal Revenue Code. The Research Foundation provides direct support to Florida International University in matters pertaining to research, and has been designated by the FIU Board of Trustees as a University Direct Support Organization pursuant to §1004.28, Florida Statutes.

The financial reporting entity covered by this report includes the Organization and its component unit. The reporting entity has been defined by GASB Statement No. 14 (as amended by GASB Statement No. 39) as the Organization and those component units for which the Organization is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations, therefore, data for these units are generally combined with data of the Organization.

### **Blended Component Unit**

The Florida International Research iWASH Initiative Limited (iWASH) was created on February 22, 2010, under the Companies Act of 2002 which was formed in Tanzania. The entity is a not for profit company as defined by the laws in Tanzania. This entity was established solely as a legal entity to implement the development initiative known as Tanzania iWASH Program.

The financial statements of iWASH presented are prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB). The iWASH board members consist of two members, one of which is authorized as the Research Foundation's representative at any

(A Direct Support Organization)

### NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### REPORTING ENTITY (CONTINUED)

### Blended Component Unit (continued)

meeting of the company and is entitled to exercise the same powers on behalf of the company as if it were an individual member present at the meeting including power to vote. iWASH is fiscally dependent on the Research Foundation because the company was established as a legal entity solely to implement the development initiative known as Tanzania iWASH Program. Accordingly, iWASH is a blended component unit and is presented in the Research Foundation's financial statements. iWASH has a December 31<sup>st</sup> year-end. Since the iWASH year end and presentation is not compatible with the Research Foundation's presentation as it is presented under the international accounting standards and not in accordance with Generally Accepted Accounting Principles in the United States of America, the financial statements and notes related to iWASH are presented on separate pages. See notes Section II starting on Page 20. Complete financial statements for the iWASH Limited can be obtained by writing to: Controller, Florida International University, Division of Research, 11200 S.W. 8<sup>th</sup> Street, Miami, FL 33199.

### **BASIS OF PRESENTATION**

The financial statements of the Research Foundation have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Research Foundation reports under the GASB standards because it meets the criteria regarding the popular election of officers or appointment of a controlling majority of the members of the Organization's governing body by one or more state or local governments and because it is a direct support organization. Therefore, the Research Foundation is reported as a governmental entity.

The Research Foundation met the criteria to use enterprise fund accounting and financial reporting. Accordingly, the financial statements are reported using the economic resources measurement focus and accrual basis of accounting, which recognizes revenue when earned and expenses when a liability is incurred, regardless of timing of the related cash flow.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

#### FLOW ASSUMPTION FOR RESTRICTED ASSETS

If both restricted and unrestricted assets are available for use for a certain purpose, it is the Research Foundation's policy to use restricted assets first, then use unrestricted assets as needed.

#### OPERATING REVENUE AND EXPENSES

The Research Foundation's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated in matters pertaining to research, which is the Research Foundation's principal activity. Other sources of revenue, including investment earnings, are reported as nonoperating revenue. Operating expenses include all expenses incurred in matters pertaining to research, other than external financing costs.

### **INCOME TAXES**

The Organization is a not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code and as such are subject to federal income taxes only on unrelated business income. There were no income taxes resulting from unrelated business income during the year ended June 30, 2011.

Management has analyzed the tax positions taken and has concluded that as of June 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. If the Organization were to incur an income tax liability in the future, interest and penalties would be reported as income taxes. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Organization is no longer subject to income tax examinations from the prior three years.

(A Direct Support Organization)

### NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **TRANSFERS**

Transfers for the 2011 fiscal year totaled \$83 thousand primarily related to the transfer of royalty income from the University to support the operating expenses of the Research Foundation.

### NOTE 2 – DEPOSITS

In addition to insurance provided by the Federal Depository Insurance Corporation, all 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.

### NOTE 3 - RELATED PARTY TRANSACTIONS

On February 10, 2005, the FIU Board of Trustees approved a Settlement Agreement with the Department of Justice representing various agencies of the United States government related to the Hemispheric Center for Environmental Technology whereby all audit claims were settled and the University agreed to repay \$11,500,000 in grants to the Federal Government.

On May 3, 2005, the University entered into an agreement with the FIU Research Foundation, Inc. in which the Research Foundation authorized the issuance of a promissory note in an aggregate principal amount not to exceed \$10,000,000, plus interest, to finance the payment of amounts due under the Settlement Agreement dated February 10, 2005 and certain costs relating to the financing.

To assist the University, the Research Foundation issued on June 30, 2005 two series of notes, one for \$7,955,000 (tax exempt) and one for \$1,670,000 (taxable) for a total of \$9,625,000, and forwarded \$9,591,096 to the Federal Government (see Note 4). The taxable note totaling \$1,670,000 was paid off on October 1, 2006.

(A Direct Support Organization)

### NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

### NOTE 3 – RELATED PARTY TRANSACTIONS (CONTINUED)

The University is obligated to fund the issuance costs and both the principal and interest payments on the obligations of the Research Foundation. The Research Foundation made the final principal payment in the amount of \$515,000 on July 1, 2010 to pay off the loan.

#### NOTE 4 – NOTE PAYABLE

The debt activity for the year ended June 30, 2011 is as follows:

|                 | Beginning |         |           |  |          |         | Ending  |  | Due in   |  |
|-----------------|-----------|---------|-----------|--|----------|---------|---------|--|----------|--|
|                 | Balance   |         | Additions |  | Payments |         | Balance |  | One Year |  |
| Tax Exempt Note | \$        | 515,000 | \$        |  | \$       | 515,000 | \$      |  | \$       |  |

The Florida International University Research Foundation, Inc. Tax-Exempt Note, Series 2005, was for \$7,955,000 and was dated June 30, 2005. Interest is at 65% of three month LIBOR plus 39.23 basis points and interest and principal are payable on a quarterly basis with principal ranging from \$135,000 on July 1, 2006 to a final principal payment of \$515,000 on July 1, 2010.

### NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENT

On June 30, 2005, the Research Foundation entered into an interest rate swap agreement with a commercial bank on a notional amount of \$7,955,000 (see debt terms in Note 4). Under the swap agreement, the Research Foundation agrees to pay a fixed rate of 3.15% and receive a variable rate based on 65% of 3 month LIBOR rate plus 0.3923%. The swap agreement matured on July 1, 2010, therefore the derivative liability of \$3,344 previously reported in the statement of net assets is reported as a gain in the statement of revenues, expenses and changes in net assets.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2011

#### II. FLORIDA INTERNATIONAL RESEARCH IWASH INITIATIVE LIMITED

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Florida International Research iWASH Initiative Limited (the Company) is an Organization domiciled in Tanzania. The financial statements of the Company are for the period ended December 31, 2010.

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### **BASIS OF PREPARATION**

#### Presentation of Financial Statements

The Company applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of January 1, 2009. As a result, the Program presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes (if any) in equity are presented in the statement of comprehensive income.

#### Statement of Compliance

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

#### Basis of Measurement

The financial statements have been prepared on the historical cost basis.

#### Translation of Foreign Currencies

Transaction in foreign currencies is translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to USD at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2011

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **EMPLOYEE BENEFITS**

The Company makes statutory contributions (Defined Contribution Plan) to the Government Employees Pension Fund (GEPF). The Company's obligations in respect of contributions to such funds are 10% of the employees' gross emoluments. Contributions to this pension fund are recognized as an expense in the period the employees render the related services.

#### **REVENUE RECOGNITION**

Grants that compensate the Company for expenses incurred are recognized in Statement of Comprehensive Income on a systematic basis in the same periods in which the expenses are recognized. Grant income is comprised entirely of a grant from the Florida International University.

Interest is recognized, in the statement of comprehensive income as it accrues, using the effective interest rate method.

#### PROPERTY AND EQUIPMENT

#### Recognition and Measurement

Items of property and equipment are stated at cost less accumulated depreciation (see accounting policy).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to the working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets is recognized in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2011

#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

#### Recognition and Measurement (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "operating expenses" in profit or loss.

#### Subsequent Costs

The cost of replacing an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its costs can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of day to day servicing of property, plant and equipment are recognized in statement of comprehensive income as incurred.

#### Depreciation

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The annual rates for the estimated useful lives for the current and comparative periods are as follows:

| Motor vehicles                | 25%   |
|-------------------------------|-------|
| Computer equipment            | 37.5% |
| Furniture and other equipment | 12.5% |

(A Direct Support Organization)

# NOTES TO FINANCIAL STATEMENTS

# FOR THE YEAR ENDED JUNE 30, 2011

### NOTE 2 – OPERATING EXPENSES

| NRA - salaries and consultants non US      | \$<br>56,387  |
|--|---------------|
| Foreign travel (travel in TZ)              | 5,957         |
| Maintenance contracts                      | 3,089         |
| Security services                          | 5,368         |
| Rent expenses                              | 780           |
| Cellular phones                            | 626           |
| Communications charges other               | 4,171         |
| Office supplies                            | 2,791         |
| Other materials and supplies               | 511           |
| Gasoline and diesel                        | 4,774         |
| Other motor fuel supplies                  | 25,223        |
| Auto insurance                             | 7,019         |
| Postage                                    | 475           |
| Courier/freight                            | 540           |
| Printing, copycard, Xerox and reproduction | 926           |
| Miscellaneous                              | 1,087         |
| Scholarships                               | 1,069         |
| F&E <\$1000                                | 426           |
| F&E > \$1000                               | 2,913         |
| Motor vehicles others                      | 26,305        |
| Depreciation                               | <br>60,972    |
| <b>Total Operating Expenses</b>            | \$<br>211,409 |

(A Direct Support Organization)

### NOTES TO FINANCIAL STATEMENTS

# FOR THE YEAR ENDED JUNE 30, 2011

Office

### NOTE 3 – PROPERTY AND EQUIPMENT

|                             | Office |         |            |     |            |             |            |
|-----------------------------|--------|---------|------------|-----|------------|-------------|------------|
|                             | (      | Office  | Motor      | F   | urniture   | Computer    |            |
|                             | Eq     | uipment | Vehicles   | and | d Fittings | Accessories | Total      |
| Cost                        |        |         |            |     |            |             |            |
| At February 2010            | \$     |         | \$         | \$  |            | \$          | \$         |
| Additions                   |        | 2,465   | 203,110    |     | 9,091      | 23,333      | 237,999    |
| At December 31, 2010        |        | 2,465   | 203,110    |     | 9,091      | 23,333      | 237,999    |
| Depreciation                |        |         |            |     |            |             |            |
| At February 2010            |        |         |            |     |            |             |            |
| Charge for the year         |        | (308)   | (50,778)   |     | (1,136)    | (8,750)     | (60,972)   |
| At December 31, 2010        |        | (308)   | (50,778)   |     | (1,136)    | (8,750)     | (60,972)   |
| Net Book Value -            |        |         |            |     |            |             |            |
| <b>At December 31, 2010</b> | \$     | 2,157   | \$ 152,332 | \$  | 7,955      | \$ 14,583   | \$ 177,027 |

### NOTE 4 – CASH AND CASH EQUIVALENTS

| USD Account 6002092<br>TZS Account 6000200 | \$<br>64,648<br>5,435 |
|--|-----------------------|
| 125 / Recount 0000200                      | \$<br>70,083          |

### NOTE 5 – CAPITAL GRANTS MOVEMENT

| Opening Balance Capital grant received during the Amortization of capital grants | \$        | 237,999<br>(60,972) |
|--|-----------|---------------------|
| Balance - December 31  | <u>\$</u> | 177,027             |
| Long term portion Current portion  | \$        | 116,055<br>60,972   |
|  | \$        | 177,027             |

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2011

#### NOTE 5 – CAPITAL GRANTS MOVEMENT (CONTINUED)

Capital grants represent donations the company received in the form of fixed assets, and it is amortized annually depending on their useful life.

#### NOTE 6 - DEFERRED GRANT

| Balance - April 1                                  | \$<br>       |
|--|--------------|
| Receipts for the period                            | 458,494      |
| Grant income release to Statement of Comprehensive |              |
| Income (see Note 2)                                | (211,409)    |
| Capital grant deferred (see Note 5)                | (177,027)    |
| Exchange difference                                | <br>25       |
| Balance - March 31                                 | \$<br>70,083 |

#### NOTE 7 – RELATED PARTY TRANSACTIONS

The Florida International University, Winrock International and Cooperate for Assistance and Relief Everywhere (CARE) are the only related parties of the Company. During the period ended December 31, 2010, the Florida International University incurred direct costs on acquisition of company's fixed assets (see Note 3).

#### NOTE 8 – TAXES

The Florida International Research iWASH Initiative Limited has been registered as company limited by guarantee, governed by Companies Act, 2002, having no motive to make profits.

The company management is in the process of applying for exemption from Income Tax to the Tanzania Revenue Authority.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2011

#### NOTE 9 - FINANCIAL RISK MANAGEMENT

The Company's principal financial instruments comprise cash and payables. These financial instruments arise directly from the Company's operations. The Company has not traded in financial instruments throughout the year end December 31, 2010.

The main risks arising from the Company's financial instruments are credit risks and market risk. The Company's management is responsible for the establishment and oversight of the Company's risk management framework. The Board of Directors reviews and agrees policies for managing each of these risks as summarized below.

#### LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damaging the Company's reputation.

The Company monitors its exposure to liquidity risk using projected cash flows from operations. The Company's exposure to liquidity risk is considered low due to existence of sufficient cash and bank balances.

The Company has a policy not to utilize debt or overdraft facilities.

#### **MARKET RISK**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company does not trade in financial markets and accordingly, there is no material exposure to market risk except as described below.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED JUNE 30, 2011

#### NOTE 9 – FINANCIAL RISK MANAGEMENT (CONTINUED)

#### INTEREST RATE RISK

The Company's exposure to the risk of changes in market interest rates relates primarily to cash and bank balances. Bank account balances are monitored monthly, and kept at the lowest possible operations balance. A fluctuation of interest rates due to the changes in economic conditions will not have a material impact on the financial position of the Company; therefore no sensitivity analysis has been presented.

#### CREDIT RISK

Credit risk is the risk of financial loss to the Organization if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Organization's balances receivable and money maintained in bank accounts.

There is no credit risk to the organization because there are no receivable balances.

#### FOREIGN CURRENCY RISK

The Company is exposed to currency risk on bank balances which are denominated in foreign currency. The Company manages this risk by ensuring that foreign currency bank balances are kept at the minimum amount possible. In the recent years, due to the depreciation of the local currency, the Company has not experienced any adverse effect from its foreign currency denominated bank balances.

#### FAIR VALUES

The Company's financial instruments are cash and cash equivalents and other payables. These financial instruments realize over a short term resulting in the financial instruments' carrying amounts reasonably approximating their fair values.

#### NOTE 10 – SUBSEQUENT EVENTS

At the date of signing the financial statements, the Company Management is not aware of any other matter or circumstance arising since the date of the end of the reporting period, not otherwise dealt in these financial statements, which significantly affected the financial position of the Company and results of its operations.

(A Direct Support Organization)

#### NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2011

#### NOTE 11 – CONTINGENT LIABILITIES AND OTHER COMMITMENTS

The Company Management confirms that there were no significant contingent liabilities as at the date of the end of the reporting period. Similarly, there were no significant commitments for operational or capital expenditure as at the same date.

#### NOTE 12 – ULTIMATE HOLDING ENTITY

The organization's ultimate holding entity is the Florida International University, an entity incorporated and registered in the United States.

| COMPLIANCE SECTION |  |
|--------------------|--|
|                    |  |
|                    |  |



# INDEPENDENT AUDITORS' 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

Members of the Board of Directors and the Assistant Vice President of Direct Support Organizations Florida International University Research Foundation, Incorporated Miami, Florida

We have audited the financial statements of Florida International University Research Foundation, Incorporated (the Research Foundation) as of and for the year ended June 30, 2011 and have issued our report thereon dated February 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Florida International Research iWASH Initiative Limited, a component unit, as described in our report on the Research Foundation's financial statements. Their audit was not performed in accordance with *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting and other matters that are reported separately by those auditors.

#### Internal Control over Financial Reporting

Management of the Research Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Research Foundation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing the assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Research Foundation's financial statements will not be prevented or detected and corrected on a timely basis.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, Management, the State University System of Florida, the Florida Board of Governors and the Board of Trustees of Florida International University and is not intended to be and should not be used by anyone other than these specified parties.

Miami, FL

February 14, 2012

Marcune LLP

Agenda Item 4 FA2

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

#### Finance and Audit Committee

March 14, 2012

**Subject: Investment Policy Amendment** 

#### **Proposed Committee Action:**

Recommend to The Florida International University Board of Trustees (the BOT) adoption of revisions to the University's Investment Policy.

#### **Background Information:**

The University Investment Committee is an advisory committee created by the BOT to make recommendations to the University administration and BOT regarding university investments. The University is recommending approval of the proposed revisions to the Investment Policy, pending ratification by the University Investment Committee on March 9, 2012.

The key changes to the Investment Policy are to (1) include private equity as an authorized investment in accordance with allocation targets recommended by the University Investment Committee specified in the policy, (2) update asset allocation targets, minimums and maximums, and (3) improve readability of the policy statement through various editorial changes.

The BOT is authorized to adopt an investment policy pursuant to Sections 1011.42 and 218.415 Florida Statutes. The University's Investment Policy was last revised on September 24, 2010.

**Supporting Documentation:** Amended Investment Policy

Proposed revisions to Investment Policy in tracked form

**Facilitator/Presenter:** Kenneth A. Jessell

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# FLORIDA INTERNATIONAL UNIVERSITY OFFICIAL UNIVERSITY POLICY

### University Community (faculty, staff and students)

| SUBJECT (R*)                                       | EFFECTIVE DATE (R)                  | POLICY NUMBER |
|--|-------------------------------------|---------------|
| INVESTMENT POLICY                                  | June 29, 2005                       | 1160.010      |
| RESPONSIBLE UNIVERSITY DIVISION/DEPARTMENT (R)     | RESPONSIBLE UNIVERSITY OFFICER (R)  |               |
| Office of the Treasurer Finance and Administration | Phong T. Vu<br>University Treasurer |               |

#### POLICY STATEMENT (R)

It is the policy of Florida International University (the "University") that:

The investment of the University's operating funds investment pool (the "Portfolio") shall be based on an analysis that will, at a minimum, consider:

- the financial condition of the University
- · the expected long term capital market outlook
- the University's risk tolerance
- · future planned capital expenditures and cash requirements
- debt service requirements
- current and projected expenses
- inflation

The financial plan measures the potential impact of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected cash flows of the Portfolio.

#### I. GENERAL INVESTMENT GOALS AND OBJECTIVES

The general investment goals established herein are designed to broadly take into account the purpose of the Portfolio and articulate the philosophy and parameters by which the University will manage the Portfolio's assets.

The overall goal of the Portfolio is to provide funds through a carefully planned and executed investment program necessary for regular expenses, capital expenditures and overall liquidity needs. There are both short term liquidity needs and longer term needs that allow for some incremental longer term growth of these assets. Specifically, the Portfolio shall be managed with the following objectives:

- i. Maintain the safety of the principal;
- ii. Maintain the necessary liquidity to ensure funds are available to support operational needs;
- iii. Obtain a reasonable return for a prudent level of risk.

The University seeks to produce a return on investment which is based on levels of operating liquidity needs and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the University recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns.

#### II. GOVERNANCE

#### **BOT Finance and Audit Committee**

The Florida International University Board of Trustees ("BOT") is responsible for the oversight and approval of this Policy (and any amendments thereto) and oversight of the University's implementation of the Policy.

This Policy addresses specifics relating to:

- investment goals and objectives
- · asset allocation policy targets specifying minimum and maximum ranges
- rebalancing policy
- selection of investment managers
- authorized investments

#### **Investment Committee**

The BOT's Investment Committee recognizes that matters concerning the investment of the operating fund assets owned by the University merit serious attention and frequent consideration. The Investment Committee, at a minimum, will consist of:

- An individual designated by the BOT,
- The Chief Financial Officer of the University,
- The Treasurer of the University and
- A representative from University academics.

In addition, the Investment Committee may include up to two business community representatives and other representatives with specific expertise in investment and portfolio management to strengthen the Committee's capabilities. The need for adding members will be determined by the Chair of the BOT, in consultation with the Chair of the Finance and Audit Committee.

The Investment Committee, with the guidance and recommendations of the investment consultant hired by the University, is responsible for:

- directing all of its efforts toward the investment objectives stated herein
- performing at least annually a review of the investment objectives stated herein
- ensuring that the objectives stated in this Policy are practical and reflect the mission of the University
- hiring an investment consultant, consistent with University procurement requirements
- implementing and monitoring the asset allocation policy
- · conducting an annual formal review of the investment structure
- developing an updated financial projection a minimum of every three years
- selecting and monitoring of qualified, competent investment managers
- terminating investment managers failing to maintain acceptable quantitative (e.g. risk/return profile) and/or qualitative (e.g. organizational changes) standards
- developing and reviewing the objectives and guidelines given to each specific investment manager
- meeting at least quarterly to review the results of the investment portfolios
- determining whether the investment objectives set forth herein are being met and whether the investment guidelines are being followed.
- providing the BOT with regular performance reports on the investment portfolios

#### **Staff**

The staff is an integral part of the day-to-day requirements of the operating portfolio. The staff has the responsibility of administering and coordinating the implementation of decisions made by the Investment Committee and the BOT. The staff is responsible for:

- administering the investments of the Portfolio at the lowest possible cost, being careful to avoid sacrificing quality
- administering the rebalancing policy
- day-to-day interaction with the consultants and investment managers

#### III. INVESTMENT GUIDELINES

The investment guidelines set forth herein establish parameters for the Portfolio and for the University's investment managers to follow in implementing their respective investment strategies. These guidelines address asset allocation, restricted transactions, diversification, quality and turnover.

#### A. Investment Pools\*

#### **TOTAL COMBINED POOL**

This pool is the overall combined investments of the Portfolio. In its entirety, it is intended to satisfy the overall objectives and constraints set forth in this Policy. The Total Combined Pool is divided into three distinct pools; each pool has a different investment time horizon, investment objective and minimum and maximum asset class allocations.

#### **WORKING CAPITAL POOL**

This pool is intended to provide for the immediate normal operating requirements of the University (funds awaiting clearance), and other short-term investments of the University. This pool includes funds that must be invested in a restricted manner in accordance with federal and/or state law.

#### STRATEGIC CAPITAL POOL

This pool is intended to be invested over the medium-term, as the cash needs of this pool are intermediate and long-term in nature.

#### RESERVE POOL

This pool encompasses a state-mandated unencumbered reserve. This pool is intended to be invested over the medium-longer term.

\*University and affiliated-organization bond proceeds are outside the purview of this Policy and will be invested in compliance with all relevant federal and state laws.

#### **B.** Asset Class/Category Characteristics

#### **CASH EQUIVALENTS**

The purpose of the cash equivalents portfolio is to provide liquidity to fund operational expenses, debt service and other short term cash needs.

#### FIXED INCOME

#### **Investment Grade**

This asset class is intended to be representative of the overall U.S. investment grade bond market. The purpose of the fixed income asset class is to provide a high level of current income to provide liquidity for intermediate cash flow needs and to provide diversification benefits during periods of a stock market decline.

#### High Yield

This asset class is intended to be representative of the non-investment grade U.S. bond market (bonds rated BB or lower). The purpose of this fixed income asset class is to provide a higher level of current income to compensate for the additional level of credit risk employed. The purpose of this asset class is to provide some return enhancement and diversification benefit in order for the Portfolio to realize long-term growth above inflation.

#### **EQUITIES**

#### U.S. Equity

This asset class is intended to be representative of the overall U.S. stock market. The purpose of the equity asset class is to provide a high level of capital appreciation in order for the Portfolio to realize long-term growth above inflation.

#### International Equity

The purpose of the international equity asset class is to provide exposure to equities in international equity markets. Exposure to international equities enhances returns of the combined equity portfolio while reducing return volatility.

#### **Private Equity**

The purpose of the private equity asset class is to provide a global exposure to private equity markets that is diversified by geography, investment type (venture capital, growth equity, buyout, mezzanine, distressed and special situations) and vintage year. Exposure to the private equity market is expected to provide access to outsized returns as compared to the public equity market.

#### **REAL ASSETS**

#### Treasury Inflation Protected Securities (TIPS)

This asset class is intended to be representative of the fixed income investments in which the principal is adjusted periodically based on changes in CPI. The purpose of the TIPS asset class is to provide fixed income returns with the additional diversification benefits of inflation protection.

#### Real Estate Investment Trusts (REITS)

This asset class is intended to be representative of the Real Estate Investment Trust market. The purpose of the REIT asset class is to provide a higher level of current income and capital appreciation than fixed income with diversification benefits from its low correlation to both stocks and bonds.

#### Commodities

This asset class is intended to be a passively managed representation of a direct investment in a diversified commodities strategy. A direct investment is either through the purchase of the physical commodity (e.g., crude oil, metals) or the purchase of derivatives (e.g., futures). The principal roles for commodities in the Portfolio are as a risk diversifier, and an inflation hedge, providing an expected offset to assets such as fixed rate instruments, which typically lose value during periods of unexpected inflation.

#### ABSOLUTE RETURN

This asset class is intended to be representative of a broadly diversified hedge fund strategy intended to provide an "absolute return" in any market environment with low to intermediate level of risk. This strategy is intended to provide modest return enhancement to that of fixed income with diversification benefits derived from its low correlation to other asset classes.

#### C. Authorized Investments and Restrictions

The following authorized investments and restrictions establish the parameters the University's investment managers must follow in implementing their respective investment strategies. Each underlying manager will have a specific set of guidelines that may be more restrictive than those set forth herein.

| Investment Guidelines - Investment Grade Fixed Income   |                             |  |
|---|-----------------------------|--|
| Authorized Investments:   | Status                      |  |
| Fixed Income securities issued in the U.S. investment grade bond market Rule 144A securities with registration rights | Authorized<br>Authorized    |  |
| Non dollar securities and securities of issuers outside the U.S.  | Authorized                  |  |
| U.S. Treasury, Agency, Eurodollar, and Swap financials futures  | Authorized                  |  |
| Interest rate swaps   | Authorized                  |  |
| Options on securities otherwise allowable under the guidelines  | Authorized                  |  |
| Agency mortgage dollar rolls  | Authorized                  |  |
| Cash vehicle through trustee  | Authorized                  |  |
| Restrictions:   | Guideline                   |  |
| Maximum invested in securities not paying in US dollars   | 10% of account market value |  |
| Maximum invested in issuers domiciled outside the US  | 10% of account market value |  |
| Maximum invested in non US dollar-denominated assets  | 10% of account market value |  |
| Cross-currency hedging  | Prohibited                  |  |
| Rated by both S&P Moody's (except US government and agency securities)  | Required                    |  |
| Rated BBB-/Baa3 or higher at time of purchase   | Required                    |  |
| Convertible securities and preferred stocks   | Prohibited                  |  |
| Maximum position in securities not rated or rated BB+ /Bal or lower   | 5% of account market value  |  |
| Collateralized securities must have a credit quality rated AAA by S&P and rated Aaa by Moody's                        | Required                    |  |
| Interest-only (IO) securities   | Prohibited                  |  |
| Collateralized Bond Obligations, Collateralized Debt Obligations, and Collateralized Loan Obligations                 | Prohibited                  |  |
| Credit derivatives  | Prohibited                  |  |
| Maximum per any one issuer  | 5% of account market value  |  |
| Maximum duration exposure derived from futures, options or swaps  | 20%                         |  |
| Borrowing and/or lending of funds or securities   | Prohibited                  |  |
| Leverage  | Prohibited                  |  |

| Investment Guidelines - High Yield Fixed Income   |                            |  |  |
|---|----------------------------|--|--|
| Authorized Investments:   | Status                     |  |  |
| Registered high yield and Rule 144A, with registration rights, fixed income securities and debt obligations issued by public, corporate, and sovereign entities   | Authorized                 |  |  |
| Securities issue or guaranteed by the US government, its agencies and instrumentalities   | Authorized                 |  |  |
| Forward contracts on "eligible" securities  | Authorized                 |  |  |
| Common stock, preferred stock and options or warrants to purchase common or preferred stock only where included in a unit with, or attached to, fixed income securities or upon conversion of a convertible security or exercise of a warrant or option or received in a reorganization | Authorized                 |  |  |
| Convertible securities and preferred stocks, if most of their value is attributable to their yield and other fixed income features  | Authorized                 |  |  |
| Cash vehicle through trustee  | Authorized                 |  |  |
|   |                            |  |  |
| Restrictions:   | Guideline                  |  |  |
| Maximum position in an individual security (excluding Government securities)  | 5% of account market value |  |  |
| Maximum position in any one issuer (excluding Government securities)  | 5% of account market value |  |  |
| Maximum position in Rule 144A, with registration rights, securities   | 5% of account market value |  |  |
| Maximum position in emerging market debt (corporate or sovereign debt of countries with credit rating BB+/Ball or lower)  | 5% of account market value |  |  |
| Purchase of securities on margin  | Prohibited                 |  |  |
| Short sales   | Prohibited                 |  |  |
| Securities lending  | Prohibited                 |  |  |
| Employ leverage   | Prohibited                 |  |  |
| Structured securities (e.g. ABS, CMBS, CDO) except for equipment trust certificates   | Prohibited                 |  |  |
| Maximum position in equipment trust certificates  | 5% of account market value |  |  |
| Investment in direct real estate or real estate mortgage loans  | Prohibited                 |  |  |
| Debt issued by corporate entities involved in real estate otherwise allowed under these guidelines  | Permitted                  |  |  |
| Investment in commodities or commodity contracts  | Prohibited                 |  |  |
| All securities at the time of purchase must be rated single-B or higher by both S&P and Moody's (securities issued w/o rating are exempt if one can be reasonable expected within one month of issuance)  | Required                   |  |  |
| Maximum invested in securities not rated single-B or higher by both S&P and Moody's and any equity securities received into the account   | 5% of account market value |  |  |

| Investment Guidelines - US Equity  |                             |  |
|--|-----------------------------|--|
| Authorized Investments:  | Status                      |  |
| Equity denominated in US dollars and traded on recognized US exchanges include NASDAQ  | Authorized                  |  |
| Common and preferred Stock   | Authorized                  |  |
| Securities convertible into common and preferred stock   | Authorized                  |  |
| Rights and warrants  | Authorized                  |  |
| Depository receipts  | Authorized                  |  |
| Cash vehicle available through the trustee   | Authorized                  |  |
|  |                             |  |
| Restrictions   | Guideline                   |  |
| Maximum investment in an individual company  | 5% of account market value  |  |
| Maximum ownership of an individual company's outstanding shares  | 10%                         |  |
| Maximum cash or cash equivalent position   | 10% of account market value |  |
| Maximum position in preferred stocks   | 5% of account market value  |  |
| Maximum position in convertible securities   | 5% of account market value  |  |
| Maximum position in rights and warrants  | 10% of account market value |  |
| Maximum position in depository receipts  | 10% of account market value |  |
| Margined stocks  | Prohibited                  |  |
| Short sales  | Prohibited                  |  |
| Real or personal property  | Prohibited                  |  |
| Commodities or commodity contracts   | Prohibited                  |  |
| Swaps, options, or other derivatives   | Prohibited                  |  |
| Limited partnerships   | Prohibited                  |  |
| Venture capital  | Prohibited                  |  |
| Letter stock and other securities restricted as to public resale   | Prohibited                  |  |
| Borrowing and/or lending funds or securities   | Prohibited                  |  |
| Maximum position in dollar-denominated equity securities issued by non-US domiciled companies but traded on a recognized US exchange               | 10% of account market value |  |
| Investments with a market capitalization less than the smallest security or greater than the largest security in the Benchmark at time of purchase | Prohibited                  |  |
| Maximum position in investments with a market capitalization less than the smallest security or greater than the largest security in the Benchmark | 5% of account market value  |  |

| Investment Guidelines - International Equity  |                             |  |
|---|-----------------------------|--|
| Authorized Investments:   | Status                      |  |
| Countries represented in the MSCI ACWI ex-US (net) benchmark                                      | Authorized                  |  |
| Equity securities of companies domiciled in countries represented in the MSCI                     |                             |  |
| ACWI ex-US (net) benchmark  | Authorized                  |  |
| Common and Preferred Stock  | Authorized                  |  |
| Securities convertible into common and preferred stock  | Authorized                  |  |
| Rights and warrants   | Authorized                  |  |
| Depository receipts   | Authorized                  |  |
| Rule 144A securities  | Authorized                  |  |
| Foreign currency and currency forwards of countries allowable under the guidelines                | Authorized                  |  |
| International index futures contracts used solely for hedging purposes                            | Authorized                  |  |
| Cash vehicle available through the trustee  | Authorized                  |  |
|   |                             |  |
| Restrictions:   | Guideline                   |  |
| Maximum investment in an individual company   | 5% of account market value  |  |
| Maximum ownership of an individual company's outstanding shares                                   | 10%                         |  |
| Maximum cash or cash equivalent position  | 10% of account market value |  |
| Maximum position in preferred stocks  | 5% of account market value  |  |
| Maximum position in convertible securities  | 5% of account market value  |  |
| Maximum position in rights and warrants   | 10% of account market value |  |
| Maximum position in private placement securities eligible for resale pursuant to Rule 144A        | 10% of account market value |  |
| Private placements outside of Rule 144A   | Prohibited                  |  |
| Maximum position in depository receipts   | 10% of account market value |  |
| Margined stocks   | Prohibited                  |  |
| Shorts sales  | Prohibited                  |  |
| Real or personal property   | Prohibited                  |  |
| Commodities or commodity contracts  | Prohibited                  |  |
| Swaps, options, or other derivatives  | Prohibited                  |  |
| Limited partnerships  | Prohibited                  |  |
| Venture capital   | Prohibited                  |  |
| Letter stock and other securities restricted as to public resale                                  | Prohibited                  |  |
| Foreign currency and currency forward contracts for hedging purposes                              | Permitted                   |  |
| Use of derivatives to expose more than 100% of the net assets of the account to equity securities | Prohibited                  |  |
| Net aggregate holdings of foreign currency exposure in excess of net assets of the account        | Prohibited                  |  |
| Porrowing and/or landing of funds or securities   | Prohibited                  |  |
| Borrowing and/or lending of funds or securities   | Promoned                    |  |

| Investment Guidelines - Private Equity   |                        |  |  |  |
|--|------------------------|--|--|--|
| Authorized Investments:  | Status                 |  |  |  |
| Private equity investments should be invested in institutionally-oriented, globally diversified fund-of-funds vehicles         | Authorized             |  |  |  |
| Buyout   | Authorized             |  |  |  |
| Venture Capital  | Authorized             |  |  |  |
| Special Situations   | Authorized             |  |  |  |
| Primary partnerships   | Authorized             |  |  |  |
| Secondary partnerships   | Authorized             |  |  |  |
| Direct / Co-investments  | Authorized             |  |  |  |
| Restrictions:  | Guideline              |  |  |  |
| Investment Vehicle   | Fund of funds only     |  |  |  |
| Allowable range for Total Private Equity investments:  |                        |  |  |  |
| Buyout   | 40% - 60%              |  |  |  |
| Venture Capital  | 0% - 30%               |  |  |  |
| Special Situations   | 10% - 40%              |  |  |  |
| Primary Partnerships   | Up to 100%             |  |  |  |
| Secondary Partnerships   | Up to 40%              |  |  |  |
| Direct / Co-investments  | Up to 20%              |  |  |  |
| Allowable geographic diversification for Total Private Equity investments:   |                        |  |  |  |
| United States  | 40% - 70%              |  |  |  |
| Europe   | 25% - 50%              |  |  |  |
| Latin America  | Up to 25%              |  |  |  |
| Asia / Pacific   | Up to 40%              |  |  |  |
| Vintage year diversification must be achieved within each fund of funds structure  | Minimum of three years |  |  |  |
| General Partners must demonstrate acceptance through retention of other institutionally-oriented clients                       | Required               |  |  |  |
| General Partners must have capital committed in the private partnership  | Required               |  |  |  |
| General Partner must have a track record demonstrating investment capabilities with previous funds of funds and sizable assets | Required               |  |  |  |

#### **Guidelines for Commodities**

This asset class is intended to be representative of a passively managed commodities portfolio. It requires staying current at all times with the objectives of the manager's investment policy for discretionary commodity portfolios and the requirements of these guidelines.

The manager may buy or sell futures, forwards, options and swaps on both individual commodities as well as the derivatives on commodity indices. Although this account is intended to be passively managed, should the account migrate to an active management strategy, a short duration fixed income portfolio will be maintained as collateral. The guidelines for investment grade fixed income portfolios contained herein must be followed.

A portion of this investment may hold cash and cash instruments, including short-term investment vehicles. Although certain investments may exhibit characteristics of leveraged transactions, the overall commodities investments will be managed to produce an unleveraged return. The investment will not borrow money or use derivatives in a manner that has the purpose of creating investment leverage.

The firm responsible for managing these investments must be registered with the SEC. Specific investment guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

| Investment Guidelines - Commodities   |                             |  |  |  |
|---|-----------------------------|--|--|--|
| Authorized Investments:   | Status                      |  |  |  |
| Securities represented in the DJ - UBS Commodity Index  | Authorized                  |  |  |  |
| Commodity Groups Currently Included in the Dow Jones-UBS Commodity Index  |                             |  |  |  |
| Energy  | Authorized                  |  |  |  |
| Agriculture   | Authorized                  |  |  |  |
| Industrial Metals   | Authorized                  |  |  |  |
| Precious Metals   | Authorized                  |  |  |  |
| Livestock   | Authorized                  |  |  |  |
| Commodities Currently Included in the Dow Jones-UBS Commodity Index<br>Aluminum, Coffee, Copper, Corn, Cotton, Crude Oil, Gold, Heating Oil, Lean<br>Hogs, Live Cattle, Natural Gas, Nickel, Silver, Soybeans, Soybean Oil, Sugar,<br>Unleaded Gasoline, Wheat and Zinc | Authorized                  |  |  |  |
| Futures, Forwards, Options and Total Return Swaps   | Authorized                  |  |  |  |
| Commodity or Commodity Contracts  | Authorized                  |  |  |  |
| Restrictions:   | Guideline                   |  |  |  |
| Maximum weight to any commodity group   | 33% of account market value |  |  |  |
| Minimum weight to any single commodity  | 2% of account market value  |  |  |  |

#### Guidelines for Hedge Funds

The Absolute Return asset class shall be implemented through a fund-of-funds investment vehicle. The organization managing the fund-of-funds vehicle must be registered with the SEC. Specific investment guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

#### Guidelines for Commingled Investment Vehicles and/or Mutual Funds

Investment may be made in commingled vehicles and/or mutual funds in which a specified set of guidelines developed for a broad number of institutions are already predetermined. These investments will be managed in a manner consistent with the authorized investments and restrictions set forth herein. These guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

#### **IV. Asset Allocation Guidelines**

The long-term allocation guidelines herein are expressed in terms of a target and ranges for each asset class to provide sufficient flexibility to take advantage of shorter-term market opportunities as they may occur. The asset allocation shall be sufficiently diversified to maintain risk at a reasonable level without imprudently sacrificing return.

The target allocation to each asset class will differ between the various pools as denoted in a previous section of this Policy. The asset allocation of each of the individual investment pools and the total combined pool are summarized in **Appendix I** – **Asset Allocation Targets and Rebalancing Policy**.

#### V. Manager Selection

For the Strategic Capital and Reserve Pools, the Investment Committee, with the guidance and recommendations of the consultant, is responsible for the selection and continued monitoring of qualified, competent investment managers in accordance with University policy and Florida law.

For the Working Capital Pool, staff is authorized to invest in the following managers and investments:

- Florida State Treasury
- State Board of Administration
- Qualified Public Depositories as defined by the State of Florida
- U.S. Government and its Agencies
- Money Market and Short Term Fixed Income Funds rated AA or higher by at least two of the following ratings agencies: Moody's Investors Service, Standard & Poor's and Fitch.

#### VI. Performance Measurement & Evaluation

Investment objectives provide quantifiable standards to measure and evaluate the progress of both the investment pools and each individual investment manager. For the purpose of monitoring and evaluating the ongoing investment activity and results, both relative and comparative performance standards and objectives are defined.

Relative standards are used to review the return and risk at both the pool and individual manager level. The relative standards for the pool level will represent a target policy index that will be constructed from the relative market indices weighted by the Portfolio's target allocation to each asset class. Each individual investment manager will be evaluated relative to an appropriate benchmark. An appropriate benchmark is defined as an identifiable market index or a "normal" portfolio that is constructed to replicate the manager's investment style. Benchmarks for each investment manager are identified in the Individual Manager section of this document.

Comparative standards are used to evaluate the returns of both the pool and each of its asset class components.

Investment objectives are established to measure the long-term (3 to 5 years) results of the Total Pool and each investment manager. The Committee must recognize the limitations of reviewing results over short-term horizons; however, current performance can serve as an early indication of the Portfolio's progress toward meeting the more fundamental primary objectives.

The Portfolio's performance objectives may be divided into two components: objectives for the overall fund and objectives for the individual portfolio components. Both levels of objectives will be incorporated into quarterly reviews of the Portfolio's performance. The performance objectives for each individual investment pool and the Total Combined Pool are detailed in **Appendix II** – **Performance Objectives**.

#### **REASON FOR POLICY (O\*)**

This document will provide the framework for the investment management of the Portfolio. Specifically, it will address:

- the general goals of the investment Portfolio
- the guidelines and parameters for the management of the Portfolio
- the asset allocation guidelines
- performance objectives

This Policy is intended to allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, yet set forth reasonable parameters to ensure prudence and care in the execution of the investment program.

| CONTACTS (R)                     |                  |                |  |  |
|----------------------------------|------------------|----------------|--|--|
| Administrative Office's Address  | Telephone Number | Fax Number     |  |  |
| Phong T. Vu                      |                  |                |  |  |
| University Treasurer             |                  |                |  |  |
| Florida International University | (305) 348-2544   | (305) 348-2990 |  |  |
| 11200 S.W. Eighth Street, PC 523 |                  |                |  |  |
| Miami, Florida 33199             |                  |                |  |  |

Effective Date: June 29, 2005; Revision Date(s): September 11, 2007; March 12, 2008; March 30, 2009; June 12, 2009; September 24, 2010.

#### LEGAL AUTHORITY

The BOT is authorized to adopt an Investment Policy pursuant to Section 1011.42 and 218.415 of the Florida Statutes.

#### **RELATED INFORMATION (O)**

#### APPENDIX I – Asset Allocation Targets & Rebalancing Policy

#### **Asset Allocation Guidelines**

The asset allocation guidelines differ between the various pools, and are summarized as follows:

|                           | Working<br>Capital Pool | Strategic<br>Capital Pool | Reserve Pool | Total<br>Combined<br>Pool |
|---------------------------|-------------------------|---------------------------|--------------|---------------------------|
| % of Total Combined Pool  | 30%                     | 60%                       | 10%          | 100%                      |
|                           |                         |                           |              |                           |
| Cash Equivalents          | 40.00%                  | 0.00%                     | 0.00%        | 12.00%                    |
| Short-Int. Fixed Income   | 60.00%                  | 0.00%                     | 0.00%        | 18.00%                    |
| Fixed Income (Inv. Grade) | 0.00%                   | 29.50%                    | 29.50%       | 20.65%                    |
| High Yield                | 0.00%                   | 10.00%                    | 10.00%       | 7.00%                     |
| Total Fixed Income        | 100.00%                 | 39.50%                    | 39.50%       | 57.65%                    |
| TIPS                      | 0.00%                   | 14.00%                    | 14.00%       | 9.80%                     |
| Commodities               | 0.00%                   | 10.00%                    | 10.00%       | 7.00%                     |
| REITS                     | 0.00%                   | 5.50%                     | 5.50%        | 3.85%                     |
| Total Real Assets         | 0.00%                   | 29.50%                    | 29.50%       | 20.65%                    |
| Domestic Equity           | 0.00%                   | 5.50%                     | 5.50%        | 3.85%                     |
| International Equity      | 0.00%                   | 5.50%                     | 5.50%        | 3.85%                     |
| Private Equity            | 0.00%                   | 10.00%                    | 10.00%       | 7.00%                     |
| Total Equity              | 0.00%                   | 21.00%                    | 21.00%       | 14.70%                    |
| Absolute Return           | 0.00%                   | 10.00%                    | 10.00%       | 7.00%                     |
| Total                     | 100.00%                 | 100.00%                   | 100.00%      | 100.00%                   |

#### **Asset Allocation Ranges and Rebalancing**

Asset allocation refers to the strategic deployment of assets among the major classes of investments such as domestic equity, fixed income and cash equivalents. The asset allocation decision reflects the Portfolio's return requirements as well as the Portfolio's tolerance for return variability (risk) within the context of the expected liabilities of the fund. Asset allocation is widely recognized and accepted as the primary source of return and risk for an investment program. It is used for setting the parameters for long term risk and return in order to meet the University's long-term financial objectives.

The tables below set forth the asset allocation for the Portfolio, the strategic target weights and the allowable ranges around the target weights:

| Total Combined Pool     | Target (%) | Minimum (%) | Maximum (%) |
|-------------------------|------------|-------------|-------------|
| Working Capital Pool    | 30.00      | 25.00       | 93.00       |
| Strategic Capital Pool  | 60.00      | 0.00        | 70.00       |
| Reserve Pool            | 10.00      | 7.00        | 20.00       |
| Working Capital Pool    | Target (%) | Minimum (%) | Maximum (%) |
| Cash Equivalents        | 40.00      | 0.00        | 100.00      |
| <u> </u>                |            |             |             |
| Short Term Fixed Income | 60.00      | 0.00        | 90.00       |

| Strategic Capital Pool          | Target (%) | Minimum (%) | Maximum (%) |
|---------------------------------|------------|-------------|-------------|
| Cash Equivalents                | 0.00       | 0.00        | 5.00        |
| Fixed Income (Investment Grade) | 29.50      | 24.50       | 34.50       |
| TIPS                            | 14.00      | 9.00        | 19.00       |
| Absolute Return                 | 10.00      | 5.00        | 15.00       |
| High Yield                      | 10.00      | 7.00        | 15.00       |
| Commodities                     | 10.00      | 7.50        | 12.50       |
| REITS                           | 5.50       | 3.00        | 12.00       |
| International Equity            | 5.50       | 2.50        | 8.50        |
| Domestic Equity                 | 5.50       | 2.50        | 8.50        |
| Private Equity                  | 10.00      | 5.00        | 15.00       |

| Reserve Pool                    | Target (%) | Minimum (%) | Maximum (%) |
|---------------------------------|------------|-------------|-------------|
| Cash Equivalents                | 0.00       | 0.00        | 5.00        |
| Fixed Income (Investment Grade) | 29.50      | 24.50       | 34.50       |
| TIPS                            | 14.00      | 9.00        | 19.00       |
| Absolute Return                 | 10.00      | 5.00        | 15.00       |
| High Yield                      | 10.00      | 7.00        | 15.00       |
| Commodities                     | 10.00      | 7.50        | 12.50       |
| REITS                           | 5.50       | 3.00        | 12.00       |
| International Equity            | 5.50       | 2.50        | 8.50        |
| Domestic Equity                 | 5.50       | 2.50        | 8.50        |
| Private Equity                  | 10.00      | 5.00        | 15.00       |

Portfolio rebalancing is designed to provide a disciplined approach to control the risk exposure of the Portfolio to the investment categories that have deviated from the established target policy weights. Rebalancing parameters are addressed at the asset class level. Rebalancing requires a reallocation to be made whenever the quarter-end allocations exceed the minimum or maximum allocations specified above. Naturally occurring cash flows shall be used to the fullest extent possible to minimize transaction costs and rebalance toward policy targets.

The funding of the private equity asset class occurs over the term of the investment. In order to maintain the Policy's overall target allocation to equity, the Portfolio may maintain an overweight (or underweight) position to public equity no greater than the corresponding underweight (or overweight) target allocation to private equity. The staff and consultants will annually review the rebalancing to take into account the funding of private equity.

#### **Appendix II – Performance Objectives**

The performance objectives for the overall fund are threefold:

- 1. objective relative to asset allocation targets
- 2. objective relative to capital market assumptions
- 3. objective relative to inflation

The first objective results in a comparative index that reflects the University's unique asset allocation policy (see example in Table 1). Exceeding this objective indicates that the active management of the various portfolio components has added value over a passively-managed fund with a similar asset mix. The second objective, to compare asset class performance to the capital market assumptions, ensures that the asset mix continues to achieve the long-term goals of the Portfolio. The inflation objective requires that the investment performance provide an adequate real return over the expected rate of inflation, the primary driver of costs.

Individual portfolio components also have performance objectives reflecting the unique investment style of each category. The investment style and performance benchmarks are also shown below:

#### **Five-Year Performance Objectives Methodology**

Relative to asset allocation targets, indexes that represent appropriate asset classes

| Target Portfolio Weight | X | Representative cash equivalent portfolio |
|-------------------------|---|--|
| Target Portfolio Weight | X | Investment grade fixed income index      |
| Target Portfolio Weight | X | TIPS index                               |
| Target Portfolio Weight | X | Absolute return benchmark                |
| Target Portfolio Weight | X | High yield fixed income index            |
| Target Portfolio Weight | X | Global REIT Index                        |
| Target Portfolio Weight | X | Commodity Index                          |
| Target Portfolio Weight | X | Broad U.S equity index                   |
| Target Portfolio Weight | X | International equity index               |
| Target Portfolio Weight | X | Private equity benchmark                 |
| 100.00%                 |   | Total Portfolio Benchmark                |

#### <u>Total Combined Pool Objectives</u> (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

| 30.00%  | X | 91-Day Treasury Bill rate                                  |
|---------|---|--|
| 20.65%  | X | Barclays U.S. Aggregate Bond Index                         |
| 9.80%   | X | Barclays TIPS Index  |
| 7.00%   | X | ML High Yield Master II Index                              |
| 7.00%   | X | CPI + 3.25% (Absolute Return benchmark)                    |
| 7.00%   | X | Dow Jones - UBS Commodity Index                            |
| 3.85%   | X | FTSE EPRA / NAREIT Developed Real Estate                   |
| 3.85%   | X | Wilshire 5000 Index (US Equity broad market)               |
| 3.85%   | X | MSCI All Country World ex-U.S. Index (int'l equity market) |
| 7.00%   | X | Wilshire 5000 (1-quarter lag) $+$ 3%                       |
| 100.00% |   | Total Combined Pool Benchmark                              |

Relative to inflation: Consumer Price Index + 3.5%

#### Working Capital Pool Objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

100.00%x91-Day Treasury Bill rate100.00%Working Capital Pool Benchmark

### Strategic Capital and Reserve Pool Objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

| 29.50%  | X | Barclays U.S. Aggregate Bond Index                         |
|---------|---|--|
| 14.00%  | X | Barclays TIPS Index  |
| 10.00%  | X | CPI + 3.25% (Absolute Return benchmark)                    |
| 10.00%  | X | ML High Yield Master II Index                              |
| 5.50%   | X | FTSE EPRA / NAREIT Developed Real Estate                   |
| 10.00%  | X | Dow Jones – UBS Commodity Index                            |
| 5.50%   | X | Wilshire 5000 Index (US Equity broad market)               |
| 5.50%   | X | MSCI All Country World ex-U.S. Index (int'l equity market) |
| 10.00%  | X | Wilshire 5000 (1-quarter lag) $+$ 3%                       |
| 100.00% |   | Strategic Capital or Reserve Pool Benchmark                |

Relative to capital market assumptions: (Wilshire's published assumptions, 2012)

| Expected Return (%)  |       |
|----------------------|-------|
| Cash Equivalents     | 1.50  |
| Fixed Income         | 2.85  |
| TIPS                 | 1.65  |
| Absolute Return      | 5.55  |
| High Yield           | 5.45  |
| REITs                | 5.25  |
| Commodities          | 4.00  |
| U.S Equity           | 7.50  |
| International Equity | 7.80  |
| Private Equity       | 10.25 |
| Inflation at 2.00%   |       |
|                      |       |

<sup>\*</sup>R = Required \*O = Optional

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# FLORIDA INTERNATIONAL UNIVERSITY OFFICIAL UNIVERSITY POLICY

## University Community (faculty, staff and students)

| SUBJECT (R*)   | EFFECTIVE DATE (R)                      | POLICY NUMBER      |  |
|--|---|--------------------|--|
| INVESTMENT POLICY STATEMENT (IPS)  | June 29, 2005                           | <u>1160.010</u>    |  |
| RESPONSIBLE UNIVERSITY DIVISION/DEPARTMENT (R)   | RESPONSIBLE UNIV                        | ERSITY OFFICER (R) |  |
| Office of the Treasurer  Division of Business and Finance and Administration  Florida International University | Phong T. ony Vu<br>University Treasurer |                    |  |

#### POLICY STATEMENT (R)

It is the policy of Florida International University (the "University") that:

The investment of the University's operating funds investment pool (the "FundPortfolio") shall be based on an analysis that will, at a minimum, consider:

- the financial condition of the University
- the expected long term capital market outlook
- Florida International the University's risk tolerance
- future planned capital expenditures and cash requirements
- debt service requirements
- · current and projected expenses
- inflation

The financial plan measures the potential impact of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected cash flows of the FundPortfolio.

#### GENERAL INVESTMENT GOALS AND OBJECTIVES

The general investment goals <u>established herein are broad in nature to are designed to broadly encompass take into account</u> the purpose of the <u>FundPortfolio</u> and its investments. They <u>and</u> articulate the philosophy <u>and parameters</u> by which <u>the Florida International</u> University <u>Board of Trustees (the "BOT")</u> will manage the <u>FundPortfolio</u>'s assets.

The overall goal of the FundPortfolio is to provide funds through a carefully planned and executed investment program necessary for regular expenses, capital expenditures and overall liquidity needs. There are both short term liquidity needs and longer term needs that allow for some incremental longer term growth of these assets. Specifically, the FundPortfolio shall be managed with the following objectives:

i. Maintain the safety of the principal;

i.

. Maintain the necessary liquidity to ensure funds are available to support operational needs;

ii.

iii. Obtain a reasonable return for a prudent level of risk.

Florida International The University seeks to produce a return on investment which is based on levels of operating liquidity needs and investment risk that are prudent and reasonable, given prevailing capital market conditions. While Florida International the University recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns.

#### II. GOVERNANCE

#### **BOT<del>oard of Trustees</del> Finance and Audit Committee**

#### Board of Trustees (Audit and Finance Committee)

The Florida International University Board of Trustees ("BOT")—is responsible for the oversight and approval of the overall investment Policy (and any amendments thereto) and oversight of of the University's implementation of the Policy operating funds portfolio. This oversight responsibility will include the final approval and any modifications to the Investment Policy of the University as written in the Investment Policy Statement (the "IPS").

This <u>P</u>Policy addresses specifics relating to:

- investment goals and objectives
- policies and procedures
- asset allocation policy targets specifying minimum and maximum ranges
- rebalancing policy
- · selection of investment managers
- authorized investments

#### Investment Committee

#### **Investment Committee**

The <u>BOT's</u> Investment Committee recognizes that matters concerning the investment of the operating fund assets owned by the University merit serious attention and frequent consideration.

The Investment Committee, at a minimum, will consist of:

- <u>aA</u>n individual designated by the <u>Board of TrusteesBOT</u>;
- The Chief Financial Officer of the University;
- <u>tT</u>he Treasurer of the University and; and
- <u>aA</u> representative from University academics.

In addition, the Investment Committee may include up to two business community representatives and other representatives with specific expertise in investment and portfolio management may be added to strengthen the Committee's capabilities. The need for adding members will be determined by the Chair of the Boord of Trustees in consultation with the Chair of the Finance and Audit Committee.

The Investment Committee, with the guidance and recommendations of the investment consultant hired by the University, is responsible for:

- directing all of its efforts toward the investment objectives stated in the IPSherein
- performing at least annually a review of the investment objectives stated in the IPSherein
- ensuring that the objectives stated in thise **PSPolicy** are practical and reflect the mission of the University
- hiring an investment consultant, consistent with University procurement requirements, subject to the approval of the Board of Trustees
- implementing and monitoring the asset allocation policy
- · conducting an annual formal review of the investment structure
- developing an updated financial projection a minimum of every three years
- selecting and monitoring of qualified, competent investment managers
- terminating investment managers failing to maintain acceptable quantitative (e.g. risk/return profile) and/or qualitative (e.g. organizational changes) standards
- · developing and reviewing the objectives and guidelines given to each specific investment manager
- meeting at least quarterly to review the results of the investment portfolios
- determining whether the investment objectives set forth herein are being met and whether the investment guidelines are being followed
- providing regular performance to the Board of Trustees BOT with regular performance reports on the investment portfolios

#### Staff

The staff is an integral part of the day\_to\_day requirements of the operating portfolio. The staff has the responsibility of administering and coordinating the implementation of decisions made by the Investment Committee and the Board of OTrustees. The staff is responsible for:

- administering the investments of the FundPortfolio at the lowest possible cost, being careful to avoid sacrificing quality
- administering the rebalancing policy
- · day-to-day interaction with the consultants and investment managers

#### III. INVESTMENT GUIDELINES

<u>The Investment guidelines set forth herein</u> establish parameters for the <u>Totalthe FundPortfolio</u> and for the <u>University'seach investment managers</u> to follow while <u>in implementing their respective investment strategies. These Geguidelines address asset allocation, restricted transactions, diversification, quality and turnover.</u>

#### A. Investment Pools\*

#### TOTAL COMBINED POOL

This poole Total Combined Pool is the overall combined investments of the Portfolio. In its entirety, it is intended to satisfy the overall objectives and constraints set forth in thise IPSP-hereinolicy. The Total Combined Pool is divided into three distinct pools; each pool has a different investment time horizon, investment objective and minimum and maximum asset class allocations.

#### WORKING CAPITAL POOL

This pool is intended to provide for the immediate normal operating requirements of the University (funds awaiting clearance), and other short-term investments of the University. This pool may includes eertain-funds that must be invested in a restricted manner in accordance with restricted funds and therefore, will comply with any applicable state and/or federal laws, rules and regulations federal and/or state law.

#### STRATEGIC CAPITAL POOL

The cash needs of this portfolio are intermediate and long term in nature. Therefore, tThis pool is intended to be invested over the medium-term, as the cash needs of this pool are intermediate and long-term in nature. and will provide returns commensurate with an intermediate term investment time horizon.

#### RESERVE POOL

This pool encompasses a state\_-mandated unencumbered reserve. This pool is intended to be invested over the medium-longer term.

\*University and affiliated-organization \*Revenue Bondbonds proceeds will beare outside of the purview of these investment pools is Policy and will be invested in compliance with all relevant federal and state laws.

#### **B.** Asset Class/Category Characteristics

#### **CASH EQUIVALENTS**

The purpose of the cash equivalents portfolio is to provide liquidity to fund operational expenses, debt service and other short term

cash needs.

#### **FIXED INCOME**

#### **Investment Grade**

<u>TT</u>his asset class is intended to be representative of the overall U.S. investment grade bond market. The purpose of the fixed income portfolio asset class is to provide a high level of current income to provide liquidity for intermediate cash flow needs and to provide diversification benefits during periods of a stock market decline.

#### High Yield

Th<u>Th</u>is asset class is intended to be representative of the non-investment grade U.S. bond market (bonds rated BB or lower). The purpose of this fixed income portfolio-asset class is to provide a higher level of current income to compensate for the additional level of credit risk employed. The purpose of this portfolio-asset class is to provide some return enhancement and diversification benefit in order for the Portfolio to realize long-term growth above inflation.

#### **EQUITIES**

#### U.S. Equity

This asset class is intended to be representative of the overall U.S. stock market. The purpose of the equity portfolio asset class is to provide a high level of capital appreciation in order for the Portfolio to realize long-term growth above inflation.

#### International Equity

The purpose of the international equity <u>asset classportfolio</u> is to provide exposure to equities in international equity markets. Exposure to international equities enhances returns of the combined equity portfolio while reducing return volatility.

#### Private Equity

The purpose of the private equity asset class is to provide a global exposure to private equity markets that is diversified by geography, investment type (venture capital, growth equity, buyout, mezzanine, distressed and special situations) and vintage year. Exposure to the private equity market is expected to provide access to outsized returns as compared to the public equity market.

#### REAL ASSETS

### Treasury Inflation Protected Securities (

#### TIPS)

<u>This asset class is intended to be representative of Treasury Inflation Protected Securities are the fixed income investments in which the principal is adjusted periodically based on changes in CPI. The purpose of the TIPS asset class portfolio is to provide fixed income like returns with the additional diversification benefits of inflation protection.</u>

#### Real Estate Investment Trusts (REITS)

This asset class is intended to be representative of the Real Estate Investment Trust market. The purpose of the REIT portfolio asset class is to provide a higher level of current income and capital appreciation than fixed income with diversification benefits from its low correlation to both stocks and bonds.

#### Commodities

This asset class is intended to be a passively managed representation of a direct investment in a diversified commodities strategy. A direct investment is either through the purchase of the physical commodity (e.g., crude oil, metals) or the purchase of derivatives (e.g., futures). The principal roles for commodities in the portfolio are as a portfolio-risk diversifier, and an inflation hedge, providing an expected offset to assets such as fixed rate instruments, which typically lose value during periods of unexpected inflation.

### ABSOLUTE RETURN

This asset class is intended to be representative of a broadly diversified hedge fund strategy intended to provide an "absolute return" in any market environment with low —to intermediate level of risk. This strategy is intended to provide modest return enhancement to that of fixed income with diversification benefits derived from its low correlation to other asset classes.

#### C. Authorized Investments and Restrictions

Investment guidelines establish parameters for each investment manager to follow while implementing their respective investment strategies. The following information addresses authorized investments and restrictions at the overall asset class policy levelestablish the parameters the University's investment managers must follow in implementing their respective investment strategies. Each underlying manager will have a specific set of guidelines that may be more restrictive than those at the overall policy levelset forth herein.

#### US Equity PortfoliosFixed Income Investment Grade

| Investment Guidelines - Investment Grade Fixed Income   |                             |  |
|---|-----------------------------|--|
| Authorized Investments:   | Status                      |  |
| Fixed Income securities issued in the U.S. investment grade bond market Rule 144A securities with registration rights | Authorized<br>Authorized    |  |
| Non dollar securities and securities of issuers outside the U.S.  | Authorized                  |  |
| U.S. Treasury, Agency, Eurodollar, and Swap financials futures  | Authorized                  |  |
| Interest rate swaps   | Authorized                  |  |
| Options on securities otherwise allowable under the guidelines  | Authorized                  |  |
| Agency mortgage dollar rolls  | Authorized                  |  |
| Cash vehicle through trustee  | Authorized                  |  |
|   |                             |  |
| Restrictions:   | Guideline                   |  |
| Maximum invested in securities not paying in US dollars   | 10% of account market value |  |
| Maximum invested in issuers domiciled outside the US  | 10% of account market value |  |
| Maximum invested in non US dollar-denominated assets  | 10% of account market value |  |
| Cross-currency hedging  | Prohibited                  |  |
| Rated by both S&P Moody's (except US government and agency securities)  | Required                    |  |
| Rated BBB-/Baa3 or higher at time of purchase   | Required                    |  |
| Convertible securities and preferred stocks   | Prohibited                  |  |

| Maximum position in securities not rated or rated BB+ /Bal or lower                                   | 5% of account market value |
|---|----------------------------|
| Collateralized securities must have a credit quality rated AAA by S&P and rated Aaa by Moody's        | Required                   |
| Interest-only (IO) securities   | Prohibited                 |
| Collateralized Bond Obligations, Collateralized Debt Obligations, and Collateralized Loan Obligations | Prohibited                 |
| Credit derivatives  | Prohibited                 |
| Maximum per any one issuer  | 5% of account market value |
| Maximum duration exposure derived from futures, options or swaps                                      | 20%                        |
| Borrowing and/or lending of funds or securities   | Prohibited                 |
| Leverage  | Prohibited                 |

### Fixed Income High Yield

| Investment Guidelines - High Yield Fixed Income   |            |  |
|---|------------|--|
| Authorized Investments:   | Status     |  |
| Registered high yield and Rule 144A, with registration rights, fixed income securities and debt obligations issued by public, corporate, and sovereign entities | Authorized |  |
| Securities issue or guaranteed by the US government, its agencies and instrumentalities   | Authorized |  |
| Forward contracts on "eligible"_securities  | Authorized |  |

| Common stock, preferred stock and options or warrants to purchase common or preferred stock only where included in a unit with, or attached to, fixed income securities or upon conversion of a convertible security or exercise of a warrant or option or received in a reorganization | Authorized                 |  |
|---|----------------------------|--|
| Convertible securities and preferred stocks, if most of their value is attributable to their yield and other fixed income features  | Authorized                 |  |
| Cash vehicle through trustee  | Authorized                 |  |
|   |                            |  |
| Restrictions:   | Guideline                  |  |
| Maximum position in an individual security (excluding Government securities)  | 5% of account market value |  |
| Maximum position in any one issuer (excluding Government securities)  | 5% of account market value |  |
| Maximum position in Rule 144A, with registration rights, securities   | 5% of account market value |  |
| Maximum position in emerging market debt (corporate or sovereign debt of countries with credit rating BB+/Ball or lower)  | 5% of account market value |  |
| Purchase of securities on margin  | Prohibited                 |  |
| Short sales   | Prohibited                 |  |
| Securities lending  | Prohibited                 |  |
| Employ leverage   | Prohibited                 |  |
| Structured securities (e.g. ABS, CMBS, CDO) except for equipment trust certificates   | Prohibited                 |  |
| Maximum position in equipment trust certificates  | 5% of account market value |  |
| Investment in direct real estate or real estate mortgage loans  | Prohibited                 |  |
| Debt issued by corporate entities involved in real estate otherwise allowed under these guidelines  | Permitted                  |  |
| Investment in commodities or commodity contracts  | Prohibited                 |  |
| All securities at the time of purchase must be rated single-B or higher by both S&P and Moody's (securities issued w/o rating are exempt if one can be reasonable expected within one month of issuance)  | Required                   |  |
| Maximum invested in securities not rated single-B or higher by both S&P and Moody's and any equity securities received into the account   | 5% of account market value |  |
|   |                            |  |

| Investment Guidelines - US Equity   |            |  |  |
|---|------------|--|--|
| Authorized Investments: Status  |            |  |  |
| Equity denominated in US dollars and traded on recognized US exchanges include NASDAQ | Authorized |  |  |
| Common and preferred Stock  | Authorized |  |  |
| Securities convertible into common and preferred stock                                | Authorized |  |  |
| Rights and warrants   | Authorized |  |  |

| Depository receipts  | Authorized                  |  |
|--|-----------------------------|--|
| Cash vehicle available through the trustee   | Authorized                  |  |
|  | <del>,</del>                |  |
| Restrictions   | Guideline                   |  |
| Maximum investment in an individual company  | 5% of account market value  |  |
| Maximum ownership of an individual company's outstanding shares  | 10%                         |  |
| Maximum cash or cash equivalent position   | 10% of account market value |  |
| Maximum position in preferred stocks   | 5% of account market value  |  |
| Maximum position in convertible securities   | 5% of account market value  |  |
| Maximum position in rights and warrants  | 10% of account market value |  |
| Maximum position in depository receipts  | 10% of account market value |  |
| Margined stocks  | Prohibited                  |  |
| Short sales  | Prohibited                  |  |
| Real or personal property  | Prohibited                  |  |
| Commodities or commodity contracts   | Prohibited                  |  |
| Swaps, options, or other derivatives   | Prohibited                  |  |
| Limited partnerships   | Prohibited                  |  |
| Venture capital  | Prohibited                  |  |
| Letter stock and other securities restricted as to public resale   | Prohibited                  |  |
| Borrowing and/or lending funds or securities   | Prohibited                  |  |
| Maximum position in dollar-denominated equity securities issued by non-US domiciled companies but traded on a recognized US exchange               | 10% of account market value |  |
| Investments with a market capitalization less than the smallest security or greater than the largest security in the Benchmark at time of purchase | Prohibited                  |  |
| Maximum position in investments with a market capitalization less than the smallest security or greater than the largest security in the Benchmark | 5% of account market value  |  |

| International Equity Investment Guidelines - International Equity   |            |  |
|---|------------|--|
| Authorized Investments:   | Status     |  |
| Countries represented in the MSCI ACWI ex-US (net) EAFE benchmark   | Authorized |  |
| Equity securities of companies domiciled in countries represented in the MSCI ACWI ex-US (net) EAFE benchmark | Authorized |  |
| Common and Preferred Stock  | Authorized |  |
| Securities convertible into common and preferred stock  | Authorized |  |

| Rights and warrants   | Authorized                  |
|---|-----------------------------|
| Depository receipts   | Authorized                  |
| Rule 144A securities  | Authorized                  |
| Foreign currency and currency forwards of countries allowable under the guidelines                | Authorized                  |
| International index futures contracts used solely for hedging purposes                            | Authorized                  |
| Cash vehicle available through the trustee  | Authorized                  |
|   |                             |
| Restrictions:   | Guideline                   |
| Maximum investment in an individual company   | 5% of account market value  |
| Maximum ownership of an individual company's outstanding shares                                   | 10%                         |
| Maximum cash or cash equivalent position  | 10% of account market value |
| Maximum position in preferred stocks  | 5% of account market value  |
| Maximum position in convertible securities  | 5% of account market value  |
| Maximum position in rights and warrants   | 10% of account market value |
| Maximum position in private placement securities eligible for resale pursuant to Rule 144A        | 10% of account market value |
| Private placements outside of Rule 144A   | Prohibited                  |
| Maximum position in depository receipts   | 10% of account market value |
| Margined stocks   | Prohibited                  |
| Shorts sales  | Prohibited                  |
| Real or personal property   | Prohibited                  |
| Commodities or commodity contracts  | Prohibited                  |
| Swaps, options, or other derivatives  | Prohibited                  |
| Limited partnerships  | Prohibited                  |
| Venture capital   | Prohibited                  |
| Letter stock and other securities restricted as to public resale                                  | Prohibited                  |
| Foreign currency and currency forward contracts for hedging purposes                              | Permitted                   |
| Use of derivatives to expose more than 100% of the net assets of the account to equity securities | Prohibited                  |
| Net aggregate holdings of foreign currency exposure in excess of net assets of the account        | Prohibited                  |
| Borrowing and/or lending of funds or securities   | Prohibited                  |

<u>Authorized Investments Private Equity</u>

| Investment Guidelines - Private Equity   |            |  |  |
|--|------------|--|--|
| Authorized Investments: Status   |            |  |  |
| Private equity investments should be invested in an institutionally-oriented, globally diversified fund-offunds vehicles | Authorized |  |  |

| - <u>Buyout</u>  | <u>Authorized</u>      |
|--|------------------------|
| - <u>Venture Capital</u>   | <u>Authorized</u>      |
| - <u>Special Situations</u>  | <u>Authorized</u>      |
| - <u>Primary partnerships</u>  | <u>Authorized</u>      |
| - <u>Secondary partnerships</u>  | <u>Authorized</u>      |
| - <u>Direct / Co-investments</u>   | <u>Authorized</u>      |
| Restrictions:  | <u>Guideline</u>       |
| Investment Vehicle   | Fund of funds only     |
| Allowable range for Total Private Equity investments:  | -                      |
| - Buyout   | <u>40% - 60%</u>       |
| - Venture Capital  | <u>0% - 30%</u>        |
| - Special Situations   | <u>10% - 40%</u>       |
| - Primary Partnerships   | <u>Up to 100%</u>      |
| - Secondary Partnerships   | <u>Up to 40%</u>       |
| - Direct / Co-investments  | <u>Up to 20%</u>       |
| Allowable geographic diversification for Total Private Equity investments:   | _                      |
| _ <u>United States</u>   | <u>40% - 70%</u>       |
| _ Europe   | <u>25% - 50%</u>       |
| Latin America  | <u>Up to 25%</u>       |
| Asia / Pacific   | <u>Up to 40%</u>       |
| Vintage year diversification must be achieved within each fund of funds structure  | Minimum of three years |
| General Partners must demonstrate acceptance through retention of other institutionally-oriented clients                       | <u>Required</u>        |
| General Partners must have capital committed in the private partnership  | Required               |
| General Partner must have a track record demonstrating investment capabilities with previous funds of funds and sizable assets | Required               |

#### Guidelines for COMMODITIECommoditiesS

This asset class is intended to be representative of a passively managed commodities portfolio. It requires staying current at all times with the objectives of the manager's investment policy for discretionary commodity portfolios and the requirements of these guidelines.

The manager may buy or sell futures, forwards, options and swaps on both individual commodities as well as the derivatives on commodity indices. Although this account is intended to be passively managed, should the account migrate to an active management strategy, a short duration fixed income portfolio will be maintained as collateral. The guidelines for investment grade fixed income portfolios contained herein must be followed.

The Portfolio A portion of this investment may hold a portion of its assets in cash and cash instruments, including short-term investment vehicles. Although certain investments may exhibit characteristics of leveraged transactions, the overall commodities investments Portfolio will be managed to produce an unleveraged return. The Portfolio investment will not borrow money or use derivatives for the Portfolio in a manner that has the purpose of creating investment leverage.

The investment management firm responsible for managing these investments—assets must be registered with the SEC. Specific investment guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

### **Investment Guidelines - Commodities**

| Authorized Investments:   | Status                      |
|---|-----------------------------|
| Securities represented in the DJ - UBS Commodity Index  | Authorized                  |
| Commodity Groups Currently Included in the Dow Jones-UBS Commodity Index  |                             |
| Energy  | Authorized                  |
| Agriculture   | Authorized                  |
| Industrial Metals   | Authorized                  |
| Precious Metals   | Authorized                  |
| Livestock   | Authorized                  |
| Commodities Currently Included in the Dow Jones-UBS Commodity Index<br>Aluminum, Coffee, Copper, Corn, Cotton, Crude Oil, Gold, Heating Oil, Lean<br>Hogs, Live Cattle, Natural Gas, Nickel, Silver, Soybeans, Soybean Oil, Sugar,<br>Unleaded Gasoline, Wheat and Zinc | Authorized                  |
| Futures, Forwards, Options and Total Return Swaps   | Authorized                  |
| Commodity or Commodity Contracts  | Authorized                  |
| Restrictions:   | Guideline                   |
| Maximum weight to any commodity group   | 33% of account market value |
| Minimum weight to any single commodity  | 2% of account market value  |

#### IEDGE FUNDSGuidelines for Hedge Funds

The Absolute Return asset class shall be implemented through a fund-of-funds investment vehicle. The organization managing the fund-of-funds vehicle must be registered with the SEC. Specific investment guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

As this asset class is intended to be representative of a broadly diversified hedge fund strategy intended to provide an "absolute return" in any market environment with low — intermediate level of risk. This strategy is expected to be implemented through a fundof funds investment vehicle. The organization managing the fund of fund vehicle must be registered with the SEC. Specific investment guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

#### Guidelines for Commingled Investment Vehicles aAnd/oOr Mutual Funds

Investment may be made in commingled vehicles and/or mutual funds in which a specified set of guidelines developed for a broad number of institutions are already predetermined. It will be expected that tThese portfolios-investments will be managed in a manner consistent with but not specifie to the specified authorized investments and restrictions made in this sectionset forth herein. These guidelines will be reviewed and approved by the Investment Committee prior to the implementation of such an investment vehicle.

### IV. Asset Allocation Guidelines

The long-term allocation guidelines adopted by the Florida International University Board of Trustees shall be herein are expressed in terms of a target and ranges for each asset class to provide sufficient flexibility to take advantage of shorter-term market opportunities as they may occur. The asset allocation shall be sufficiently diversified to maintain risk at a reasonable level without imprudently sacrificing return.

The target allocation to each asset class will differ between the various pools as denoted in a previous section of the <u>IPSis Policy</u>. The asset allocation of each of the individual investment pools and the total combined pool are summarized in **Appendix I – Asset Allocation Targets and Rebalancing Policy**.

### V. Manager Selection

For the Strategic <u>Capital</u> and Reserve Pools, the Investment Committee, with the guidance and recommendations of the consultant, is responsible for the selection and continued monitoring of qualified, competent investment managers. The manner of procurement will be in compliance with in accordance with University policy and Florida law.

For the Working Capital Pool, management-staff is authorized to invest in the following managers and investments:

- Florida State Treasury
- State Board of Administration
- Qualified Public Depositories as defined by the State of Florida
- U.S. Government and its Agencies
- Money Market and Short Term Fixed Income Funds rated AA or higher by at least two of the following ratings agencies: Moody's Investors Service, Standard & Poor's and Fitch.

#### VI. Performance Measurement & Evaluation

Investment objectives provide quantifiable standards to measure and evaluate the progress of both the investment pools and each individual investment manager. For the purpose of monitoring and evaluating the ongoing investment activity and results, both relative and comparative performance standards and objectives are defined.

Relative standards—are used to review the return and risk at both the Ppool and individual manager level. The relative standards for the pool level will represent a target policy index that will be constructed from the relative market indices weighted by the Total FundPortfolio's target allocation to each asset class. Each individual investment manager will be evaluated relative to an appropriate benchmark. An appropriate benchmark is defined as an identifiable market index or a "normal" portfolio that is constructed to replicate the manager's investment style. Benchmarks for each investment manager are identified in the Individual Manager section of this document.

Comparative standards-are used to evaluate the returns of both the pool and each of its asset class components.

<u>Investment Oo</u>bjectives are established to measure the long-term (3 to 5 years) results of the Total Pool and each investment manager. The Committee must recognize the limitations of reviewing results over short-term horizons; however, current performance can serve as an early indication of the <u>FundPortfolio</u>'s progress toward meeting the more fundamental primary objectives.

The FundPortfolio's performance objectives can-may be divided into two components:- objectives for the overall fund and objectives for the individual portfolio components. Both levels of objectives will be incorporated into quarterly reviews of the FundPortfolio's performance.

The performance objectives for each individual investment pool and the Total Combined Pool are detailed in **Appendix II** – **Performance Objectives**.

#### **REASON FOR POLICY (O\*)**

This document will provide the framework for the investment management of Florida International the University's operating funds investment pool (the "Fun Portfoliod"). Specifically, it will address:

- the general goals of the investment programPortfolio
- the policies and procedures guidelines and parameters for the management of the Fund Portfolio's assets
- the investment guidelines (asset allocation guidelines)
- performance objectives

Thise philosophy Policy is intended incorporated herein is to allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, yet set forth reasonable parameters to ensure prudence and care in the execution of the

investment program.

|   | CONTACTS (R)                       |                  |                |  |
|---|------------------------------------|------------------|----------------|--|
|   | Administrative Office's Address    | Telephone Number | Fax Number     |  |
|   | <del>Tony</del> <u>Phong T.</u> Vu |                  |                |  |
| ı | University Treasurer               |                  |                |  |
| ı | Florida International University   | (305) 348-2544   | (305) 348-2990 |  |
| ı | 11200 S.W. Eighth Street, PC 523   |                  |                |  |
| ı | Miami, Florida 33199               |                  |                |  |

# HISTORY (R)

Effective Date: June 29, 2005; Revision Date(s): September 11, 2007; March 12, 2008; March 30, 2009; June 12, 2009; September 24, 2010.

# **LEGAL AUTHORITY**

The BOT is authorized to adopt an Investment Policy pursuant to Section 1011.42 and 218.415 of the Florida Statutes.

# RELATED INFORMATION (O)

# Appendix APPENDIX I – Asset Allocation Targets & Rebalancing Policy

# **Asset Allocation Guidelines**

The asset allocation guidelines differ between the various pools<del>funds</del>, and are summarized as follows:

|                           | Working<br>Capital Pool | Strategic<br>Capital Pool | Reserve Pool   | Total Combined Pool |
|---------------------------|-------------------------|---------------------------|----------------|---------------------|
| % of Total Combined Pool  | <u>30%</u>              | <u>60%</u>                | <u>10%</u>     | <u>100%</u>         |
|                           |                         |                           |                |                     |
| Cash Equivalents          | <u>40.00%</u>           | <u>0.00%</u>              | <u>0.00%</u>   | <u>12.00%</u>       |
| Short-Int. Fixed Income   | <u>60.00%</u>           | <u>0.00%</u>              | <u>0.00%</u>   | <u>18.00%</u>       |
| Fixed Income (Inv. Grade) | 0.00%                   | <u>29.50%</u>             | <u>29.50%</u>  | <u>20.65%</u>       |
| High Yield                | 0.00%                   | <u>10.00%</u>             | <u>10.00%</u>  | <u>7.00%</u>        |
| Total Fixed Income        | <u>100.00%</u>          | <u>39.50%</u>             | <u>39.50%</u>  | <u>57.65%</u>       |
| <u>TIPS</u>               | 0.00%                   | <u>14.00%</u>             | <u>14.00%</u>  | <u>9.80%</u>        |
| Commodities               | 0.00%                   | <u>10.00%</u>             | <u>10.00%</u>  | <u>7.00%</u>        |
| REITS                     | 0.00%                   | <u>5.50%</u>              | <u>5.50%</u>   | <u>3.85%</u>        |
| Total Real Assets         | <u>0.00%</u>            | <u>29.50%</u>             | <u>29.50%</u>  | <u>20.65%</u>       |
|                           |                         |                           |                |                     |
| Domestic Equity           | 0.00%                   | <u>5.50%</u>              | <u>5.50%</u>   | <u>3.85%</u>        |
| International Equity      | <u>0.00%</u>            | <u>5.50%</u>              | <u>5.50%</u>   | <u>3.85%</u>        |
| Private Equity            | 0.00%                   | <u>10.00%</u>             | <u>10.00%</u>  | <u>7.00%</u>        |
| Total Equity              | <u>0.00%</u>            | <u>21.00%</u>             | <u>21.00%</u>  | <u>14.70%</u>       |
| Absolute Return           | <u>0.00%</u>            | <u>10.00%</u>             | <u>10.00%</u>  | <u>7.00%</u>        |
| <u>Total</u>              | <u>100.00%</u>          | <u>100.00%</u>            | <u>100.00%</u> | <u>100.00%</u>      |

Asset allocation refers to the strategic deployment of assets among the major classes of investments such as domestic equity, fixed income and cash equivalents. The asset allocation decision reflects the <a href="FundPortfolio">FundPortfolio</a>'s return requirements as well as the <a href="FundPortfolio">FundPortfolio</a>'s tolerance for return variability (risk) within the context of the expected liabilities of the fund. Asset allocation <a href="policy">policy</a> is widely recognized and accepted as the primary source of return and risk for <a href="mailto:anthe">anthe</a> investment program. \_It is used for setting the parameters for long term risk and return in order to meet the <a href="Plan's University's">Plan's University's</a> long-term financial objectives.

The Florida International University Board of Trustees has adopted an asset allocation policy that identifies the strategic target weights to each of the major asset classes. The tables below set forth the asset allocation highlight for the general asset classes approved for investment the Portfolio, the strategic target weights and the allowable ranges around the target weights:

| Total Combined Pool                    | Target (%) | Minimum (%) | Maximum (%) |
|--|------------|-------------|-------------|
| Working Capital Pool                   | 30.00      | 25.00       | 93.00       |
| Strategic Capital Pool                 | 60.00      | 0.00        | 70.00       |
| Strategic Capital Pool<br>Reserve Pool | 10.00      | 7.00        | 20.00       |

# Working Capital Pool-

|                         | Target (%) | <u>Minimum (%)</u> | <u>Maximum (%)</u>   |
|-------------------------|------------|--------------------|----------------------|
| ¢ash Equivalents        | 40.00      | 0.00               | <del>90</del> 100.00 |
| Short Term Fixed Income | 60.00      | 0.00               | 90.00                |

### **Strategic Capital Pool**

| Target (%)                            | <u> Minimum (%)</u> | <u>Maximum (%)</u>         |
|---------------------------------------|---------------------|----------------------------|
| Cash Equivalents 0.00                 | 0.00                | 5.00                       |
| Fixed Income (Investment Grade) 29.50 | 24.50               | 34.50                      |
| TIPS 14.00                            | 9.00                | 19.00                      |
| Absolute Return 10.00                 | 5.00                | 15.00                      |
| High Yield 10.00                      | 7.00                | 15.00                      |
| Commodities 10.00                     | 7.50                | 12.50                      |
| REITS 5.50                            | 3.00                | <del>8</del> <u>12</u> .00 |
| International Equity 5.50             | 2.50                | 8.50                       |
| Domestic Equity 5.50                  | 2.50                | 8.50                       |
| Private Equity 10.00                  | 5.00                | 15.00                      |

| Reserve Pool                    | Target (%) | Minimum (%) | Maximum (%)    |
|---------------------------------|------------|-------------|----------------|
| Cash Equivalents                | 0.00       | 0.00        | 5.00           |
| Fixed Income (Investment Grade) | 29.50      | 24.50       | 34.50          |
| TIPS                            | 14.00      | 9.00        | 19.00          |
| Absolute Return                 | 10.00      | 5.00        | 15.00          |
| High Yield                      | 10.00      | 7.00        | 15.00          |
| Commodities                     | 10.00      | 7.50        | 12.50          |
| REITS                           | 5.50       | 3.00        | <u>12</u> 8.00 |
| International Equity            | 5.50       | 2.50        | 8.50           |
| Domestic Equity                 | 5.50       | 2.50        | 8.50           |
| Private Equity                  | 10.00      | 5.00        | 15.00          |

A RPortfolio rebalancing Policy is designed to provide a disciplined approach to control the risk exposure of the FundPortfolio to the investment categories that have deviated from the established target policy weights. Rebalancing parameters are addressed at the asset class level. The rRebalancing policy requires a reallocation to be made whenever the quarter-end allocations exceed the minimum or maximum allocations specified above. Naturally occurring cash flows shall be used to the fullest extent possible to minimize transaction costs and rebalance toward policy targets.

The funding of the private equity asset class occurs over the term of the investment. In order to maintain the Policy's overall target allocation to equity, the Portfolio may maintain an overweight (or underweight) position to public equity no greater than the corresponding underweight (or overweight) target allocation to private equity. The staff and consultants will annually review the rebalancing to take into account the funding of private equity.

#### Appendix II - Performance Objectives

The performance objectives for the overall fund are threefold:

- 1. objective relative to asset allocation targets
- 2. objective relative to capital market assumptions
- 3. objective relative to inflation

The first objective results in a comparative index that reflects the University's unique asset allocation policy (see example in Table 1). Exceeding this objective indicates that the active management of the various portfolio components has added value over a passively-managed fund with a similar asset mix. The second objective, to compare asset class performance to the capital market assumptions, ensures that the asset mix continues to achieve the long-term goals of the <a href="FundPortfolio">FundPortfolio</a>. The inflation objective requires that the investment performance provide an adequate real return over the expected rate of inflation, the primary driver of costs.

Individual portfolio components also have performance objectives reflecting the unique investment style of each category. The ihvestment style and performance benchmarks are also shown below:in Table 1.

#### FABLE 1 -

#### **Five-Year Performance Objectives Methodology**

—Relative to asset allocation targets, indexes that represent appropriate asset classes

Target Portfolio Weight Representative cash equivalent portfolio Target Portfolio Weight Investment grade fixed income index Х Target Portfolio Weight TIPS index X Target Portfolio Weight Absolute return benchmark Х Target Portfolio Weight High yield fixed income index  $\mathbf{X}$ Target Portfolio Weight **Global REIT Index** Х Target Portfolio Weight Commodity Index Х Target Portfolio Weight Broad U.S equity index Х Target Portfolio Weight International equity index x——Private equity benchmark Target Portfolio Weight-100.00% Total FundPortfolio Benchmark

**Total Combined Pool- Oobjectives** (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

```
30.00% x -91_-Day Treasury Bill rate

1920.2565% x Barclay-ss U.S. Aggregate Bond Index

129.2580% x Barclay-s TIPS Index

7.00% x ML High Yield Master II Index

107.050% x CPI + 3.25% (Absolute Return benchmark)

37.500% x S&P GSCIDow Jones - UBS Commodity Index

35.285% x Wilshire REIT IndexFTSE EPRA / NAREIT Developed Real Estate

73.085% x Dow Jones-Wilshire 5000 Index (US Equity broad market)

53.285% x MSCI EAFE-All Country World ex-U.S. Index (int'l equity developed-markets)

7.00% —x— Wilshire 5000 (1-quarter lag) + 3%

Total Combined Pool Benchmark
```

Relative to inflation: Consumer Price Index + 3.5%

## Working Capital Pool— Objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

```
100.00% x 91--Day Treasury Bill rate
100.00% Working Capital Pool Benchmark
```

#### **Strategic Capital and Reserve Pools O**—objectives (net of all fees and costs)

Relative to asset allocation targets, index weighted by:

```
279.50% x Barclay's U.S. Aggregate Bond Index

174.500% x Barclay's TIPS Index

150.00% x CPI + 3.25% (Absolute Return benchmark)

10.00% x ML High Yield Master II Index

75.50% x FTSE EPRA / NAREIT Developed Real EstateWilshire REIT Index

510.00% x S&P GSCI Dow Jones – UBS Commodity Index

105.50% x Dow Jones-Wilshire 5000 Index (US Equity broad market)

75.50% x MSCI All Country World ex-U.S. Index (int'l equity market)

10.00% —x Wilshire 5000 (1-quarter lag) + 3% MSCI EAFE (int'l developed markets)

Strategic Capital or Reserve Pool Benchmark
```

Relative to capital market assumptions:

—(Wilshire's published assumptions, 2012)

Expected Return\_-(%)

Cash Equivalents 3.001.50 Fixed Income 5.252.85

| TIPS                   | <del>5.00</del> 1.65        |
|------------------------|-----------------------------|
| Absolute Return—       | <del>7.75</del> 5.55        |
| High Yield———          | <del>6.75</del> 5.45        |
| REITs                  | <del>5.75</del> <u>5.25</u> |
| Commodities—           | 4.50 <u>4.00</u>            |
| U.S Equity———          | <del>8.25</del> 7.50        |
| International Equity—— | <del>8.25</del> 7.80        |
| Private Equity———      | 10.25 <del>5</del>          |
|                        |                             |
| Inflation at 2.00%     |                             |
|                        |                             |
|                        |                             |

\*R = Required \*O = Optional

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

# Finance and Audit Committee

March 14, 2012

Subject: Office of Internal Audit Status Report

# **Proposed Committee Action:**

None. Discussion Item.

# Background information:

The Office of Internal Audit Report provides an update on the status of audits since the Finance and Audit Committee last met on November 22, 2011.

**Supporting Documentation:** Office of Internal Audit Status Report

Facilitator/Presenter: Allen Vann



# Office of Internal Audit Status Report

BOARD OF TRUSTEES
Finance and Audit Committee Meeting
March 14, 2012



### **OFFICE OF INTERNAL AUDIT**

Date: February 9, 2012

To: Board of Trustees and Finance and Audit Committee

From: Allen Vann, Audit Director

Subject: OFFICE OF INTERNAL AUDIT STATUS REPORT

I am pleased to provide you with an update on the status of our office's work activities. Our last update to you was on November 22, 2011.

We completed the following three audits:

1. Controls Over University Cash and Investment Accounts - Our primary objective was to assess disbursement controls over cash and investment accounts to ensure that financial controls are adequate. As of June 30, 2011, the University had cash and cash equivalents of \$9,152,406 and total investments of \$280,302,582, with operating expenditures for the year of \$695,655,521.

Based on our audit, we have concluded that overall the University's cash and investment accounts approval process and related controls were satisfactory and in accordance with University policies and procedures, Florida statutes, and guidelines as approved by the University Board of Trustees. Some areas in need of improvement were the timeliness of banking record updates, employee background checks, disbursement office physical security, ensuring that there are backup employees for performing bank reconciliations and improving banking procedures for a small foreign account in Tanzania.

2. Chaplin School of Hospitality and Tourism Management's Marriott Tianjin China Program - As this is an overseas operation, the primary objectives of the audit were to verify that all auxiliary revenue and expenditure streams were properly accounted for and the program was self-supporting. The program, which opened in 2006 has grown to over 460 students and generated \$1.25 million in gross revenue in FY 2011.

Our review of financial records maintained by FIU and TUC for the fiscal year 2010-2011 disclosed that the program generated sufficient revenues to cover its costs. Program revenues were properly assessed and collected and expenditures, with few exceptions, were appropriate, allowable, and in accordance with University policies and procedures, and applicable laws, rules and regulations. Areas where controls need to be substantially strengthened include financial reporting/accounting and cash management, and improvements are already underway.

3. FIU Football Attendance for the 2011 Season in Accordance with National Collegiate Athletic Association (NCAA) Operating Bylaws - We performed an annual audit to certify the accuracy of attendance at FIU home football games reported to the NCAA for the 2011 season. Based on the methodology adopted by the Athletics Department, we concluded that the football attendance data reported to the NCAA are supported by sufficient, relevant and competent records.

# **WORK IN PROGRESS**

| Audits   | Status                 |
|--|------------------------|
| Construction Costs - Parking Garage Five, Retail and Public Safety Building (PG-5) (Facilities Management) | Draft Report Issued    |
| Repairs and Maintenance (Facilities Management)  | Preparing Draft Report |
| Student Technology Fee (University Technology Services)  | Preparing Draft Report |
| The Food Network South Beach Wine & Food Festival (Chaplin School of Hospitality and Tourism Management)   | Fieldwork in Progress  |
| Healthcare Network's Information Systems Security Controls (Herbert Wertheim College of Medicine)          | Fieldwork in Progress  |
| Construction Manager Selection Process for the Football Stadium Expansion Project (Facilities Management)  | Fieldwork in Progress  |

### **INVESTIGATIONS**

During this period we initiated two separate investigations, one based on allegations of financial impropriety lodged against an administrator at the College of Business Administration and another, forwarded to us by the Division of Research, concerning questionable procurement card transactions allegedly made by an administrative staff person at their International Hurricane Research Center. Both investigations involve relatively minor dollar amounts.

## OTHER ACTIVITIES

Quality Assurance Self Assessment - During the month of January 2012, I performed an independent Quality Assurance Self-assessment validation of Florida Atlantic University (FAU) Office of Inspector General. During this pro-bono engagement I had the opportunity to meet with FAU's President and BOT Audit Committee Chair and was able to verify that their internal audit function conforms to The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing.

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

# Finance and Audit Committee

March 14, 2012

Subject: Budget Variance Analysis – Second Quarter 2012

# **Proposed Committee Action:**

None. Discussion item.

# **Background information:**

The Financial Summary Overview for Fiscal Year 2011-2012 provides the Second Quarter 2012 Budget Variance Analysis.

**Supporting Documentation:** Financial Summary Overview, FY 2011-2012

Facilitator/Presenter: Kenneth A. Jessell

# Florida International University Financial Summary Overview <sup>1</sup> FY 2011-12

|  |              |                     | o Date         |          |
|--|--------------|---------------------|----------------|----------|
|  |              | Decemb              | per 2011       |          |
| (\$ in millions)                                 | Budget       | Current Year Actual | Variance<br>\$ | %        |
| Revenue / Receipts                               |              |                     | · · · · · ·    | 70       |
| University                                       |              |                     |                |          |
| Educational and General (net) <sup>2</sup>       | 237.8        | 239.3               | 1.4            | 1%       |
| University                                       | 219.3        | 220.7               | 1.4            | 1%       |
| College of Medicine                              | 18.5         | 18.5                | 0.1            | 0%       |
| FIU Self-Insurance Program                       | 0.0          | 0.0                 | 0.0            | 0%       |
| Auxiliary Enterprises                            | 98.3         | 106.6               | 8.3            | 8%       |
| Intercollegiate Athletics                        | 16.4         | 16.5                | 0.1            | 0%       |
| Activities and Service                           | 10.6         | 10.5                | (0.1)          | -1%      |
| Technology Fee                                   | 6.6          | 6.0                 | (0.6)          | -9%      |
| Board Approved Fees                              | 0.3          | 0.4                 | 0.2            | 68%      |
| Contracts and Grants                             | 44.3         | 44.8                | 0.5            | 1%       |
| Student Financial Aid                            | 85.6         | 92.5                | 6.9            | 8%       |
| Concessions                                      | 0.2          | 0.3                 | 0.1            | 69%      |
| <b>Direct Support Organizations</b>              |              |                     |                |          |
| FIU Athletic Finance Corp                        | 2.5          | 2.4                 | (0.1)          | -3%      |
| FIU Foundation Inc                               | 12.7         | 20.0                | 7.3            | 57%      |
| FIU Health Care Network                          | 0.4          | 0.2                 | (0.2)          | -59%     |
| FIU Research Foundation                          | 0.3          | 0.0                 | (0.3)          | -100%    |
| Interfund Adjustments <sup>3</sup>               | (7.4)        | (7.7)               | (0.3)          | 4%       |
| Total Operating Revenues                         | 508.6        | 531.9               | 23.3           | 5%       |
| University Treasury (net)                        | 2.8          | (3.5)               | (6.3)          | -227%    |
| FIU Foundation Inc                               | 5.9          | (12.2)              | (18.1)         | -307%    |
| Total Investment Revenues                        | 8.7          | (15.8)              | (24.4)         | -281%    |
| Total Revenues / Receipts                        | 517.3        | 516.1               | (1.2)          | 0%       |
| <u>Expenses</u>                                  |              |                     |                |          |
| University                                       |              |                     |                |          |
| Educational and General (net)                    | 182.3        | 170.1               | 12.3           | 7%       |
| University                                       | 167.4        | 156.8               | 10.6           | 6%       |
| College of Medicine                              | 14.9         | 13.2                | 1.7            | 11%      |
| FIU Self-Insurance Program                       | 0.0          | 0.0                 | 0.0            | 0%       |
| Auxiliary Enterprises                            | 64.4<br>11.6 | 65.3                | (0.9)          | -1%      |
| Intercollegiate Athletics Activities and Service | 9.8          | 11.5<br>9.6         | 0.1<br>0.2     | 1%<br>2% |
| Technology Fee                                   | 6.8          | 3.2                 | 3.6            | 53%      |
| Board Approved Fees                              | 0.0          | 0.1                 | (0.1)          | 0%       |
| Contracts and Grants                             | 40.6         | 42.0                | (1.4)          | -3%      |
| Student Financial Aid                            | 71.0         | 74.5                | (3.4)          | -5%      |
| Concessions                                      | 0.3          | 0.2                 | 0.1            | 18%      |
| Direct Support Organizations                     |              |                     |                |          |
| FIU Athletic Finance Corp                        | 1.2          | 1.3                 | (0.1)          | -11%     |
| FIU Foundation Inc                               | 6.7          | 5.4                 | 1.3            | 20%      |
| FIU Health Care Network                          | 0.6          | 0.9                 | (0.3)          | -45%     |
| FIU Research Foundation                          | 0.0          | 0.0                 | 0.0            | 42%      |
| Interfund Adjustments <sup>3</sup>               | (7.4)        | (7.7)               | 0.3            | -4%      |
| Total Expenses                                   | 388.1        | 376.4               | 11.7           | 3%       |
| Principal Payment of Debt <sup>4</sup>           | 3.0          | 0.3                 | 2.7            | 91%      |
| Change in Net Assets (incl. Investments)         | 126.2        | 139.4               | 13.2           | 10%      |
|  |              |                     |                |          |
| Change in Net Assets (excl. Investments)         | 117.5        | 155.2               | 37.6           | 32%      |

#### Notes:

- The financials presented above reflects the state budgeting methodology which differs from full accrual Financial Statements. The following have the most significant impact:
  - Depreciation of Assets: For budgeting purposes equipment purchases are fully expensed in their acquisition year, therefore depreciation is not included in the budget.
  - Payables: The E&G budget expenses include year end commitments (encumbrances) even though they have not yet been invoiced.
  - Unrealized gains and losses: The investment results are recognized as revenues in the budget however GASB accounting principles require that it be recorded as an expense.
- <sup>2</sup> E&G revenues include State Funding and Tuition and are net of waivers, uncollectible amounts and 30% Financial Aid need-based amounts per BOG regulation. The difference between E&G Revenues and Expenses will be funded from prior years carry forward.
- Interfund transfers have been included resulting in higher revenue and expenses by fund allowing for an individual fund performance analysis. The interfund adjustments above eliminate this double counting. However, interfund transactions such as tuition funded by scholarships and auxiliary services provided to other units have not been eliminated. Since revenues and expenses are equal, the interfund adjustments are the same for both.
- 4 Principal payment of debt reflected above per BOG requirement that debt service payments be shown on a cash basis.

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

# Finance and Audit Committee

March 14, 2012

Subject: Foundation Report

# **Proposed Committee Action:**

None. Discussion Item.

# **Background information:**

The FIU Foundation, Inc. Report contains the Financial Statements Recaps and Investment Summaries as of December 31, 2011.

**Supporting Documentation:** FIU FOUNDATION, INC. – Financial

Statements Recaps and Investment Summaries,

December 31, 2011

Facilitator/Presenter: Richard Brilliant

# FIU FOUNDATION, INC.

# FINANCIAL STATEMENTS RECAPS & INVESTMENT SUMMARIES

**December 31, 2011** 

# FIU FOUNDATION, INC. Recap of Statement of Activities For the Period Ended December 31, 2011

(In Thousands of Dollars)

| ·                                  | 6  | 011-12<br>-Month<br>Budget | 6  | 011-12<br>-Month<br>actuals | <u>v</u> | <u>ariance</u> |      | 1  | 011-12<br>Annual<br>Budget | 6- | 010-11<br>Month<br>ctuals | To | 010-11<br>otal Year<br><u>Actuals</u> |
|------------------------------------|----|----------------------------|----|-----------------------------|----------|----------------|------|----|----------------------------|----|---------------------------|----|---------------------------------------|
| REVENUES:                          |    |                            |    |                             |          |                |      |    |                            |    |                           |    |                                       |
| Contributions:                     |    |                            |    |                             |          |                |      |    |                            |    |                           |    |                                       |
| Endowments                         | \$ | 6,872                      | \$ | 1,499                       | \$       | (5,373)        | [1]  | \$ | 14,661                     | \$ | 11,036                    | \$ | 27,438                                |
| Non-Endowed Funds:                 |    |                            |    |                             |          |                |      |    |                            |    |                           |    |                                       |
| Scholarship & Programs             | \$ | 4,250                      | \$ | 3,782                       | \$       | (469)          | [2]  | \$ | 8,496                      | \$ | 3,415                     | \$ | 7,985                                 |
| Building Funds                     | \$ | 10                         | \$ | 86                          | \$       | 76             | [3]  | \$ | 775                        | \$ | 85                        | \$ | 2,672                                 |
| Unrestricted Annual Revenues       | \$ | 546                        | \$ | 244                         | \$       | (302)          | [4]  | \$ | 716                        | \$ | 192                       | \$ | 439                                   |
| Pledged Revenue                    | \$ | -                          | \$ | 13,298                      | \$       | 13,298         | [5]  | \$ | -                          |    | (17,165)                  |    | (13,078)                              |
| TOTAL CONTRIBUTIONS                | \$ | 11,679                     | \$ | 18,909                      | \$       | 7,230          |      | \$ | 24,648                     | \$ | (2,437)                   | \$ | 25,457                                |
| Other Revenues:                    |    |                            |    |                             |          |                |      |    |                            |    |                           |    |                                       |
| MARC Building                      | \$ | 855                        | \$ | 888                         | \$       | 33             | [6]  | \$ | 1,711                      | \$ | 917                       | \$ | 1,750                                 |
| Foundation Enterprise Holdings     | \$ | 150                        | \$ | 158                         | \$       | 8              |      | \$ | 244                        | \$ | -                         | \$ | -                                     |
| Estimated Investment Returns       | \$ | 5,899                      | \$ | (12,232)                    | \$       | (18,131)       | [7]  | \$ | 10,746                     | \$ | 18,881                    | \$ | 26,177                                |
| Administrative Reserve             | \$ | -                          | \$ | -                           | \$       | -              |      | \$ | 2,055                      | \$ | 319                       | \$ | 3,845                                 |
| TOTAL OTHER REVENUES               | \$ | 6,905                      | \$ | (11,186)                    | \$       | (18,091)       |      | \$ | 14,756                     | \$ | 20,118                    | \$ | 31,772                                |
|                                    | Ļ  |                            | _  |                             | _        | (12.221)       |      | _  |                            | _  |                           | _  |                                       |
| TOTAL REVENUES                     | \$ | 18,583                     | \$ | 7,723                       | \$       | (10,861)       |      | \$ | 39,404                     | \$ | 17,681                    | \$ | 57,228                                |
| EXPENSES:                          |    |                            |    |                             |          |                |      |    |                            |    |                           |    |                                       |
| University Programs:               |    |                            |    |                             |          |                |      |    |                            |    |                           |    |                                       |
| Scholarships & Programs            | \$ | 4,701                      | \$ | 3,754                       | \$       | 947            | [8]  | \$ | 8,108                      | \$ | 2,861                     | \$ | 6,453                                 |
| Building Funds                     | \$ | 4,701                      | \$ | 3,734                       | \$       | 947            | [၀]  | \$ | 0,100                      | \$ | 2,001                     | \$ | 0,433                                 |
| Unrestricted Annual Expenses       | \$ | 439                        | \$ | 429                         | \$       | 10             |      | \$ | 802                        | φ  | 143                       | \$ | 576                                   |
| TOTAL UNIVERSITY PROGRAMS EXPENSES | \$ | 5,140                      | \$ | 4,183                       | \$       | 957            |      | \$ | 8,910                      | \$ | 3,010                     | \$ | 7,036                                 |
| Operational:                       | Ψ  | 5,140                      | Ψ  | 4,100                       | Ψ        | 337            |      | ¥  | 0,510                      | Ψ  | 3,010                     | Ψ  | 7,000                                 |
| MARC Building                      | \$ | 599                        | \$ | 331                         | \$       | 269            | [9]  | \$ | 997                        | \$ | 674                       | \$ | 1,017                                 |
| Foundation Enterprise Holdings     | \$ | 100                        | \$ | 126                         | \$       | (26)           |      | \$ | 151                        | Ψ  | 0                         | Ψ  | 1,011                                 |
| Administrative Reserve             | \$ | 825                        | \$ | 695                         | \$       | 130            | [11] | \$ | 1.575                      | \$ | 706                       | \$ | 1,389                                 |
| General Reserve                    | \$ | 56                         | \$ | 59                          | \$       | (4)            | []   | \$ | 185                        | \$ | 359                       | \$ | 1,346                                 |
| Administrative Fee                 | \$ | -                          | \$ | -                           | \$       | -              |      | \$ | 2,055                      | \$ | -                         | \$ | 2,743                                 |
| TOTAL OPERATIONAL EXPENSES         | \$ | 1,580                      | \$ | 1,212                       | \$       | 369            |      | \$ | 4,963                      | \$ | 1.740                     | \$ | 6,495                                 |
|                                    | Ť  | .,550                      | *  | .,                          | _        | 550            |      |    | .,000                      | Ť  | .,0                       | _  | 3, .33                                |
| TOTAL EXPENSES                     | \$ | 6,720                      | \$ | 5,395                       | \$       | 1,325          |      | \$ | 13,873                     | \$ | 4,750                     | \$ | 13,532                                |
|                                    | L  |                            |    |                             |          |                |      |    |                            | _  |                           |    |                                       |
| EXCESS REVENUES OVER EXPENSES      | \$ | 11,863                     | \$ | 2,328                       | \$       | (9,535)        |      | \$ | 25,531                     | \$ | 12,932                    | \$ | 43,697                                |
|                                    |    |                            |    |                             |          |                |      | _  |                            |    |                           |    |                                       |

<sup>\*</sup>These financial statements recaps reflect revenues and expenses on a modified accrual basis.

<sup>\*\*</sup>Please refer to Appendix A for detailed variance notes.

#### **Variance Notes:**

- [1] The negative variance of \$5.4 million for endowed revenues is driven by the timing of the collection of \$5 million in pledge payments offset by the cash receipt of a \$1 million gift budgeted last fiscal year in support of the College of Medicine. Adding to the negative variance is a \$1 million gift in support of University-Wide Scholarships & Programs budgeted for receipt this fiscal year but collected early last June due to the temporary suspension of the State Major Gift and Courtelis Matching programs effective June 29, 2011.
- [2] The negative variance of \$469,000 for scholarship and program revenues is a timing issue mainly related to budgeted contributions is support of the Wolfsonian Art of Illumination project, which is still in the designing stage. Related budgeted expenses have, likewise, not yet been incurred for this project.
- [3] The positive variance of \$76,000 for building fund revenues is mainly driven by a new gift for \$60,000 in support of SIPA Bricks and Mortar Building Fund. There were other smaller gifts collected early in support of the Alumni Center, CNHS Building, and Football Field House, which added to the positive variance.
- [4] The negative variance of \$302,000 for unrestricted annual revenues is due to the timing of Board of Directors and President's Council membership dues collections as well as a shift in fundraising focus for Annual Giving Program from unrestricted dollars toward assisting academic units fundraise restricted dollars. Finally, budgeted revenues derived from the Foundation Advancement Initiative assumed the 3% fee would be charged on the on the entire pledged amount and netted against the first installment. Currently, the fee is being charged on the cash installment received, which has resulted in the revenue shortfall. Adding to the negative variance is the lag in collections of endowed and non-endowed revenues in comparison to the budgeted amount for the six-month period.
- [5] The change in contributions receivable for FY 2011-12 is not a budgeted line item since at the time the budget is created, this relates primarily to gift requests and agreements under negotiations. The actual change in contributions receivable for the six-month period ended December 31, 2011 totaled \$13.3 million, \$11 million of which pertains to new State match receivables for gifts received last June and the difference representing an excess of new signed gift agreements over pledged payments.

Below is an aging schedule of all Foundation contributions receivable as of December 31, 2011 net of a 1.1% allowance for doubtful accounts equal to \$665,300:

|              | CURRENT YEAR | 1 - 2 YEARS  | 3 - 4 YEARS  | 5+ YEARS     | TOTAL        |
|--------------|--------------|--------------|--------------|--------------|--------------|
| NON-ENDOWED* | \$3,486,735  | \$3,748,518  | \$1,422,498  | \$845,595    | \$9,503,346  |
| ENDOWED*     | \$4,302,775  | \$11,222,129 | \$10,960,688 | \$23,827,609 | \$50,313,201 |
| TOTAL*       | \$7,789,510  | \$14,970,647 | \$12,383,186 | \$24,673,204 | \$59,816,547 |

<sup>\*</sup> Receivables on the statement of financial position total \$56.2 million and are discounted by \$4.2 million to their present value. The total also includes other receivables such as dues receivables, workman's compensation claim reimbursements, and an intercompany receivable from the College of Nursing and Health Sciences totaling \$530,259.

[6] The positive expense variance of \$33,000 for MARC Building revenues is a result of \$43,000 in unrealized gains related to the derivative liability on the swap portion of the building loan. The positive variance was offset by an outstanding rent payment scheduled to be collected in the third quarter.

- [7] Investment returns for fiscal year 2011-12 were projected at 6.5% or \$10.7 million. The monthly budgeted returns were forecasted based on our asset allocation and the historical performance of indexes for each asset class. Total fiscal year-to-date losses totaled 7.0%, or \$12.2 million. The biggest contributors to these losses were equities, which were down 13.5% for this period, followed by alternative investments, which were down 1.7%. Fixed income investments delivered gains of 4.0% as of December 31, 2011.
- [8] The positive expense variance of \$947,000 for scholarships and programs is a result of timing of program expenses incurred primarily in the College of Business Administration, Wolfsonian Museum, College of Medicine, and University-Wide Scholarships & Programs.
- [9] The positive variance of \$269,000 for MARC building expenses is mainly driven by \$220,000 in budgeted expenses related to the retiling of the first floor of the building and interior painting, which have not yet been incurred. Adding to the positive variance are lower than budgeted repairs & maintenance expenses and a \$30,000 interest payment made last fiscal year but budgeted for payment on July 1<sup>st</sup>.
- [10] The negative variance of \$26,000 for Foundation Enterprise Holdings expenses is due the real estate property tax bills totaling approximately \$70,000 paid in November, \$30,000 in excess of the budgeted amount. A tax refund is expected once the property appraiser has reviewed the request to adjust the property value to its actual market value. This will offset the negative variance.
- [11] The positive variance of \$130,000 in Administrative Reserve expenses is attributed to timing of expenses related to lobbying and Advancement MARC Building lease payments.

# Florida International University Foundation, Inc. Performance Summary Ending December 31, 2011

| Fund/Manager/Inception Date  |
|--|
| Total Fund (6/30/00) Total Fund Composite                            |
| Total Equity Accounts (6/30/00) Total Equity Composite               |
| Total Fixed Income Accounts (6/30/00) Total Fixed Income Composite   |
| Total Alternative Investments (3/1/02) Total Alternative Composite   |
| Total Cash & Equivalents Investments (6/30/10) 90 Day Treasury Bills |

| Market<br><u>Value</u> | % Allocation | Target<br>Allocation |
|------------------------|--------------|----------------------|
| \$164,518,044          | 100.0%       | 100.0%               |
| \$79,648,403           | 48.4%        | 49.0%                |
| \$41,092,892           | 25.0%        | 22.5%                |
| \$40,325,656           | 24.5%        | 27.7%                |
| \$3,451,093            | 2.1%         | 0.8%                 |
|                        |              |                      |

| Current    | Trailing 3 | Fiscal     | Trailing   | Trailing   | Trailing   |            |
|------------|------------|------------|------------|------------|------------|------------|
| Month      | Months     | YTD        | 1 Year     | 3 Year     | 5 Year     | Since      |
| 11/30/2011 | 9/30/2011  | 6/30/2011  | 12/31/2010 | 12/31/2008 | 12/31/2006 | Investment |
| 12/31/2011 | 12/31/2011 | 12/31/2011 | 12/31/2011 | 12/31/2011 | 12/31/2011 | Inception  |
| -0.1%      | 5.4%       | -7.0%      | -2.7%      | 9.2%       | 0.3%       | 2.5%       |
| 0.5%       | 6.0%       | -4.7%      | -0.8%      | 10.2%      | 0.4%       | 1.9%       |
| -0.9%      | 8.3%       | -13.5%     | -8.8%      | 8.5%       | -2.5%      | 1.0%       |
| 0.4%       | 10.6%      | -8.9%      | -3.9%      | 12.7%      | -2.3%      | -0.4%      |
| 1.4%       | 1.8%       | 4.0%       | 7.7%       | 10.8%      | 7.8%       | 6.8%       |
| 1.0%       | 0.8%       | 4.3%       | 7.4%       | 7.1%       | 6.5%       | 6.0%       |
| 0.2%       | 2.9%       | -1.7%      | 2.5%       | 9.7%       | 0.7%       | 4.5%       |
| 0.2%       | 1.8%       | -2.5%      | -0.5%      | 6.4%       | -0.6%      | 2.7%       |
| 0.2%       | 0.6%       | 1.4%       | 2.6%       | N/A        | N/A        | 2.3%       |
| 0.0%       | 0.0%       | 0.0%       | 0.0%       | 0.1%       | 1.2%       | 0.1%       |

# Florida International University Foundation, Inc. Preliminary Performance Summary Ending December 31, 2011

|  |              |        |        | 201                            |                                   |                            |                                  |                                  |                                  |                     |
|--|--------------|--------|--------|--------------------------------|-----------------------------------|----------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------|
|  | Market       | %      | Target | Current<br>Month<br>11/30/2011 | Trailing 3<br>Months<br>9/30/2011 | Fiscal<br>YTD<br>6/30/2011 | Trailing<br>1 Year<br>12/31/2010 | Trailing<br>3 Year<br>12/31/2008 | Trailing<br>5 Year<br>12/31/2006 | Since<br>Investment |
| Fund/Manager/Inception Date  | <u>Value</u> | Alloc. | Alloc. | 12/31/2011                     | 12/31/2011                        | 12/31/2011                 | 12/31/2010                       | 12/31/2011                       | 12/31/2011                       | Inception           |
| Domestic Equity Managed Accounts INTECH Broad LCG (11/22/11) Russell 1000 Growth Index     | \$7,717,456  | 4.7%   | 7.5%   | -0.5%<br>-0.3%                 | N/A<br>10.6%                      | N/A<br>-3.9%               | N/A<br>2.6%                      | N/A<br>18.0%                     | N/A<br>2.5%                      | -0.5%<br>-0.3%      |
| Wells Fundamental Select LCG (11/9/11)<br>Russell 1000 Growth Index                        | \$7,343,788  | 4.5%   | 7.5%   | -2.1%<br>-0.3%                 | N/A<br>10.6%                      | N/A<br>-3.9%               | N/A<br>2.6%                      | N/A<br>18.0%                     | N/A<br>2.5%                      | -2.1%<br>-0.3%      |
| Wedge Capital Large Cap Value QVM (12/29/06)<br>Russell 1000 Value Index                   | \$20,122,078 | 12.2%  | 10.0%  | -1.0%<br>2.0%                  | 10.7%<br>13.1%                    | -8.7%<br>-5.2%             | 1.2%<br>0.4%                     | 14.1%<br>11.6%                   | -1.5%<br>-2.6%                   | -1.5%<br>-2.6%      |
| Advisory Research Small Cap Value (6/1/01)<br>Russell 2000 Value Index                     | \$9,198,392  | 5.6%   | 5.0%   | -0.6%<br>1.6%                  | 13.2%<br>16.0%                    | -9.1%<br>-8.9%             | -3.4%<br>-5.5%                   | 9.2%<br>12.4%                    | -0.5%<br>-1.9%                   | 8.6%<br>6.6%        |
| IronBridge Small Cap Core Equity (12/2/03)<br>Russell 2000 Small Cap Index                 | \$7,774,493  | 4.7%   | 5.0%   | -1.1%<br>0.7%                  | 12.1%<br>15.5%                    | -10.4%<br>-9.8%            | -3.5%<br>-4.2%                   | 13.8%<br>15.6%                   | 2.2%<br>0.2%                     | 5.8%<br>5.0%        |
| Student Investment Management Fund (3/31/09)   | \$202,446    | 0.1%   | N/A    | 0.5%                           | 1.7%                              | -4.8%                      | 1.3%                             | N/A                              | N/A                              | 0.4%                |
| iShares Russell 1000 Growth Fund (07/31/11)<br>Russell 1000 Growth Index                   | \$11,013,992 | 6.7%   | N/A    | -0.3%<br>-0.3%                 | 10.9%<br>10.6%                    | N/A<br>-3.9%               | N/A<br>2.6%                      | N/A<br>18.0%                     | N/A<br>2.5%                      | -2.7%<br>-3.0%      |
| Morgan Stanley Buy Write (12/06/11)<br>CBOE Buy Write Index                                | \$8,464,065  | 5.1%   | 5.0%   | N/A<br>3.2%                    | N/A<br>15.7%                      | N/A<br>3.2%                | N/A<br>5.7%                      | N/A<br>12.1%                     | N/A<br>1.4%                      | N/A<br>N/A          |
| S&P 500 Index  |              |        |        | 1.0%                           | 11.8%                             | -3.7%                      | 2.1%                             | 14.1%                            | -0.3%                            | N/A                 |
| International Equity Managed Accounts Wentworth Hauser & Violich (3/31/10) MSCI EAFE Index | \$3,767,028  | 2.3%   | 4.5%   | -2.9%<br>-1.0%                 | 11.4%<br>3.3%                     | -17.3%<br>-16.3%           | -15.3%<br>-12.1%                 | N/A<br>7.7%                      | N/A<br>-4.7%                     | -3.5%<br>-3.6%      |
| Thornburg International Equity (1/31/11)<br>MSCI EAFE Index                                | \$4,044,665  | 2.5%   | 4.5%   | -1.2%<br>-1.0%                 | 4.3%<br>3.3%                      | -18.0%<br>-16.3%           | N/A<br>-12.1%                    | N/A<br>7.7%                      | N/A<br>-4.7%                     | -14.4%<br>-14.2%    |
| TOTAL EQUITY INVESTMENTS   | \$79,648,403 | 48.4%  | 49.0%  |                                |                                   |                            |                                  |                                  |                                  |                     |
| Core Fixed Income Managed Accounts Newfleet Asset Management Barclays Custom Index         | \$14,181,629 | 8.6%   | 7.5%   | 2.5%<br>2.1%                   | 3.1%<br>1.9%                      | 2.2%<br>4.8%               | 5.7%<br>8.2%                     | 11.2%<br>9.6%                    | 8.2%<br>8.2%                     | 6.8%<br>6.7%        |
| Hillswick Asset Management (6/1/01) Barclays Aggregate Index                               | \$9,482,048  | 5.8%   | 5.0%   | 1.2%<br>1.1%                   | 1.2%<br>1.1%                      | 9.0%<br>5.0%               | 11.7%<br>7.8%                    | 7.7%<br>6.8%                     | 8.9%<br>6.5%                     | 7.4%<br>5.9%        |
| Shenkman Convertible Bond Fund (12/23/11)<br>BofA ML All US Convertibles Index             | \$8,274,145  | 5.0%   | 5.0%   | N/A<br>0.2%                    | N/A<br>4.3%                       | N/A<br>-9.2%               | N/A<br>-5.2%                     | N/A<br>18.2%                     | N/A<br>2.1%                      | N/A<br>N/A          |
| Brandywine Global Opp Bond (1/1/08)<br>Citigroup World Gov't Bond Index                    | \$8,840,698  | 5.4%   | 5.0%   | 0.3%<br>0.9%                   | 0.8%<br>-0.1%                     | 2.8%<br>2.3%               | 7.9%<br>6.4%                     | 13.7%<br>4.7%                    | N/A<br>7.1%                      | 7.6%<br>6.2%        |
| SunTrust Balanced Annuity Account (10/22/03)<br>70% Barclays Aggregate / 30% S&P 500       | \$314,372    | 0.2%   | 0.2%   | 0.3%<br>1.1%                   | 7.2%<br>1.1%                      | -0.8%<br>5.0%              | 3.2%<br>7.8%                     | 12.6%<br>6.8%                    | 4.9%<br>6.5%                     | 5.6%<br>5.5%        |
| TOTAL FIXED INCOME INVESTMENTS   | \$41,092,892 | 25.0%  | 22.5%  |                                |                                   |                            |                                  |                                  |                                  |                     |
| Cash & Cash Equivalents State of Florida Treasury Fund (7/01/10) 90 Day Treasury Bills     | \$3,451,093  | 2.1%   | 0.8%   | 0.2%<br>0.0%                   | 0.6%<br>0.0%                      | 1.4%<br>0.0%               | 2.5%<br>0.0%                     | N/A<br>0.1%                      | N/A<br>1.2%                      | 2.3%<br>0.1%        |
| TOTAL CASH & EQUIVALENTS INVESTMENTS   | \$3,451,093  | 2.1%   | 0.8%   |                                |                                   |                            |                                  |                                  |                                  |                     |
| Alternative Investments Ironwood Partners (3/1/04) HFR FOF: Conservative                   | \$7,285,088  | 4.4%   | 4.0%   | 0.0%<br>-0.2%                  | 0.7%<br>0.1%                      | -2.1%<br>-3.8%             | 2.5%<br>-3.5%                    | 9.1%<br>3.6%                     | 0.3%<br>-0.8%                    | 3.3%<br>1.7%        |
| Ironwood Partners (NDM Gift) (8/1/05)<br>HFR FOF: Conservative                             | \$2,098,990  | 1.3%   | 1.3%   | 0.0%<br>-0.2%                  | 0.7%<br>0.1%                      | -2.5%<br>-3.8%             | 2.3%<br>-3.5%                    | 9.3%<br>3.6%                     | 0.3%<br>-0.8%                    | 2.5%<br>1.2%        |
| Titan Advisors (3/1/07)<br>HFR FOF: Diversified  | \$8,369,738  | 5.1%   | 5.0%   | 0.3%<br>-0.3%                  | 1.4%<br>-0.4%                     | -0.8%<br>-4.8%             | 1.8%<br>-4.9%                    | 7.9%<br>3.8%                     | N/A<br>-0.6%                     | 4.0%<br>-1.0%       |
| Archstone Offshore (5/1/10)<br>HFR FOF: Diversified  | \$7,640,628  | 4.6%   | 4.5%   | -0.7%<br>-0.3%                 | 2.3%<br>-0.4%                     | -6.2%<br>-4.8%             | -5.0%<br>-4.9%                   | N/A<br>3.8%                      | N/A<br>-0.6%                     | -0.9%<br>-1.2%      |
| Cohen and Steers Realty (12/16/08)<br>NAREIT US REIT Index                                 | \$4,022,648  | 2.4%   | 4.2%   | 4.4%<br>4.8%                   | 14.4%<br>15.3%                    | -4.2%<br>-2.1%             | 6.5%<br>8.3%                     | 21.7%<br>21.0%                   | N/A<br>-1.4%                     | 21.7%<br>21.0%      |
| Deutsche Bank Liquid Comm. Fund (1/1/08)   | \$3,533,420  | 2.1%   | 4.2%   | -2.9%                          | 4.2%                              | -7.6%                      | -2.9%                            | 7.7%                             | N/A                              | -5.4%               |
| DTC Private Equity II (\$5 Million) <sup>1</sup> (12/15/05)                                | \$4,326,306  | 2.6%   | 2.6%   |                                |                                   | 7.8%                       |                                  |                                  |                                  | 7.0%                |
| DTC Private Equity III (\$2.5 Million) <sup>1</sup> (07/10/08)                             | \$809,622    | 0.5%   | 0.5%   |                                |                                   | 3.7%                       |                                  |                                  |                                  | -1.3%               |
| Greenspring Global Partners IV (\$2.5 Million) <sup>1</sup> (8/8/08)                       | \$1,665,216  | 1.0%   | 1.0%   |                                |                                   | 11.5%                      |                                  |                                  |                                  | 9.9%                |
| Foundation Enterprise Holdings I (3/31/11) 1   | \$574,000    | 0.3%   | 0.4%   |                                |                                   | 8.7%                       |                                  |                                  |                                  | 18.2%               |
| TOTAL ALTERNATIVE INVESTMENTS  | \$40,325,656 | 24.5%  | 27.7%  |                                |                                   |                            |                                  |                                  |                                  |                     |

<sup>\*</sup>These are short-term liquid funds

TOTAL FUND

\$164,518,044 100.0% 100.0%

Since Inception return represents the internal rate of return since the initial capital call of the investment.

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

# Finance and Audit Committee

March 14, 2012

Subject: Treasury Report

# **Proposed Committee Action:**

None. For information only.

# **Background Information:**

The Treasury Report provides a comparison of fiscal YTD performance vs. benchmarks by investment style and also presents a treasury summary and operating funds portfolio for the quarter ending December 31, 2011.

Supporting Documentation: Treasury Report

Facilitator/Presenter: Phong Vu



For quarter ending December 31, 2011

**Treasury Report** 

#### LIQUIDITY

#### Real Days Payable<sup>1</sup>

Overall, the university ended the quarter with \$292.7 million in available cash and investment balances. \$230.2 million, or 79 percent, of these balances were accessible within 5 business days. Average daily cash outflow rate was \$2.5 million and \$3.4 million based on monthly and FYTD activity, respectively. At quarter end, the university had 91 real days payable based on monthly outflows and 67 real days payable based on FYTD outflows.

#### Stress Tests

The university analyzes the possible effect of negative market performance on its liquidity position. At quarter end, difficult investment conditions would generate an estimated 8 percent loss in the portfolio or \$23.5 million in unrealized losses. Liquidity, as measured by 5 day accessibility, would drop to \$226.6 million, still 77 percent of the total available cash and investment balances. Real days payable would drop to 66 days based on FYTD outflows.

Extreme negative market conditions represented by a 16 percent loss or \$46.8 million in unrealized losses to the portfolio would result in a drop in liquid balances to \$104.9 million, or 36 percent of the total current available balances. This balance translates into 31 real days payable based on FYTD outflows.

#### **CASH FLOWS**

#### **Outflows**

The velocity of cash outflows was \$2.5 million per day in the month of December versus the FYTD velocity of \$3.4 million per day. Total cash outflows totaled \$55.5 million in December and \$450.3 million FYTD.

# Inflows<sup>2</sup>

The velocity of cash inflows was \$2.6 million per day in the month of December versus the FYTD velocity of \$3.5 million. Total cash inflows totaled \$58.2 million in December and \$458.1 million FYTD.

#### **INVESTMENTS**

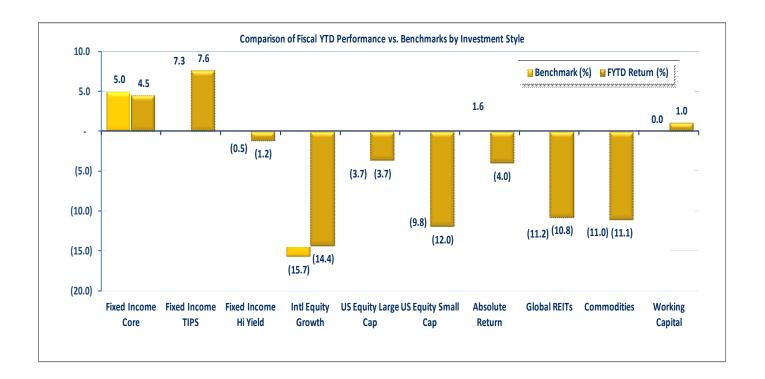
#### **Performance**

Most of the asset classes in the University's investment portfolio experienced negative performance in 2Q 2012 with the exception of Working Capital, Fixed Income Core and Fixed Income TIPS. Overall for FYTD 2012, the portfolio experienced negative returns of 0.6 percent. The Strategic/Reserve Pools lost 1.6 percent while the Working Capital Pool gained 1.0 percent. The following chart details the returns by asset class. Returns from the State Treasury's Special Purpose Investment Account (SPIA) totaled 1.4 percent during the same period.

As shown below, several of the investment managers did not meet the benchmarks for the period. The Absolute Return Manager (-4.0 percent versus 1.6 percent benchmark), US Small Cap Manager (-12.0 percent vs -9.8 percent), Fixed Income High Yield Manager (-1.2 percent vs -0.5 percent) and Fixed Income Core Manager (4.5 percent versus 5.0 percent benchmark) each lagged against the benchmark.

<sup>&</sup>lt;sup>1</sup> Real days payable represents the available balance of liquid funds divided by the average cash outflows of the university. The calculation uses the available balance in the university's bank accounts plus the market value of investments that are accessible within 5 business days as its balance of liquid funds.

<sup>&</sup>lt;sup>2</sup> Cash inflows reported here include direct transfers from the state. The Treasury Summary, available at finance.fiu.edu/treasury/downloads/Monthly\_Treasury\_Summary.pdf includes transfers from the state in the W/C (Working Capital Pool) Transfers.

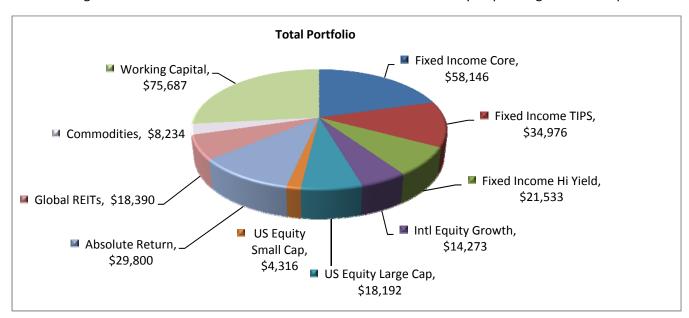


## Composition

Asset allocations at the end of 2Q 2012 remained within policy guidelines. The University Investment Committee agreed, at its November 17<sup>th</sup> meeting, to make a 10 percent allocation to a Private Equity. The University is currently in the process of reviewing the private equity manager's agreement. Appropriate rebalancing action will be discussed at the next investment performance review meeting.

The quarter-end market value of the University's operating investment portfolio totaled \$283.5million. This balance reflects a decrease of \$56.4 million (16.6 percent) from the ending balance of the previous quarter. The quarterly decrease was due to seasonal decreases within the Working Capital Pool mainly attributable to normal operations of the University. The University's quarter-end market value of the total operating investment portfolio increased \$8.8 million (3.2 percent) over the ending balance of 2Q 2011. The year over year increase resulted from additions to the operating investment pool and an overall 2.3 percent portfolio return.

The following chart details the allocation of investments within the University's operating investment portfolio.



### Meetings

The Investment Committee met on November 17, 2011 to review investment performance and discuss Private Equity options. The Committee last met on February 16, 2012 to review investment performance. The investment committee consists of:

### **Membership**

Sukrit Agrawal, Chair, Finance and Audit Committee, FIU Board of Trustees
Chun-Hao Chang, Ph.D. Department Chair, Finance and Real Estate, College of Business Administration
Kenneth A. Jessell, Ph.D., SVP & CFO, Office of Finance & Administration
Tony Vu (Chair), University Treasurer, Office of the Treasurer
William Welch, Ph.D., Retired, College of Business Administration

### **Consultant**

Bill Bensur, Vice President, Wilshire & Associates

### **DEBT**

### **Outstanding**

The University and Direct Support Organizations ended 2Q 2012 with \$167.8 million in outstanding debt. The University outstanding debt of \$124.8 million consists of revenue bonds totaling \$71.3 million for housing and \$52.8 million for parking auxiliaries. Direct Support Organization outstanding debt of \$42.9 million includes of stadium bonds with \$34.0 million outstanding and Foundation loan with \$8.9 million outstanding.

### Refunding

The University refunded \$22.9 million outstanding in its Series 1998 and 2000 bonds in 2Q 2012. The refunding bonds generated gross savings of \$3.6 million with an NPV of \$3.0 million. Annually, the Housing System will save approximately \$275,000 through 2024.

### New bond issue

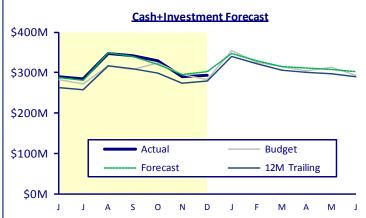
The University is expecting final approval on the sale of \$47.5 million in revenue bonds in late March with a sale to follow shortly thereafter. Series 1998 revenue bonds that were not refunded in 2011 may also be included in the new bond sale as rates continue to be favorable for refinancing actions.



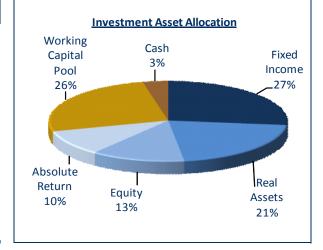
Month of December (000's)

| LIQUIDITY                   |          |                |                   |      |                |           |                      |            |
|-----------------------------|----------|----------------|-------------------|------|----------------|-----------|----------------------|------------|
|                             | <u>1</u> | <u>2/31/11</u> | <u>Availabili</u> | ty o | <u>f Funds</u> |           | Liquidity Allocation |            |
| Cash                        | \$       | 10,235         | Same Day          | \$   | 50,307         |           |                      |            |
| <b>Working Capital Pool</b> |          | 75,675         | 1-2 Days          |      | 89,002         | 31-120    | 120+ Days            |            |
| Strategic/Reserve Pool      |          | 206,821        | 3-5 Days          |      | 90,895         | Days      | 1%                   | Same Day   |
| <b>Liquidity Position</b>   | \$       | 292,731        | 6-30 Days         |      | -              | 20%       |                      | $r^{17\%}$ |
|                             |          |                | 31-120 Day        | 5    | 59,531         |           |                      |            |
| University Debt             |          | 124,826        | 120+ Days         |      | 2,995          | 6-30 Days |                      |            |
| DSO Debt                    |          | 42,933         | Total             | \$   | 292,731        | 0%        |                      |            |
| <b>Debt Position</b>        | \$       | 167,758        | -                 |      |                |           |                      |            |
|                             |          |                | Real Days Pa      | yabl | le (<5 Days)   | 3-5 Days  |                      |            |
| Liquidity/University Del    | :        | 2.35           | MTD Outflo        | ١    | 91             | 31%       |                      | 1-2 Days   |
| Liquidity/Total Debt        |          | 1.74           | YTD Outflov       | ٧    | 67             |           |                      | 31%        |
|                             |          |                |                   |      |                |           |                      |            |

| CASH FLOWS                  |    |          |           |               |
|-----------------------------|----|----------|-----------|---------------|
| Cash Account                |    | Week     | MTD       | YTD           |
| Opening Balance             | \$ | 7,156    | \$ 3,349  | \$<br>13,365  |
| W/C Transfers               |    | 2,000    | 22,000    | 84,000        |
| Cash Inflows                |    | 21,587   | 40,362    | 363,127       |
| Cash Outflows               |    | (20,508) | (55,476)  | <br>(450,257) |
| Ending Balance              | \$ | 10,235   | \$ 10,235 | \$<br>10,235  |
| <b>Working Capital Pool</b> |    |          |           |               |
| Opening Balance             |    | 77,675   | 65,216    | 107,764       |
| Transfers In/(Out)          |    | (2,000)  | 10,459    | (32,089)      |
| Closing Balance             | \$ | 75,675   | \$ 75,675 | \$<br>75,675  |
|                             |    |          |           |               |



| INVESTMENTS               |          |          |                 |             |  |  |  |
|---------------------------|----------|----------|-----------------|-------------|--|--|--|
| Investment Class          | Balanc   | <u>e</u> | <b>FYTD Ret</b> | 1Y Trailing |  |  |  |
| Strategic/Reserve Pool    |          |          |                 |             |  |  |  |
| Fixed Income              | \$ 78,4  | 67       | 2.9%            | 6.6%        |  |  |  |
| Real Assets               | 61,6     | 83       | -1.3%           | 4.8%        |  |  |  |
| Equity                    | 36,8     | 34       | -8.8%           | -4.7%       |  |  |  |
| Absolute Return           | 29,8     | 37       | -4.0%           | -2.5%       |  |  |  |
| <b>Working Capital Po</b> | 75,6     | 75       | 1.0%            | 1.9%        |  |  |  |
| Cash                      | 10,2     | 35       | 0.0%            | 0.0%        |  |  |  |
| Total                     | \$ 292,7 | 31       | -0.6%           | 2.3%        |  |  |  |



| DEBT                            |             |           |   |
|---------------------------------|-------------|-----------|---|
| University                      | O/s Balance | Avg. Rate | Projected Annual Debt Service for Outstanding Debt Balances |
| Housing (Aa3/A/A+)*             | \$ 71,310   | 5.3%      | \$20M -   |
| Parking (Aa3/AA-/A+)            | 52,815      | 4.6%      | ¥-5···  |
| Leases                          | 701         | 4.1%      | \$15M -   |
| <b>Direct Support Organizat</b> | ions        |           |   |
| AFC (Stadium)                   | 34,004      | 4.3%      | \$10M -   |
| Foundation (MARC)               | 8,929       | 3.4%      |   |
| Total Outstanding Debt          | \$ 167,758  | 4.8%      | - \$5M  |
| * (Moody's/S&P/Fitch)           |             |           | \$0M  |
| Fixed Rate Debt                 | 150,476     | 89.7%     | FY12 FY17 FY22 FY27 FY32 FY37                               |
| Variable Rate Debt              | 17,283      | 10.3%     | ■ Parking ■ Housing ■ Stadium ■ MARC                        |

| OPERATING FUNDS PORTF   | olio - |         |            |                 |      |            |              |              |              |           |
|-------------------------|--------|---------|------------|-----------------|------|------------|--------------|--------------|--------------|-----------|
| Manager                 | 4      | Amount  | Allocation | <u>December</u> | QTD  | Fiscal YTD | Trail 1 Year | Trail 3 Year | Trail 5 Year | Inception |
| Work Capital Pool       | \$     | 75,687  | 27%        | 0.2%            | 0.6% | 1.0%       | 1.9%         | 2.0%         | 2.7%         | 3.0%      |
| 91-day T-bill           |        |         | 30%        | 0.0%            | 0.0% | 0.0%       | 0.1%         | 0.1%         | 1.5%         | 1.9%      |
| Strategic/Reserve Pools |        | 207,859 | 73%        | 0.5%            | 3.8% | -1.6%      | 2.5%         | 11.1%        | 4.3%         | 5.1%      |
| Weighted Avg Benchmark  |        |         | 70%        | 0.5%            | 3.6% | -0.2%      | 4.3%         | 10.5%        | 5.0%         | 5.6%      |
| PORTFOLIO TOTAL         | \$     | 283,546 | 100%       | 0.4%            | 2.5% | -0.6%      | 2.3%         | 6.8%         | 3.8%         | 4.3%      |
| Weighted Avg Benchmark  |        |         | 100%       | 0.3%            | 2.5% | -0.1%      | 3.1%         | 7.3%         | 4.0%         | 4.5%      |

| <u>Manager</u>             | <u>A</u> | mount  | <b>Allocation</b> | <u>December</u> | QTD  | Fiscal YTD | Trail 1 Year | Trail 3 Year | Trail 5 Year | Inception |
|----------------------------|----------|--------|-------------------|-----------------|------|------------|--------------|--------------|--------------|-----------|
| SPIA                       | \$       | 50,591 | 67%               | 0.3%            | 0.8% | 1.4%       | 2.5%         | 2.5%         | 3.1%         | 3.3%      |
| 91-day T-bill              |          |        |                   | 0.0%            | 0.0% | 0.0%       | 0.1%         | 0.1%         | 1.5%         | 1.9%      |
| SBA-LGIP                   |          | 10     | 0%                | 0.0%            | 0.0% | 0.0%       | 0.1%         | 0.1%         | 1.2%         | 1.4%      |
| 91-day T-bill              |          |        |                   | 0.0%            | 0.0% | 0.0%       | 0.1%         | 0.1%         | 1.5%         | 1.7%      |
| MS Institutional           |          | 20,068 | 27%               | 0.0%            | 0.0% | 0.0%       | 0.1%         |              |              | 0.1%      |
| 91-day T-bill              |          |        |                   | 0.0%            | 0.0% | 0.0%       | 0.1%         |              |              | 0.1%      |
| Regions                    |          | 5,018  | <b>7</b> %        | 0.0%            | 0.0% | 0.1%       | 0.2%         |              |              | 0.2%      |
| 91-day T-bill              |          |        |                   | 0.0%            | 0.0% | 0.0%       | 0.1%         |              |              | 0.1%      |
| WORKING CAPITAL POOL TOTAL | \$       | 75,687 | 100%              | 0.2%            | 0.6% | 1.0%       | 1.9%         | 2.0%         | 2.7%         | 3.0%      |
| 91-day T-bill              |          |        |                   | 0.0%            | 0.0% | 0.0%       | 0.1%         | 0.1%         | 1.5%         | 1.9%      |

| Manager                          | Amount     | Allocation | December | QTD   | Fiscal YTD | Trail 1 Year | Trail 3 Year | Trail 5 Year | Inception |
|----------------------------------|------------|------------|----------|-------|------------|--------------|--------------|--------------|-----------|
| Prudential Core                  | \$ 58,146  |            | 1.3%     | 1.4%  | 4.5%       | 7.7%         | 9.3%         |              | 7.1%      |
| Barclays Aggregate               | 3 30,140   | 28%        | 1.1%     | 1.1%  | 5.0%       | 7.7%         | 6.8%         |              | 6.3%      |
| BlackRock HY Bond                | 24 522     |            | 2.2%     | 5.5%  | -1.2%      | 3.2%         | 23.2%        | 6.8%         | 7.5%      |
| ML High Yield Master II          | 21,533     |            |          |       |            |              |              |              |           |
| INIL HIGH FIEIG MUSTEF II        |            | 10%        | 2.5%     | 6.2%  | -0.5%      | 4.4%         | 23.7%        | 7.3%         | 7.9%      |
| FIXED INCOME COMPOSITE           | 79,679     | 38%        | 1.6%     | 2.5%  | 2.9%       | 6.6%         | 10.8%        | 7.0%         | 6.9%      |
| Fixed Income Benchmark           |            | 38%        | 1.5%     | 2.5%  | 3.6%       | 7.2%         | 9.5%         | 7.0%         | 7.0%      |
| Northern Trust S&P 500           | 18,192     | 9%         | 1.0%     | 11.8% | -3.7%      | 2.2%         | 14.2%        | -0.2%        | 2.0%      |
| S&P 500                          |            | 8%         | 1.0%     | 11.8% | -3.7%      | 2.1%         | 14.1%        | -0.3%        | 2.0%      |
| CS McKee Small Cap               | 4,316      | 2%         | -0.6%    | 11.3% | -12.0%     | -7.9%        | 14.4%        |              | 5.2%      |
| Russell 2000                     |            | 2%         | 0.7%     | 15.5% | -9.8%      | -4.2%        | 15.6%        |              | 3.5%      |
| Thomas White International       | 14,273     | <b>7</b> % | -1.5%    | 6.1%  | -14.4%     |              |              |              | -14.4%    |
| MSCI ACWI x US (N)               |            | 8%         | -1.1%    | 3.7%  | -15.7%     |              |              |              | -15.7%    |
| TOTAL EQUITY COMPOSITE           | 36,781     | 18%        | -0.1%    | 9.5%  | -8.8%      | -4.7%        | 11.0%        | -3.4%        | 1.1%      |
| Policy Index                     |            | 18%        | 0.0%     | 8.4%  | -10.1%     | -5.1%        | 11.7%        | -2.0%        | 0.5%      |
| Urdang Global REIT               | 18,390     | 9%         | 1.1%     | 7.8%  | -10.8%     | 0.3%         | 22.4%        | 0.2%         | 3.5%      |
| Policy Index                     |            | 8%         | 0.9%     | 7.4%  | -11.2%     | -1.3%        | 17.4%        | -3.2%        | 0.3%      |
| Northern Trust TIPS              | 34,976     | 17%        | 0.1%     | 2.6%  | 7.6%       | 13.9%        | 10.4%        | 8.1%         | 7.8%      |
| Barclays U.S. TIPS               |            | 18%        | 0.0%     | 2.7%  | 7.3%       | 13.6%        | 10.4%        | 8.0%         | 7.6%      |
| SSGA Commodities                 | 8,234      | 4%         | -3.8%    | 0.2%  | -11.1%     |              |              |              | -19.9%    |
| DJ UBS Commodities Index         |            | 5%         | -3.8%    | 0.4%  | -11.0%     |              |              |              | -19.8%    |
| REAL ASSETS COMPOSITE            | 61,600     | 30%        | -0.1%    | 3.8%  | -1.3%      | 4.8%         |              |              | 8.5%      |
| Policy Index                     |            | 30%        | -0.4%    | 3.6%  | -0.4%      | 5.1%         |              |              | 8.1%      |
| Aetos Alternative Mgmt.          | 29,800     | 14%        | -0.1%    | 0.9%  | -4.0%      | -2.5%        | 5.2%         | 1.6%         | 2.1%      |
| CPI +3.25%                       |            | 15%        | 0.0%     | 0.3%  | 1.6%       | 6.4%         | 5.7%         | 5.6%         | 5.4%      |
| ABSOLUTE RETURN COMPOSITE        | 29,800     | 14%        | -0.1%    | 0.9%  | -4.0%      | -2.5%        | 5.2%         | 1.6%         | 2.1%      |
| CPI +3.25%                       |            | 15%        | 0.0%     | 0.3%  | 1.6%       | 6.4%         | 5.7%         | 5.6%         | 5.4%      |
| STRATEGIC AND RESERVE POOL TOTAL | \$ 207,859 | 100%       | 0.5%     | 3.8%  | -1.6%      | 2.5%         | 11.1%        | 4.3%         | 5.1%      |
| Weighted Average Benchmark       |            | 8%         | 0.5%     | 3.6%  | -0.2%      | 4.3%         | 10.5%        | 5.0%         | 5.6%      |

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Athletics Update

### **Proposed Committee Action:**

None. For information only.

### Background information:

The Athletics Update provides a fundraising report and financial highlights since the Finance and Audit Committee last met on November 22, 2011.

**Supporting Documentation:** Athletics Update

Facilitator/Presenter: Pete Garcia



### **ATHLETICS UPDATE**

As of February 7, 2012

**Reports** (For Information Only – no action required)

Pete Garcia, Executive Director of Sports and Entertainment

### **Fundraising Report**

## FIU Foundation, Inc. Preliminary Recap of Statement of Activities Through the Period Ended December 31, 2011 (in thousands)

|          | Actual | Budget | Variance |
|----------|--------|--------|----------|
| Revenues | \$309  | \$420  | (\$111)  |
| Expenses | \$675  | \$368  | (\$307)  |

### Revenues

• Unfavorable \$111 thousand due to timing of collection of naming gift versus budget. Payments in excess of \$200 thousand received in January.

### **Expenses**

• Unfavorable \$307 thousand due to \$374 thousand paid to FIU Facilities Management towards the Football Stadium Expansion Project. The old bleachers on the north side will be demolished and the lower bowl will be completed for the 2012 season.

### Financial Highlights

Athletics Finance Corporation, Unaudited Recap through the period ended December 31, 2011

January year-to-date net income before debt service was \$1.82 million and unfavorable \$285 thousand vs. budget due to timing

- o Primary drivers include (in thousands):
  - Favorable Ticket Revenue of \$154
  - Unfavorable Conference/Game guarantee transfers \$225 due to timing of payments from FIU to Athletics Finance Corp
  - Operating expenses unfavorable \$191 due to timing of actual expenses versus budget

## THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: University Compliance Report

### **Proposed Committee Action:**

None. For information only.

### Background information:

The University Compliance Program Report provides an update on the status of compliance initiatives since the last report dated October 20, 2011.

**Supporting Documentation:** University Compliance Report

Facilitator/Presenter: Leyda Benitez



### **MEMORANDUM**

### University Compliance Office

**To:** The Florida International University

Board of Trustees Finance and Audit Committee

**From:** Leyda Benitez, J.D.

University Compliance Officer & Interim Privacy Officer

**Subject:** University Compliance Program Report

**Date:** February 14, 2012

The University Compliance Office respectfully submits this report to the Finance and Audit Committee of The Florida International University Board of Trustees on the status of compliance initiatives since the last report dated October 20, 2011.

### **Executive Summary**

The University Compliance Office is in the process of strengthening the institutional compliance and ethics program in a number of significant respects which are outlined in this report.

In addition, efforts have been dedicated to providing education and training on privacy and data security and on the continued implementation of the U.S. Department of Education Program Integrity Rules.

### A. Update on Compliance Initiatives and Activities

- 1. <u>FIU Compliance and Ethics Program Infrastructure</u>: Over the next thirty to sixty days, there are a number of significant initiatives that will be rolled out on behalf of FIU's Compliance and Ethics Program. These initiatives include:
  - a. <u>Creation of the University Compliance Program Advisory Committee</u>: The members of this Committee have been designated, and the first meeting of the Committee will take place within the next thirty to sixty days.

- b. <u>Creation of the University Compliance Program and Advisory Committee Charter</u>: A draft of this document is being finalized, and will be presented to the University Compliance Program Advisory Committee at its first meeting.
- c. Engagement of Enterprise Risk Management Consultants: The University Compliance Officer, in consultation with the University General Counsel, is reviewing a proposal to engage a consulting firm that specializes in using enterprise risk management (ERM) to provide a high level assessment and introduction to ERM to the University Compliance Program Advisory Committee members.
- d. Consolidated Reporting on Compliance Initiatives: The University Compliance Officer continues to meet with the various University offices and functions that engage in significant day-to-day operational compliance responsibility. The goal is to move toward a matrix model of consolidated reporting that will help to guide the University's prioritization of compliance initiatives and that will result in more thorough reporting to this Committee. At present, we incorporate the report issued by Environmental, Health and Safety on the status of their compliance initiatives since October 20, 2011. The Safety & Environmental Compliance Status Report is attached as Exhibit "A."
- e. Redesign of the University Compliance Office Web site: The University Compliance Office continues to work with FIU's Enterprise Web Services team to update and redesign the University Compliance Office Web site which will be rolled out by the end of this fiscal year.
- f. Compliance Program Resources-Additional Staff: On January 17, 2012, we welcomed Mr. Nelson Perez who joined the University Compliance Office as the Assistant Compliance Officer. Mr. Perez joins us from Burger King Corporation where he worked as a Senior Analyst, Human Resources Legal Compliance Department. Mr. Perez has been a member of the FIU family in the past having worked for the Office of Equal Opportunity Programs &

Diversity, Division of Human Resources, from 2003 to 2009. Mr. Perez is a graduate of the University of Illinois at Chicago, B.A., in 1984 and The John Marshall Law School, J.D., where he graduated in the top one-half percent, in 1991.

- 2. <u>U.S. Department of Education Program Integrity Rules</u>: The University continues its ongoing efforts to ensure compliance with these regulations which aim to improve the integrity of the Federal student aid programs. Progress areas include:
  - a. Work Group Continues to Meet: The University U.S. Department of Education Program Integrity Rules (PIR) Work Group last met on January 6, 2012 to discuss progress on implementation and impact of the PIR to the University's day-to-day operations.
  - b. Fraud Prevention in Connection with Distance Learning: A PIR subgroup met on January 19, 2012 to discuss the U.S. Department of Education (DOE) "Dear Colleague" Letter which contained an "Urgent Call to Action" to all postsecondary institutions in the Federal student aid programs that offer distance learning. In its October 20, 2011 "Dear Colleague Letter," the DOE notes that the Inspector General's Office has detected an increasing number of "cases involving large, loosely affiliated groups of individuals (fraud rings) who conspire to defraud title IV programs through distance education programs." The letter provides guidance in terms of actions that institutions can take to detect fraud. The subgroup is in the process of analyzing the University's internal controls and procedures and will summarize our findings.
  - c. Prohibition on Misrepresentation Requirements: The University Publication Guidelines developed by External Relations have been made available to the University community. On January 19, 2012, at the invitation of the Senior Vice President for External Relations, the University Compliance Officer presented to the University's Communications Committee on the prohibition on misrepresentation requirements of the PIR which are those made in connection with the nature of the educational program, financial charges and employability of graduates.

This presentation engendered productive discussion and identification of follow up steps including setting up meetings with Career Services representatives and admissions representatives for the schools/colleges.

- d. <u>Gainful Employment Reporting Requirements</u>: The Division of Academic Affairs and the Financial Aid Office continue their work to ensure that the University complies with these requirements for programs that are certificate based such as the Paralegal Certificate offered through the Legal Studies Institute.
- e. Creation of Web Page to Include Required Disclosures under the Higher Education Act of 1965, As Amended: The University Compliance Office is in the completion stage of the development of a Web page that will contain all of the links to the disclosures required under the Higher Education Act of 1965 (HEA), as amended by the Higher Education Opportunity Act of 2008 (Public Law 110-315). The Web page follows recommendations of the National Postsecondary Education Cooperative's November 2009 Report which the U.S. Department of Education's Web site sets forth as guidance. The University Compliance Office in collaboration with the Office of the Provost will determine the most appropriate placement for the HEA Student Consumer Information Web page. The goal is to have this Web page in place within the next thirty to sixty days.

### B. <u>University Privacy and Data Security Matters</u>

- 1. <u>Identity Theft Prevention Program Updates</u>: Revisions to the Identity Theft Prevention Program have been made and will be presented to the University senior leadership for approval. On January 13, 2012, a subgroup of the Identity Theft Prevention Committee met to discuss the FIU One Card Procedural Handbook and to provide recommendations regarding certain processes to support the operation of this program.
- 2. <u>Privacy and Data Security</u>: Ongoing efforts to raise awareness regarding privacy and data security since last October, 2011 include:

- a. <u>Redesign of the Privacy Web Pages</u>: The web pages addressing privacy obligations and reporting procedures were recently updated.
- b. <u>Identity Theft Prevention brochure</u>: This brochure, published jointly by the University Compliance Office and IT Security Office, explains the steps students, faculty and staff can take in order to prevent, or to contain the harmful effects of, an identity theft incident. The brochure is available on the University Compliance Office Web site. The FIU One Card Office has also made this publication available to faculty, staff and students when they come in to request a new or replacement FIU One Card.
- 3. <u>FERPA</u>: The U.S. Department of Education introduced new revisions to its regulations governing the Family Educational Rights and Privacy Act (FERPA), effective January 3, 2012. The University Compliance Office is in the process of developing an action plan to review our current regulations and processes for the internal and external use of personally identifiable information pertaining to students and determine action steps necessary to comply with these new requirements. At present, this project is in its beginning stages.

### C. Monitoring and Reporting

- 1. <u>Inquiries/Complaints</u>: During FY 2011-2012, the University Compliance Office has received 22 compliance-related inquiries. In addition, 15 reports have been lodged through the hotline offered through EthicsPoint.
- 2. <u>Division of Research Quality Assurance Program</u>: At the request of the Division of Research, the University Compliance Officer undertook a review of the guidelines by which the Office of Research Integrity and the FIU IRB will initiate a Quality Assurance Program.

### D. Education and Training Efforts

1. <u>IT Security and Privacy Awareness Education and Training</u>: The University Compliance Officer and IT Security Officer have provided intensive education and training on IT Security and Privacy to the College of Nursing and Health Sciences on

November 2, 2011 and February 3, 2012 and to the Undergraduate Education leadership team on November 14, 2011. Education and training sessions for all Undergraduate Education staff members is scheduled to take place on February 10 and 23, 2012 at the Modesto Maidique Campus (MMC) and on February 21, 2012 at the Biscayne Bay Campus (BBC).

- 2. <u>HIPAA Education and Training Via Conferencing</u>: Since late fall, 2011, the HIPAA education and training sessions that are held at MMC in the University Health Services Complex are simultaneously broadcast to the Biscayne Bay Campus.
- 3. On-Line Compliance Learning: The University Compliance Office is exploring various avenues to be able to convert some of its face-to-face compliance education and training sessions into online programs. At present, the University Compliance Officer is working with the Division of Human Resources, the Division of Information Technology and the Division of Research to see what e-learning solutions may be used more efficiently and cost-effectively to achieve this goal.
- 4. <u>Brown Bag Lunch Workshops</u>: Beginning in February, 2012, the University Compliance Office will provide monthly workshops on select compliance-related topics. These workshops are intended to raise awareness and allow for an opportunity to ask questions regarding the University's compliance standards and processes.
- 5. <u>Current Fiscal Year Compliance Education and Training</u>: Since the beginning of Fiscal Year 2011-2012, compliance-related education and training opportunities made available to the University Community have included:

|                 | FY 2011-2012  |             |
|-----------------|---------------|-------------|
| Training        | # of          | # Attending |
|                 | Presentations |             |
| Enterprise Risk | 1             | 15          |
| Management      |               |             |
| Ethics          | 1             | 10          |
| Export          | 2             | 30          |
| Controls        |               |             |
| HIPAA           | 8             | 97          |
| Identity Theft  | 6             | 37          |
| IT Security-    | 5             | 157         |
| Privacy         |               |             |
|                 |               |             |
| New Faculty     | 1             | 95          |
| Orientation     |               |             |
| New Employee    | 17            | 326         |
| Experience      |               |             |
| Program         | 2             | 45          |
| Integrity Rules |               |             |
| TOTAL           | 43            | 812         |

6. Compliance Presentation at NACUA: As the compliance obligations of colleges and universities continue to grow so does the pressure on institutions from both external and internal sources to implement and maintain effective institutional compliance programs. Recently the University Compliance Officer was invited to serve as a moderator at the National Association of College and University Attorneys (NACUA) workshop on College & University Compliance Programs: Organization and Key Compliance Obligations that took place in Washington, D.C. from November 9 to 11, 2011. Ms. Benitez moderated a discussion group entitled "The Carrot and/or the Stick: Motivating Compliance on Campus."

### E. University Policies and Procedures

- 1. <u>Conflict of Interest in Research Policy</u>: The Division of Research is leading the effort to revise this policy to conform to new federal regulations applicable as of August 24, 2012.
- 2. <u>Alcohol and Drug-Free Workplace and Campus Policy</u>: This updated policy is under review by senior leadership. Once

approved, the policy will be posted to the University Policies and Procedures Library.

### 3. Health Insurance Portability and Accountability Act (HIPAA):

- a. Policies, Procedures and Forms: Additional HIPAA policies have been developed and are under review by the Division of Research, to be followed by review by the Herbert Wertheim College of Medicine. These policies serve to comply with new requirements under the Health Information Technology for Economic and Clinical Health Act, referred to as the HITECH Act, effective February 18, 2009. Review and approval of these policies should be completed by the end of this fiscal year.
- b. <u>Tracking of Business Associate Agreements</u>: Efforts by a work group of various University representatives continue in order to develop the infrastructure that will permit the identification and tracking of those individuals/entities that are business associates of the University.

### 4. University Policies and Procedures Library:

- a. <u>Transition to University Policies Library</u>: The University Compliance Office is working with various areas, including the University Graduate School, the Graham Center, Student Affairs and the FIU Foundation, Inc., to fully transition new or revised policies to the University Policies and Procedures Library.
- b. <u>Specific Policies</u>: Since the last report to this Committee, the following areas have added new policies or had existing policies or procedures revised or transitioned and posted to the University Policies and Procedures Library:
  - i. Finance & Administration
    - Payment Card Processing
  - ii. Division of Research
    - Budget Modifications on Sponsored Projects
  - iii. Division of Human Resources
    - Firearms and Dangerous Weapons Policy
  - iv. FIU Foundation, Inc.
    - The FIU Foundation Advancement Initiative (3%)
  - v. Office of Student Affairs

- Missing Residential Student Policy
- vi. Undergraduate Education
  - Forgiveness Policy
- vii. University Graduate School
  - Repeat Course Policy

I respectfully submit this report to the Finance and Audit Committee of The Florida International University Board of Trustees in anticipation of the meeting scheduled to take place on March 14, 2012. As always, I welcome your questions, comments and concerns. Thank you for your kind attention.

### **EXHIBIT "A"**

### The Florida International University Board of Trustees Finance and Audit Committee

## Safety and Environmental Compliance Status Report March 2012 Update

Issue: Hazardous Waste Compliance Inspection Agency: Environmental Protection Agency (EPA)

**Status:** On December 16, 2011, the EPA conducted an inspection of laboratories, hazardous waste storage sites, and facilities management shop areas on the Modesto Maidique Campus. EH&S is currently awaiting the official inspection report from the EPA.

Issue: Bureau of Radiation Control Inspection Agency: Florida Department of Health (FDOH)

**Status**: On December 13, 2011, the Florida Department of Health, Bureau of Radiation Control inspected the X-ray machine installed in the FIU faculty group practice facility located in PG-5. One minor violation was issued and corrected within 30 days of the inspection date.

Issue: Annual Life Safety Code Compliance Inspections & Other Life Safety Code Activities

Agency: State Fire Marshal

**Status:** As of January 2012, EH&S Fire Safety completed all scheduled annual fire drills for FIU Housing (15 buildings in total) and eight fire drills for the general MMC areas. EH&S provided consultation for plans and site work for the new MMC Housing dormitory, MMC observatory, and renovations to the FIU Law School. EH&S and the State Fire Marshall (SFM) completed final inspections for laboratory renovations on the 3rd floor of OE and VH, and the student study area on the 2nd floor of AHCI. EH&S and the SFM also conducted a four hour generator load test at VH. All generator systems passed the test.

### Issue: Pump Failure in Main Sanitary Lift Station

**Agency:** Miami Dade County Department of Environmental Resources Management (DERM)

**Status:** As previously reported, a pump failure occurred in the main sanitary lift station at the chiller plant located near the VH building on October 5<sup>th</sup>, 2011. Waste material was released into the nearby retention ponds through the underground stormwater drainage system. Lake water bacteriological samples of the north, central and south retention ponds were taken on October 7th, 10th, and 14th, 2011. The samples from October 7th and 10th exceeded standards. Result from the third round of samples taken on October 14th, 2011 indicated concentrations were below Total Coliform level standards. As of January 23<sup>rd</sup>, 2012, we have received written confirmation that DERM requires no further testing.

## Issue: Assessment of Elevated Chromium Levels in Groundwater Near Green Library

**Agency:** Miami Dade County Department of Environmental Resources Management (DERM)

**Status:** As previously reported, quarterly ground water sampling for the assessment of the chromium levels in the soil west of the lake in front of the Green Library was conducted. The 1<sup>st</sup> ground water sample was taken on April 28, 2011. A quarterly groundwater report was submitted to and approved by DERM in June 2011. The 2<sup>nd</sup> groundwater sample was taken on July 11, 2011. Laboratory analytical data from both samples indicates that the chromium concentrations are below the groundwater and freshwater clean-up target levels. The final sample collection taken October 21<sup>st</sup>, 2011 confirmed that the chromium concentrations are still below the groundwater and freshwater clean-up target levels. Per DERM, no further testing is required.

## THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Construction Status Report

### **Proposed Committee Action:**

None. For information only.

### Background information:

The Facilities and Construction Update provides an overview and the status of University projects.

Supporting Documentation: Construction Status Report

Facilitator/Presenter: John Cal



### Facilities and Construction Update As of February 9, 2012

### **Completed Projects**

• U.S. Century Bank Arena Expansion (USCBA) (BT-837) - \$7.6M (multiple sources) project budget. A/E - Gould Evans; CM - Arellano; first FIU project for both firms. The building opened on time for the December 2011 graduation ceremonies. The building interior is substantially complete with punch-list items now being addressed and internal training ongoing as part of the transfer from builder to owner. The outdoor plaza hardscape design is under review to ensure integration with the Parkview Housing hardscape plan.

### **Projects Under Construction**

- Science Classroom Complex (BT-876) \$57.8M (PECO) project budget. A/E Perkins + Will; CM DPR; first FIU construction project for both firms. Construction was phased with multiple GMP's to expedite project delivery; construction started with Phase I in August 2011; the final GMP amendment was executed November 2011. Final finish boards were presented and approved in November 2011. Construction is now at full throttle. The structure will be complete by March 2012; pre-cast skin installation starts May 2012. The building will be "dried-in" by July 1. Target delivery date is February 2013.
- Satellite Chiller Plant (BT-834) \$14.1M (PECO) project budget/\$7.6M funded to date (\$7.1M from legislative appropriation and \$.5M from PECO savings transferred from ACH-3 College of Nursing & Health Sciences project). E/A SGM Engineering; CM Poole & Kent. FIU will build using the available \$7.6M with the objective of constructing the full building and outfitting it with two chillers and two cooling towers. Additional equipment will be added as funds are available. The GMP amendment has been finalized. The CM will mobilize by the end of February and break ground early March. Owner Direct Purchased (ODP) equipment will also arrive in March. By purchasing the equipment directly the project saved approximately \$91K. Target delivery date is March 2013.
- Hospitality Management Dining and Kitchen Expansion Improvements (BT-855)
   \$4.35M (Auxiliary/SoBe proceeds). A/E MC Harry w/Echeverria as specialty consultant; CM Pirtle. Phase I (Dining Expansion) construction is approximately 30% complete. Foundation work encountered drainage systems from the old Interama site that had to be re-routed. All long lead shop drawings have been

Florida International University
Board of Trustees
Finance and Audit Committee Meeting
March 14, 2012
Facilities Management Construction Update, as of February 9, 2012
Page | 2

submitted and approved. All glass and curtain walls have been approved and are in fabrication. Roof over new expansion will begin early March. Installation of glass storefront will start mid-March. New enlarged chilled water pumps will be installed during Spring 2012 break. This work may require a 2 week shut-down; project team is evaluating options to reduce or eliminate the shut-down. Phase II (Kitchen Expansion) kitchen remodeling and equipment GMP was submitted on February 2 and is being reviewed prior to processing. Due to the unforeseen underground conditions the shell with electrical and mechanical elements will be completed by June 2012. Finish packages, including a two story wine tower with a fully functional Point of Sales (POS) system and custom case work will be completed by August 2012. Target delivery date is October 2012.

### **Projects in Design**

- Stocker Astrophysics Center (BT-814) \$2.85M (multiple sources) project budget. A/E Siddiq Khan & Associates (SKA); CM Biltmore. Construction Documents (CD's) are 85% complete. Two separate GMPs have been developed: the first for underground utilities and the second for the structure. This approach will accelerate infrastructure re-routing as the building design is finalized. A model is being prepared to expedite final approvals. Site-work will begin February 2012 with a target delivery date of March 2013.
- Housing 2013 (BT-889) \$47.5M (bond) project budget. A/E: HADP/HKS Joint Venture; CM Moss Construction. Design Development has been submitted, reviewed by university administration and approved with comments. Design Development budget estimate is due February 28th. Bond approval is anticipated from the State in March. The project's impact on the preserve has been closely coordinated with the FIU Preserve Committee. This project will enhance the preserve, its access to the student body, and its potential for integration with the academic program. Root-pruning for tree relocation is in progress; relocation will begin in March. Site mobilization will begin in March over Spring Break. The construction site will impact both parking and traffic. It will eliminate the parking lot west of Panther Hall and close traffic on Campus Drive (SW 113th Avenue) between SW 17th Street and Panther Way. Anticipated ground breaking is March 12th. Target delivery date is July 2013.
- Stempel Complex (BT-877/895) Stempel Complex (BT-877/895) \$43.54 M (multiple sources) project budget. A/E - Perkins + Will; CM - Skanska. Funding

Florida International University
Board of Trustees
Finance and Audit Committee Meeting
March 14, 2012
Facilities Management Construction Update, as of February 9, 2012
Page | 3

for the Robert Stempel College of Public Health and Social Work (\$23.3M) and the International Hurricane Center (IHRC) project (\$15.0 M) have been incorporated into one project. Additional funds (\$5.24M) have been identified to add a large (200 capacity) multi-purpose Active Learning Room, Research Wet and Dry Labs and a Behavioral Sciences Lab to the project. The A/E is currently at 75% advanced schematics design phase. Anticipated delivery date is November 2013.

• Football Stadium Expansion and Master Plan (BT-842) – Estimated project cost: \$5.1-5.25M (Auxiliary). A/E – Baker Barrios Architects/RDG JV. CM – MCM Construction. All contracts have been executed. Project budget was reduced by Athletics from the original estimate of \$6-8M to a target of \$5M; at this point, the projected cost is \$5.1-5.25M. Project team continues to work toward the budget goal of \$5.0M. The reduction eliminated full master planning, amenities such as an additional stadium club and storage; additional restrooms are not required. Demolition Guaranteed Maximum Price (GMP) will be submitted week of February 6th. Demolition is anticipated to begin end of February. Target delivery date is August 2012.

### **Projects in Planning Stage**

- Student Academic Support Center (SASC) (BT-882) \$30.9M (PECO) project budget/\$20.1M funded to date. A/E Gould Evans; CM Balfour Beatty. Revised program is being reviewed by FMD Planning, then advance through the University approval process. Design will start once program and budget have been approved by FIU leadership. Anticipated construction delivery date is contingent on final program and funding.
- Medical Arts Pavilion (MAP) Ambulatory Care Center (ACC) (BT-870) \$10.0M (County bond) project budget. A/E AECOM; CM Klewin. The ACC was envisioned as a two-story, approximately 20,000 gsf facility providing primary and specialty care office visits, minor diagnostic procedures and diagnostic imaging. However, funding is in place only for design and construction of the facility with the College of Medicine responsible for funding all equipment to make this a functional facility. A new program is currently under development which will incorporate the ACC as part of a larger Medical Arts Pavilion (MAP). The facility will be developed as a Public-Private-Partnership (PPP) with a developer, leveraging the ACC into a larger medical care and medical office complex. Program concept and design, which are dependent on a viable business plan, are

Florida International University
Board of Trustees
Finance and Audit Committee Meeting
March 14, 2012
Facilities Management Construction Update, as of February 9, 2012
Page | 4

underway. It is anticipated the project will be released for solicitation to developers by early March 2012. Anticipated delivery date is contingent on the business plan and finalization of the project scope.

- Mixed-Use College of Business Building (BT-886) \$29.6M (multiple sources) total project cost. A/E Hellmuth Obata and Kassabaum (HOK). CM pending approval of selection committee recommendation. Anticipate executed CM contract by March 2012. The 88,000 gsf building located due west of the Ryder Building will include classrooms and academic support space for the R. Kirk Landon Undergraduate School of Business, FIU Online, and international graduate programs as well as space for a food court and full service catering kitchen to service the northwest sector of MMC. Target delivery date: October 2013. Project team is evaluating options to accelerate delivery.
- Parking Garage 6 (BT-868) \$37M (bond) project budget. Site options are still under review. The decision on the final site will determine whether a re-use of an existing design is viable, or whether a new design is required. Potential locations are west of PG4 (Red Garage) or west of WPAC. Target delivery date can only be set after location is identified.

## THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Business Services Update

### **Proposed Committee Action:**

None. For information only.

### Background information:

The Office of Business Services Update provides information on services, sales and venues.

**Supporting Documentation:** Business Services Update

Facilitator/Presenter: Aime Martinez



# Office of Business Services Fact Sheet

UPDATES Spring 2012

• **New Mixed-Use Auxiliary Building**: Selection of the architect and contractor for the building will be completed in February. The building, slated for opening Fall of 2014, will serve as a destination hub for the North West quadrant of campus offering at least two new venues, a catering kitchen and over 5,000 Sq. Ft. of general seating on the first floor.

- Consumer Insights: To supplement existing demand and retail studies, Business Services recently launched an online survey to
  gather campus consumer feedback on dining preferences and suggestions for venues in the new Mixed-Use Auxiliary Building.
  These insights will be used to understand customer preferences and the best fit of brands to feature in the new food court.
- Remodel of Fresh Foods: The Fresh Foods Co, FIU's Residential Dinning facility located in the Graham Center, will be fully renovated to improve services, to expand variety, to increase seating and to contemporize the look and feel. Phase I of the project, which includes a new entrance, expansion of seating and a new façade, will be completed by summer of 2012.
- **Custom Apparel and Gifts**: Barnes and Noble has partnered with *Promoversity* to create FIU's first custom order store for promotional products and apparel. *Promoversity* offers a unique design tool that allows customers to upload images and logos to customize thousands of items. The new site will be launched in February.

### **QUICK FACTS**

### **Services Under Management**

 45 Food, Convenience and Retail Venues, Beverage & Snack Vending, FIU One Card Program, Office Supplies, Printing and Copying, Multiuse Facilities, Property Management and Advertising

### **Food and Convenience Venues**

- Sales are up 12% over prior year, with an overall 9% increase in the number of transactions. In its second year, PG-5 Market Station continues its success with a 15% increase in sales over prior year.
- Newly renovated venues at BBC, which include the new Bay Café and Bistro Subs, are proving very popular. Sales and transactions are above prior year by 15%

### **Beverage and Snack Vending**

- Strategic marketing initiatives are underway for Spring to increase awareness
  of the product mix in FIU's 160 beverage machines and 120 snack machines.
- The *Doc Kiosk*, located in PG-5 Market Station, is FIU's first fully automated retail machine that offers the FIU community 24 hour access to a vast amount of personal care products.

#### **Barnes & Noble at FIU**

 Overall sales are up 8% over prior year. Textbook rentals continue to grow with 1,300 titles available and sales on track to exceed \$1M.

### FIU One Card/Wells Fargo

- The new FIU One Card office opened in the Gold Garage on July 18<sup>th</sup>, embarking on an aggressive plan to upgrade its software, enhance services, expand features, improve efficiencies and strengthen policies and procedures.
- The new agreement with Wells Fargo to cobrand the FIU One Card and provide retail banking services and student banking services, presuming a 35% penetration rate, is estimated at \$2.5M over ten years.
- As of February 1<sup>st</sup>, over 31,500 new One Cards have been issued to students, faculty and staff and approximately 4,800 One Cards have been linked to a Wells Fargo account. This represents an 11% penetration rate which exceeds our budgeted goal allowing us to move into the second tier of royalty payments to the university for FY 2011-12. Starting February, a second mobile re-carding campaign will commence targeting students, faculty and staff.

#### YTD Revenue from operations increased 15% over prior year \$507K, 14% Food \$1.0M, 29% Services \$674K, 19% Vending, Bookstore \$155K, 4% \$1.0M, 28% Rental. \$144K, 4% Retail Ops \$61K, 2% Rental & Digital Textbook Sales & Saving FY 2011-2012 - Fall Semester \$1,300 \$1.200 \$1,100 \$1,000 Estimated Τо \$900 If they we Savings tal \$800 \$617K - 50% \$1.2M Sal \$700 es \$600 \$500 Actual Sale th \$617K \$400 ou Estimated Sales sa \$300 Savings If they were \$76K - 60% nd \$200 New Books. Actual Sal \$127K \$100 - \$51K Textbook Rentals **Digital Textbooks** New Doc Kiosk at PG 5 POC FIU's fully Automated & Self-Service Retail Machine offers: First Aid · Pain Relief

Personal Care
And Much More!

## THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

### Finance and Audit Committee

March 14, 2012

Subject: Emergency Management Status Report

### **Proposed Committee Action:**

None. For information only.

### Background information:

The Emergency Management Status Report provides updates on training and exercises, automated external defibrillator program and the University Wide Emergency Notification System Test.

**Supporting Documentation:** Emergency Management Status Report

Facilitator/Presenter: Amy B. Aiken



**DATE:** February 7, 2012

**TO:** Kenneth A. Jessell, Ph.D.

Senior Vice President of Administration and Chief Financial Officer

FROM: Amy B. Aiken, Director

**Department of Emergency Management** 

**SUBJECT:** Emergency Management Status Report

### **Training and Exercises**

On January 20<sup>th</sup>, 2012, the Department of Emergency Management (DEM) facilitated the fourth table top exercise with the President and his Executive staff. The exercise focused on an active shooter scenario in one of the student residence halls. In this scenario Florida International University's (FIU) Police Department was the lead department. The University's Police Chief used the exercise as an opportunity to educate Executive staff about the actions of FIU's police officers and Executive staff roles if such an event were to occur. The exercise generated lots of discussion and proved to be an excellent learning opportunity for all involved.

Nine (9) staff from a cross section of University departments participated in a three (3) day Federal Emergency Management Agency (FEMA) Multi-Hazard Emergency Planning course hosted by Miami-Dade College. The target audience for the course was individuals who would be involved in an emergency response, but have limited experience in emergency management planning. It was an interactive course that was well received by the participants and enabled them to garner a greater understanding of the importance of each department's role in the emergency management planning process and response.

### **Automated External Defibrillator Program**

Automated External Defibrillators (AEDs) have been installed throughout the Modesto A. Maidique and Biscayne Bay campuses. Over 200 staff has been trained on AED usage and 48 have received the American Heart Association CPR/AED certification. DEM's website has a link to the locations of all AEDs on both campuses. Go to <a href="https://www.fiuoem.com">www.fiuoem.com</a> and click on Find the nearest AED. Click on any building from the listings on the left of the screen and an actual picture of the AED and its exact location will pop up.



### **University Wide Emergency Notification Test**

**Department of Emergency Management** 

Fall 2011

# **Table of Contents**

| Section I:   | Background                             | 4    |
|--------------|--|------|
| Section II:  | Emergency Notification Test Criteria   | 4    |
| Section III: | Chronology of Events                   | 4    |
| Section IV:  | Emergency Notification Systems         | 4    |
| A. WENS      | ™ (Panther Alerts)                     | 4    |
| System       | Description                            | 4    |
| Perforn      | nance Evaluation Data                  | 5    |
| WENS [       | Data                                   | 6    |
| Issues/S     | Solutions                              | 8    |
| B. Inforn    | naCast™                                | 8    |
| System       | Description                            | 8    |
| Perforn      | nance Evaluation Data                  | 8    |
| Issues/S     | Solutions                              | 9    |
| C. Web/      | Social Media/Digital Displays/FM Radio | 9    |
| System       | Description                            | 9    |
| lssues/      | Solutions                              | 10   |
| Section V:   | Survey Results                         | . 10 |
| Section VI:  | Conclusions                            | . 12 |

### Section I: Background

Florida International University currently employs multiple communication platforms for emergency notification of its campus community. These platforms include: Cellular phone text messaging, also known as Wireless Emergency Notification System (WENS™) and/or FIU Alerts, InformaCast™ (university voice-over internet-protocol campus telephone system & outdoor speakers), university email, outdoor digital display boards, the FIU webpage, Facebook and Twitter, as well as FIU radio (FM 88.1 and/or 95.3 FM).

### Section II: Emergency Notification Test Criteria

An announced University wide test of the emergency notification system was conducted on October 21<sup>st</sup>, 2011 at 10:00 a.m. to determine the capability, reach, effectiveness and limitations of the systems as a whole. Immediately following the test, an online survey was conducted to gather feedback from students, faculty and staff. The test message read as follows: "This is a test of the FIU emergency notification system. This is only a test! For more detailed information, please go to <a href="https://www.fiu.edu">www.fiu.edu</a>."

### Section III: Chronology of Events

The emergency notification test message was initiated at FIU Police's Dispatch Center. Present were: Police Communications Coordinator Deanna Sydnor, Police Communication Operator (PCO) Nicholas Piacente, PCO Carol Myles and Emergency Management (EM) Coordinator Robin Yang. At approximately 10:00 a.m., PCOs Nicholas Piacente and Carol Myles logged into the InformaCast™ web interface and into the WENS™ web interface to initiate the emergency notification test messages.

### Section IV: Emergency Notification Systems

### A. WENS™ (Panther Alerts)

#### **System Description**

The Wireless Emergency Notification System (WENS<sup>™</sup>) by Inspiron Logistics is an emergency notification system that delivers Short Message Service (SMS) text messages to university faculty and staff who have subscribed through *myaccounts.fiu.edu* and students who entered their information while registering for University courses. At the time of the test, there were 80,843 entries in the WENS<sup>™</sup> database.

After an emergency notification message is initiated by FIU Police Dispatch using the WENS™ web interface, the WENS™ servers forward the message to their respective cellular phone carriers. The individual telecommunication carriers then forward the message to the individual subscriber's cellular devices. Most of the carriers will then provide an acknowledgement from

the subscriber's cellular device and log that information in the WENS server. Unfortunately some cellular providers do not provide an acknowledgement of receipt.

#### **Performance Evaluation Data**

Performance and results of the WENS™ system is quantified by downloading and analyzing an electronic log provided by WENS™. This log contains the following information: the telephone number of each intended subscriber, the message that was sent, the carrier of the subscriber, the time the message was initiated, the receipt status and the time the last receipt status was recorded on the log. There are 5 different receipt statuses:

<u>Successfully Delivered</u>: The message was sent to the device and an acknowledgement was received from the device and the carrier.

**<u>Delivery Failure</u>**: The message failed to reach the device which could be caused by:

- The phone being turned off
- o The mobile number is not in service
- The carrier prohibits text messages to a mobile number (i.e. some prepaid phones)
- User has switched carrier recently and ported their number
- o The phone was in an area where cellular service is unavailable

**Rejected – Blacklisted:** The message was not forwarded to the device which could be caused by:

- If the user of the phone receives a message that the text has been blocked because it is a premium message, the user must call their carrier and get the premium message option unblocked to receive the emergency alerts.
- O A WENS™ message is sent through a short code which is considered a premium message. However, there is no additional charge for being a premium message; only normal text messaging fees will apply. The user of the phone needs to contact the carrier to lift the restriction.

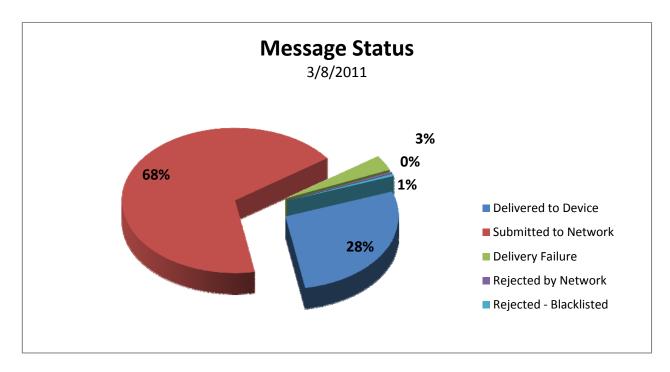
**<u>Rejected by Network</u>**: The message failed to reach the device which could be caused by:

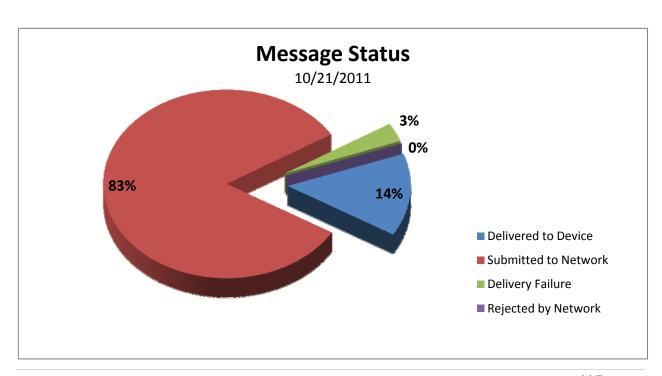
 Carrier unable to receive incoming text messages to their SMS gateway. This usually means the carrier was having an intermittent outage during the time the message was sent.

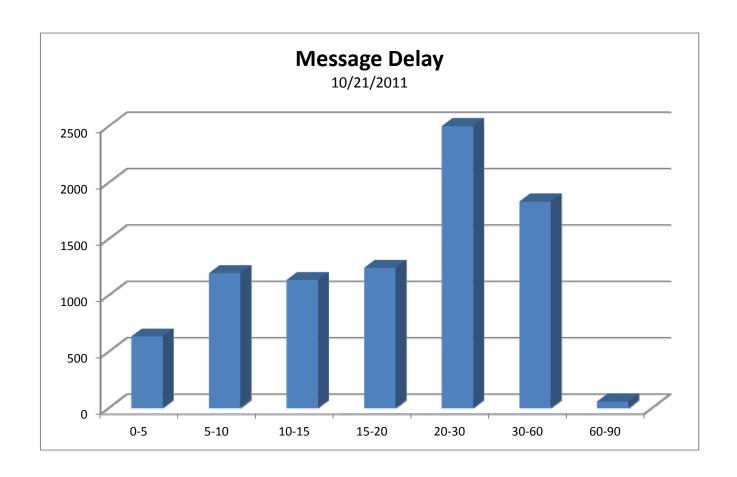
<u>Submitted to Network</u>: Indicates that the message was submitted to the carrier; however, the carrier does not send back to WENS™ a delivery success code or a delivery failure code.

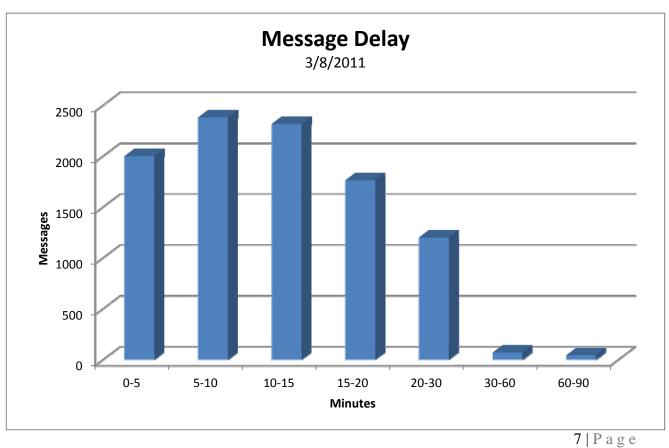
#### **WENS Data**

The following data was recorded by WENS<sup>™</sup> for the test conducted on October 21<sup>st</sup>, 2011; data from the March 8<sup>th</sup>, 2011 alert is shown for comparison:









# **Issues/Solutions**

- Attempts to improve the delay on delivery times by refining the databases had previously shown an improvement. On this cycle however, the old student group was used as well as the new one because the new database had not finished importing at the time of testing. This may have caused the delay to revert back to similar levels from previous broadcasts. A solution to make the upload of data faster is currently being formulated.
- A new database from faculty and staff that was pulled from current FIU systems was not imported into WENS prior to the test because of delays. The new database is more accurate and will be tested in the next cycle.

#### B. InformaCast™

## **System Description**

The InformaCast™ system by Singlewide is capable of broadcasting an audio message to Voice Over Internet Protocol (VOIP) phones, outdoor speakers and indoor resident housing speakers. In the case of VOIP phones, a short text message is also displayed on the phones. In addition to VOIP phones used by faculty and staff, phones have been installed in rooms and areas where community members congregate. There are currently 6,394 devices registered on the InformaCast™ system university wide.

### **Performance Evaluation Data**

A log is automatically generated by the InformaCast<sup>™</sup> system to quantify successful broadcasting to the devices registered on the InformaCast<sup>™</sup> system. There may be instances however, in which a device may report a successful receipt of message but may have not played the message correctly. This type of failure may be caused by the following:

- o Too many messages broadcast on the system simultaneously may undercut each other.
- The volume setting on a device may not be high enough for the message to be audible.
- Physical damage to the display or the speaker of the device may be damaged or missing.

Feedback from the university students, faculty and staff is helpful in detecting failures in the system.

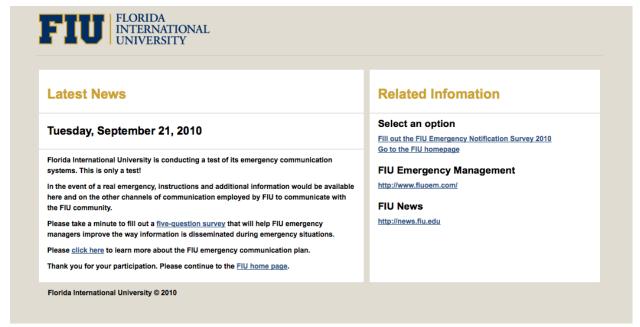
# Issues/Solutions

- o Staff monitoring the outdoor speaker system reported no issues.
- o There was an approximately 3% failure rate with the devices. The reason for the failure is known and is currently being rectified.

## C. Web/Social Media/Digital Displays/FM Radio

### **System Description**

FIU Media Relations directs all web resources, outdoor digital display boards and coordinates with FIU radio so that they can be used as a medium during emergency notification.



Screen shot of the "light" version of the FIU main webpage that was used during the September 21<sup>st</sup>, 2010 test. During the October 21<sup>st</sup> 2011 test, the regular FIU page with a small banner on the top was used to test the system.

# **Issues/Solutions**

None of the indoor digital display boards were utilized during this test due to the decentralization of the management of these boards. Thus, it is impossible to activate and send an emergency notification message to all indoor digital display boards simultaneously. Currently, a pilot project is underway that may provide this capability in the future.

**Section V:** Survey Results

Sample size for the survey was 1,030. The questions and results are as follows:

# 1. What best describes your affiliation to Florida International University?

| # | Answer  | Response | %    |
|---|---------|----------|------|
| 1 | Student | 612      | 62%  |
| 2 | Faculty | 105      | 11%  |
| 3 | Staff   | 275      | 28%  |
|   | Total   | 992      | 100% |

2. On October 21st, 2011 at 10:00 a.m., the University conducted a University-wide test of the emergency notification system. How did you receive the test message? (Mark all that apply)

| # | Answer  | Response | %   |
|---|---|----------|-----|
| 1 | Cell phone text<br>message (FIU<br>Alert!)          | 229      | 23% |
| 2 | University<br>telephone<br>system                   | 353      | 35% |
| 3 | Outdoor speaker                                     | 174      | 17% |
| 4 | FIU Website   | 39       | 4%  |
| 5 | University email                                    | 597      | 60% |
| 6 | Facebook or<br>Twitter                              | 31       | 3%  |
| 7 | FIU Radio<br>Radiate FM<br>WRGP 88.1 and<br>or 95.3 | 1        | 0%  |
| 8 | Friend / co-<br>worker                              | 7        | 1%  |
| 9 | I did not receive<br>it                             | 113      | 11% |

# 3. Where were you located when the test alert was sent out?

| # | Answer                    | Response | %    |
|---|---------------------------|----------|------|
| 1 | On campus outdoors        | 60       | 6%   |
| 2 | On campus indoors         | 473      | 47%  |
| 3 | Off campus                | 389      | 39%  |
| 4 | Did not receive the alert | 81       | 8%   |
|   | Total                     | 1,003    | 100% |

# 4. If you did receive the test message, how long after 10:00 am did you receive the message?

| # | Answer                  | Response | %    |
|---|-------------------------|----------|------|
| 1 | Within 5<br>minutes     | 401      | 42%  |
| 2 | Between 5 to 10 minutes | 124      | 13%  |
| 5 | More than 10 minutes    | 233      | 24%  |
| 6 | Did not receive alert   | 203      | 21%  |
|   | Total                   | 961      | 100% |

# 5. If you did not receive the alert, why did you not receive it? (Mark all that apply)

| # | Answer  | Response | %   |
|---|---|----------|-----|
| 1 | Could not hear the alert clearly                            | 41       | 17% |
| 2 | Not signed up to receive alerts                             | 78       | 33% |
| 3 | Equipment malfunction (Please briefly describe the problem) | 13       | 5%  |
| 4 | Other (Please<br>briefly describe<br>problem)               | 114      | 48% |

### Section VI: Conclusions

- A. FIU alerts registration for faculty and staff has been made part of the myaccounts.fiu.edu website and has increased the participation of said group. The new group will be tested in the next cycle.
- B. Additional training has been conducted for the Police Communications Operators (PCOs). Specifically, making it required for PCOs to issue limited internal test alerts during each shift to ensure PCOs remain comfortable with all facets of the WENS™ and InformaCast Systems™. This regular training has significantly reduced the time it takes for an alert to be initiated.
- C. University-wide, emergency notification tests still remain the most effective way to identify weaknesses or vulnerabilities in the system. These tests must continue on a regular basis at least once a semester. A system that utilizes the university's cable television system is in the process of being implemented and will greatly expand the reach and accessibility of the alerts and may be tested in future cycles of the test.
- D. Continue to evaluate the effectiveness of the system via a survey after each emergency notification test. This will provide an opportunity to measure expectations, impacts and improvements.

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

# Finance and Audit Committee

March 14, 2012

Subject: Division of Research Report, July – December 2011

# **Proposed Committee Action:**

None. For information only.

# **Background Information:**

The Division of Research Report presents data for the first six months of 2011-2012 (fiscal year 2012). The Report provides an overview of performance regarding research awards and research grant applications. The Report also provides an update on ongoing initiatives.

**Supporting Documentation:** Division of Research Report, *July – December 2011* 

Facilitator/Presenter: Andres G. Gil

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# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES FINANCE AND AUDIT COMMITTEE

# **DIVISION OF RESEARCH**

# **JULY TO DECEMBER 2011 REPORT**

#### I. Introduction

This document presents Division of Research (DoR) data for the first six months of 2011-2012 (FY 2012). In <u>Section II</u>, we present an overview of performance regarding research awards and research grant applications. An update on ongoing initiatives is presented in <u>Section III</u>.

# II. Overview of Awards, Applications, and F&A

The data presented in <u>Table 1</u> compares awards received by unit (academic and/or administrative) during the first six months of FY 2011 with those received during the same period in FY 2012. The total amount received in grants during FY 2012 totaled \$52.66 million, which represents a 6.8% decrease. Despite this decrease for the first half of the fiscal year, we remain optimistic that at the end of the fiscal year there will be growth in research awards. Nevertheless, the current funding environment is challenging at both the federal and state levels. Additionally, the timing of expected awards is unpredictable. For example, three large grants for the Center for Children and Families that were slated to be funded in September 2011, were funded in January 2012.

<u>Figure 1</u> presents the changes in new awards for each of the colleges. During this period, awards for colleges/schools decreased by 8%, from \$46.62M in FY 2011 to \$42.9M in FY 2012. Nevertheless, the College of Arts and Sciences (CAS) experienced a 9.2% growth when compared to the same period last year. Noteworthy awards include \$5.995M for the West Africa Water Supply project; \$3.27M for a project on the effects of the Deep Water Horizon incident; \$1.24M received by CRUSADA; \$1.18M received by CIARA, and \$1.06M for the Disaster Risk Reduction project in Latin America.

<u>Figure 2</u> presents the average award F&A rate (overhead) by college or school. The overall F&A rate for all awards received was 22%, which remains within our goal of approximately 50% of the full rate of 45%. There was an increase in F&A rates among most colleges.

Awards received by Centers, Institutes and Museums are presented by unit in <u>Table 2</u>. Overall, Centers, Institutes, and Museums experienced a 10.4% decrease in awards. However, CRUSADA received \$1.448M in awards during this period, reflecting a 264.77% increase when compared to last year. The Women's Studies Center also shows

an increase (246.9%) when compared with the same period last fiscal year. While overall awards for Centers, Institutes and Museums decreased, the effective facilities and administrative cost (F&A) is higher – 28.8% versus 23.8% for the same period last fiscal year.

<u>Table 3</u> illustrates the distribution of new research awards by three categories: Federal, State, and Private/Other.

<u>Table 4</u> presents the funding value of applications submitted by colleges. The value of applications submitted during the first half of the fiscal year increased by 57.18% compared to the same period last fiscal year. Not only did the number of applications submitted increase during this period (343 in FY 2012, 303 in FY 2011), but so did the average value of applications —\$1.23M during this period versus \$0.48M during last fiscal year.

<u>Table 5</u> presents the same information on applications submitted by Centers, Institutes, and Museums. Notable increases in the value of applications submitted include the Center for Children and Families (348.93%), and the Center for Diversity in Engineering and Computing (1647.09%).

# III. Initiatives Update

As reported in the last BOT update, we have established the University Graduate School/Division of Research Graduate Research Center. The Center is a joint effort between DoR and UGS to increase the number of FIU graduate students supported by external fellowships. The Center was inaugurated in July 2011. For the first six months of FY 2011-2012, the center produced fellowship applications for 25 FIU graduate students. Although winners of the awards have not been announced, the combined value of the fellowships amounts to roughly \$2.4 million in potential awards from agencies such as NIH, NSF, and EPA. Applications included eight from Psychology, six from Biology, three from Chemistry, two from Mechanical and Materials Engineering, two from Physics, and one each from Computer Science, Curriculum and Instruction, Environmental and Occupational Health, and Global & Sociocultural Studies.

This year the Division of Research is initiating a research development initiative that focuses on providing greater support for our faculty in their research endeavors. The initiative focuses on mentoring of junior faculty, providing grant writing support, creating and supporting interdisciplinary research teams, and providing more tools for grant writing efforts. The initiative contains ten interrelated parts, and is summarized below:

# 10-Step "Upstream" Research Development Initiative

- 1. *Homegrown workshops/roundtables using FIU experienced faculty (February 2012)* will occur monthly, and beginning in July 2012 will use DoR Mentors-in-Residence (see below).
- 2. *Foster more visits by federal program officers* We have partnered with UM, FAU, Barry, St. Thomas, MDC, and FMU, targeting 1-2 visits per semester. The first visit has been scheduled for February 2012.
- 3. *Quarterly Awards Newsletters* (*April* 2012) will list PIs and Co-Is, and will include selected stories from PIs regarding all the steps the team took to obtain the funding.
- 4. *Successful Proposal Collections* (*February 2012*) We will obtain copies of successful grants through the "Freedom of Information Act." Additionally, several FIU faculty members have already agreed to share copies of their successful proposals.
- 5. DoR Mentors-in-Residence Program and Coordination of Mentoring with Colleges (Summer 2012) The Mentors-in-Residence Program will consist of cohorts of grantfunded experienced faculty members (2-3 per cohort) who will be based at DoR for two semesters (spring-summer and summer-fall) to provide mentoring to less experienced faculty submitting grants. Both cohorts will overlap during the summer semester in an attempt to make summers a semester of high grant writing intensity. Mentors-in-Residence efforts will be coordinated with the new Faculty Mentoring Program initiated in Arts & Sciences, which will be joined by the College of Engineering (<a href="http://casgroup.fiu.edu/mentor/">http://casgroup.fiu.edu/mentor/</a>).
- 6. Research Forums and Interdisciplinary Research Networks (Ongoing) Grant sponsors are increasingly interested in broad interdisciplinary themes. Additionally, funding opportunities are increasingly requiring quick "turn-around" (often 45 days). We will create Interdisciplinary Networks consisting of faculty working together on common areas of interest with administrative support from DoR. The existing Faculty Research Support Program (FRSP) [internal research funding opportunities] will be focused toward these networks. The first network, focusing on nuclear research, has already been established.
- 7. Proactive effort to place more FIU faculty in federal Grant Review Panels (ongoing)—Serving on review panels is like graduate education in grant writing. Federal agencies need new reviewers each year and are seeking to enhance diversity. DoR will focus on connecting PIs with program officials (PO's) and offering reviewers with specific expertise.

- 8. Coaching and Editing of Grant Applications Grant writers in colleges and/or DoR (February 2012) DoR will provide central support and will partner with colleges to provide grant writer support.
- 9. *Development of better online tutorials for grant writing (March* **2012)**—The new DoR website will have online tutorials for grant writing.
- 10. *Provide opportunities for internal reviews of proposals (Summer 2012)* DoR will encourage a culture of proposal reviews prior to application submission. Grant reviewers will be recruited from the Vice President's Research Advisory Council, from college mentoring programs, and from DoR Mentors-in-Residence.

| Table 1: Comparison of Awards Received                              |                   |                           |              |              |                           |              |               |  |
|---|-------------------|---------------------------|--------------|--------------|---------------------------|--------------|---------------|--|
| Callege/Division  | July              | July 2010 - December 2010 |              |              | July 2011 - December 2011 |              |               |  |
| College/Division  | Direct            | F&A                       | Total        | Direct       | F&A                       | Total        | change        |  |
| Academic Affairs (AA)   | \$7,366,749       | \$2,386,161               | \$9,752,910  | \$6,235,836  | \$2,021,530               | \$8,257,366  | -15.3%        |  |
| Chaplin School of Hospitality and Tourism<br>Management (CSHTM)     | \$70,965          | \$0                       | \$70,965     | \$0          | \$0                       | \$0          | N/A           |  |
| College of Architecture and the Arts (CARTA)                        | \$20,000          | \$0                       | \$20,000     | \$13,829     | \$0                       | \$13,829     | -30.9%        |  |
| College of Arts and Sciences (CAS) *                                | \$20,445,257      | \$3,730,209               | \$24,175,466 | \$21,795,780 | \$4,606,908               | \$26,402,688 | 9.2%          |  |
| College of Business Administration (CBA) *                          | \$904,196         | \$94,697                  | \$998,893    | \$616,693    | \$78,978                  | \$695,671    | -30.4%        |  |
| College of Education (CoE)  | \$3,003,661       | \$159,473                 | \$3,163,134  | \$2,586,543  | \$261,484                 | \$2,848,027  | -10.0%        |  |
| College of Engineering and Computing (CEC)                          | \$7,410,676       | \$1,407,618               | \$8,818,294  | \$6,867,836  | \$1,644,697               | \$8,512,533  | -3.5%         |  |
| College of Law (CoL)  | \$641             | \$0                       | \$641        | \$0          | \$0                       | \$0          | N/A           |  |
| College of Nursing and Health Sciences (CNHS)                       | \$1,175,814       | \$177,283                 | \$1,353,097  | \$526,022    | \$214,575                 | \$740,597    | -45.3%        |  |
| Division of Finance (Fin)   | \$0               | \$0                       | \$0          | \$99,918     | \$26,978                  | \$126,896    | N/A           |  |
| Division of IT/CIARA (IT)   | \$937,069         | \$72,203                  | \$1,009,272  | \$1,688,024  | \$221,434                 | \$1,909,458  | 89.2%         |  |
| Division of Student Affairs (SA)                                    | \$1,145,516       | \$84,393                  | \$1,229,909  | \$1,446,016  | \$104,887                 | \$1,550,903  | 26.1%         |  |
| Herbert Wertheim College of Medicine (HWCoM)                        | \$3,097,151       | \$1,229,742               | \$4,326,893  | \$562,324    | \$229,969                 | \$792,293    | -81.7%        |  |
| Robert Stempel College of Public Health and Social Work (RSCPHSW) * | \$2,533,387       | \$651,458                 | \$3,184,845  | \$2,055,703  | \$453,951                 | \$2,509,654  | -21.2%        |  |
| School of Journalism and Mass<br>Communication (SJMC)               | \$419,603         | \$97,397                  | \$517,000    | \$328,601    | \$77,636                  | \$406,238    | -21.4%        |  |
| TOTAL   | \$46,656,732      | \$9,865,454               | \$56,522,186 | \$43,178,220 | \$9,484,647               | \$52,662,867 | <b>-6.8</b> % |  |
| The effective/average F&A rate                                      | ge F&A rate 21.1% |                           |              | 22.0%        |                           |              |               |  |

<sup>\*</sup> The following are <u>NOT</u> reflected in the "TOTAL" above, but are included in the respective colleges, thus "double counted."

|                                      | FY 2010-2011 | FY 2011-2012 |
|--------------------------------------|--------------|--------------|
| Included in AA (IHRC) and CAS        | \$215,649    | \$33,500     |
| Included in AA (IHRC) and CBA        | \$464,781    | \$505,780    |
| Included in AA (IHRC) and CEC        | \$1,087,328  | \$115,329    |
| Included in AA (CRUSADA) and RSCPHSW | \$331,375    | \$1,448,677  |

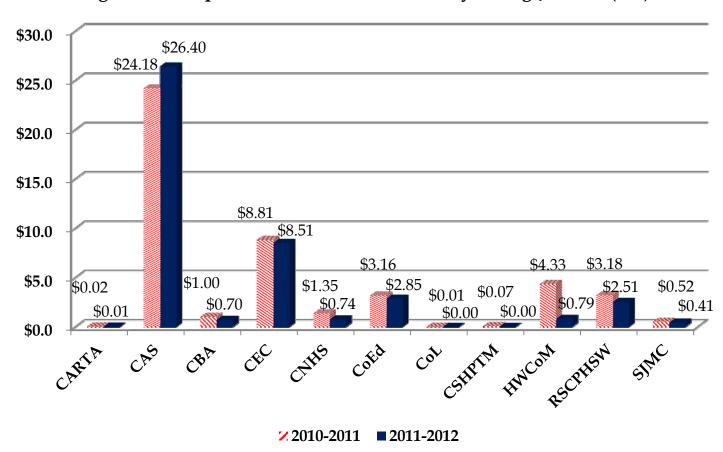
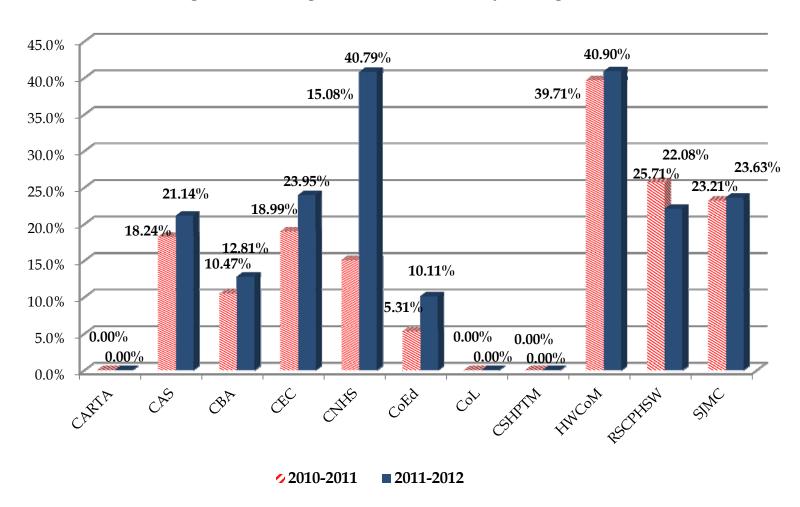


Figure 1: Comparison of Awards Received by College/School (\$M)

DoR Report to BOT—March 2012 Page 6 of 12





**Table 2: Comparison of Awards Received by Centers, Institutes, Museums** 

| College/Division  | July 20     | 010 - December | 2010        | July 20     | 0/0         |             |          |
|---|-------------|----------------|-------------|-------------|-------------|-------------|----------|
| College/Division  | Direct      | F&A            | Total       | Direct      | F&A         | Total       | change   |
| Academic Affairs  |             |                |             |             |             |             |          |
| Applied Research Center (ARC)   | \$3,230,056 | \$1,701,498    | \$4,931,554 | \$2,559,694 | \$1,067,403 | \$3,627,097 | -26.45%  |
| CRUSADA   | \$297,682   | \$99,462       | \$397,144   | \$1,078,224 | \$370,452   | \$1,448,677 | 264.77%  |
| Frost Art Museum  | \$130,158   | \$0            | \$130,158   | \$41,895    | \$0         | \$41,895    | -67.81%  |
| Int'l Hurricane Research Center (IHRC)                                | \$1,576,271 | \$125,718      | \$1,701,989 | \$566,682   | \$87,927    | \$654,609   | -61.54%  |
| The Wolfsonian  | \$99,714    | \$0            | \$99,714    | \$0         | \$0         | \$0         | N/A      |
| College of Arts and Sciences  |             |                |             |             |             |             |          |
| Center for Administration of Justice (CAJ)                            | \$538,011   | \$61,989       | \$600,000   | \$0         | \$0         | \$0         | N/A      |
| Center for Children and Families (CCF)                                | \$663,619   | \$179,058      | \$842,677   | \$329,576   | \$75,760    | \$405,336   | -51.90%  |
| Center for Labor Research and Studies (CLRS)                          | \$28,571    | \$1,429        | \$30,000    | \$0         | \$0         | \$0         | N/A      |
| Institute for Asian Studies (IAS)                                     | \$41,647    | \$0            | \$41,647    | \$0         | \$0         | \$0         | N/A      |
| Institute for Child Health and Development (ICHAD)                    | \$0         | \$0            | \$0         | \$25,794    | \$11,607    | \$37,401    | N/A      |
| International Forensic Research Institute (IFRI)                      | \$750,621   | \$160,437      | \$911,058   | \$582,114   | \$195,279   | \$777,393   | -14.67%  |
| Jack D. Gordon Institute for Public Policy and<br>Citizenship Studies | \$246,206   | \$18,496       | \$264,702   | \$175,273   | \$6,807     | \$182,080   | -31.21%  |
| Latin American and Caribbean Center (LACC)                            | \$1,061,441 | \$260,399      | \$1,321,840 | \$889,553   | \$306,739   | \$1,196,293 | -9.50%   |
| Metropolitan Center   | \$539       | \$145          | \$684       | \$30,372    | \$5,528     | \$35,900    | 5148.54% |
| Southeast Environmental Research Center (SERC)                        | \$4,923,136 | \$1,211,775    | \$6,134,911 | \$5,360,796 | \$1,691,412 | \$7,052,207 | 14.95%   |
| Women's Studies Center  | \$211,134   | \$21,114       | \$232,248   | \$629,200   | \$176,465   | \$805,665   | 246.90%  |
| College of Business   |             |                |             |             |             |             |          |
| Center for International Business Education and Research              | \$362,074   | \$28,726       | \$390,800   | \$162,584   | \$13,007    | \$175,591   | -55.07%  |
| Eugenio Pino and Global Entrepreneurship<br>Center                    | \$129,012   | \$0            | \$129,012   | \$0         | \$0         | \$0         | N/A      |
| College of Engineering and Computing                                  |             |                |             |             |             |             |          |
| Center for Diversity in Engineering and<br>Computing                  | \$1,766,228 | \$144,560      | \$1,910,788 | \$496,587   | \$48,321    | \$544,908   | -71.48%  |

| Table 2: Comparison of Awards Received by Centers, Institutes, Museums |              |               |                |              |              |              |         |  |
|--|--------------|---------------|----------------|--------------|--------------|--------------|---------|--|
| C II D' ' '  | July 20      | 10 - December | r <b>201</b> 0 | July 20      | 11 - Decembe | er 2011      | 0/0     |  |
| College/Division   | Direct       | F&A           | Total          | Direct       | F&A          | Total        | change  |  |
| Division of Student Affairs  |              |               |                |              |              |              |         |  |
| Children's Creative Learning Center (CCLC)                             | \$273,166    | \$21,511      | \$294,677      | \$272,981    | \$21,839     | \$294,820    | 0.05%   |  |
| School of Journalism & Mass Communication                              |              |               |                |              |              |              |         |  |
| Institute for Public Opinion Research (IPOR)                           |              |               |                |              |              |              |         |  |
| International Media Center (IMC)                                       | \$374,603    | \$97,397      | \$472,000      | \$298,601    | \$77,636     | \$376,238    | -20.29% |  |
| Division of Information Technology                                     |              |               |                |              |              |              |         |  |
| CIARA: Center for Internet Augmented<br>Research                       | \$937,069    | \$72,203      | \$1,009,272    | \$1,688,024  | \$221,434    | \$1,909,458  | 89.19%  |  |
| Total  | \$17,640,958 | \$4,205,917   | \$21,846,875   | \$15,187,951 | \$4,377,616  | \$19,565,567 | -10.4%  |  |
| Effective F&A rate 23.8% 28.8%   |              |               |                |              |              |              |         |  |

| Table 3: Awards by Sponsor Type  |                |              |              |         |  |  |  |
|--|----------------|--------------|--------------|---------|--|--|--|
| July 2010 - December 2010  |                |              |              |         |  |  |  |
| Funding Source Awarded Direct Costs Awarded F&A Awarded Total Percentage |                |              |              |         |  |  |  |
| Federal Government   | \$38,235,880   | \$8,805,198  | \$47,041,078 | 83.23%  |  |  |  |
| State and Local Government   | \$2,823,980    | \$332,316    | \$3,156,296  | 5.58%   |  |  |  |
| Private / Other Sources  | \$5,596,872    | \$727,940    | \$6,324,812  | 11.19%  |  |  |  |
| TOTAL  | \$46,656,732   | \$9,865,454  | \$56,522,186 | 100.00% |  |  |  |
|  | July 2011 - De | ecember 2011 |              |         |  |  |  |
| Federal Government   | \$35,678,500   | \$7,972,263  | \$43,650,763 | 82.89%  |  |  |  |
| State and Local Government   | \$1,899,585    | \$244,324    | \$2,143,909  | 4.07%   |  |  |  |
| Private / Other Sources  | \$5,600,135    | \$1,268,060  | \$6,868,196  | 13.04%  |  |  |  |
| TOTAL  | \$43,178,220   | \$9,484,647  | \$52,662,867 | 100.00% |  |  |  |

**Table 4: Comparison of Applications Submitted by Colleges** 

| Callaga (Sahaa) (Cantay/Division                           | July 2010 - December 2010 |              |               | July 2        | %            |               |         |
|--|---------------------------|--------------|---------------|---------------|--------------|---------------|---------|
| College/School/Center/Division                             | Direct                    | F&A          | Total         | Direct        | F&A          | Total         | change  |
| Academic Affairs   | \$9,463,841               | \$3,237,147  | \$12,700,988  | \$13,548,152  | \$3,588,352  | \$17,136,504  | 34.92%  |
| Chaplin School of Hospitality and<br>Tourism Management    | \$115,750                 | \$0          | \$115,750     | \$0           | \$0          | \$0           | N/A     |
| College of Architecture and the Arts                       | \$0                       | \$0          | \$0           | \$13,829      | \$0          | \$13,829      | N/A     |
| College of Arts and Sciences                               | \$47,759,512              | \$11,348,152 | \$59,107,664  | \$54,791,863  | \$10,522,187 | \$65,314,050  | 10.50%  |
| College of Business Administration                         | \$143,312                 | \$0          | \$143,312     | \$28,600      | \$0          | \$28,600      | -80.04% |
| College of Education                                       | \$6,904,611               | \$860,021    | \$7,764,632   | \$6,224,266   | \$795,445    | \$7,019,711   | -9.59%  |
| College of Engineering and<br>Computing                    | \$31,519,958              | \$9,571,008  | \$41,090,966  | \$101,194,130 | \$13,380,757 | \$114,574,887 | 178.83% |
| College of Nursing and Health<br>Sciences                  | \$5,435,120               | \$665,657    | \$6,100,777   | \$1,619,764   | \$425,962    | \$2,045,726   | -66.47% |
| Division of Information<br>Technology/CIARA                | \$184,327                 | \$71,061     | \$255,388     | \$242,223     | \$57,777     | \$300,000     | 17.47%  |
| Division of Student Affairs                                | \$482,874                 | \$17,037     | \$499,911     | \$133,485     | \$0          | \$133,485     | -73.30% |
| Herbert Wertheim College of<br>Medicine                    | \$1,609,762               | \$555,729    | \$2,165,491   | \$2,970,429   | \$1,148,374  | \$4,118,803   | 90.20%  |
| Robert Stempel College of Public<br>Health and Social Work | \$10,703,917              | \$2,998,967  | \$13,702,884  | \$12,177,489  | \$3,603,724  | \$15,781,213  | 15.17%  |
| School of Journalism and Mass<br>Communication             | \$902,799                 | \$223,027    | \$1,125,826   | \$897,272     | \$192,985    | \$1,090,257   | -3.16%  |
| TOTAL  | \$115,225,783             | \$29,547,806 | \$144,773,589 | \$193,841,502 | \$33,715,563 | \$227,557,065 | 57.18%  |
| Effective/average F&A rate 25.6%                           |                           |              |               | 17.4%         |              |               |         |

| Table 5: Comparison of Applications Submitted by Centers, Institutes, Museums |                           |             |             |             |           |              |          |  |
|---|---------------------------|-------------|-------------|-------------|-----------|--------------|----------|--|
| Calle and Distriction   | July 2010 - December 2010 |             |             | July 20     | %         |              |          |  |
| College/Division  | Direct                    | F&A         | Total       | Direct      | F&A       | Total        | change   |  |
| Academic Affairs  |                           |             |             |             |           |              |          |  |
| Applied Research Center (ARC)   | \$3,429,316               | \$1,003,378 | \$4,432,694 | \$993,003   | \$372,433 | \$1,365,436  | -69.20%  |  |
| CRUSADA: Center for Research on US Latino AIDS/HIV/Drug Abuse                 | \$4,308,002               | \$1,865,766 | \$6,173,768 | \$63,872    | \$0       | \$63,872     | -98.97%  |  |
| Frost Museum  | \$38,950                  | \$6,467     | \$45,417    | \$126,000   | \$0       | \$126,000    | 177.43%  |  |
| International Hurricane Research Center (IHRC)                                | \$863,491                 | \$151,288   | \$1,014,779 | \$332,801   | \$134,865 | \$467,666    | -53.91%  |  |
| The Wolfsonian FIU  | \$60,951                  | \$0         | \$60,951    | \$0         | \$0       | \$0          | N/A      |  |
| College of Arts and Sciences  |                           |             |             |             |           |              |          |  |
| Center for Children and Families (CCF)  | \$274,991                 | \$71,498    | \$346,489   | \$1,081,395 | \$474,085 | \$1,555,480  | 348.93%  |  |
| Center for Labor Research and Studies (CLRS)                                  | \$65,268                  | \$4,732     | \$70,000    | \$0         | \$0       | \$0          | N/A      |  |
| International Forensic Research Institute (IFRI)                              | \$2,977,920               | \$18,967    | \$2,996,887 | \$51,013    | \$13,773  | \$64,786     | -97.84%  |  |
| Jack D. Gordon Institute for Public Policy and<br>Citizenship Studies         | \$214,219                 | \$49,747    | \$263,966   | \$66,296    | \$3,704   | \$70,000     | -73.48%  |  |
| Latin American and Caribbean Center (LACC)                                    | \$0                       | \$0         | \$0         | \$76,000    | \$3,998   | \$79,998     | N/A      |  |
| Metropolitan Center   | \$568,526                 | \$136,358   | \$704,884   | \$115,833   | \$17,567  | \$133,400    | -81.07%  |  |
| Southeast Environmental Research Center (SERC)                                | \$2,156,425               | \$590,178   | \$2,746,603 | \$1,457,257 | \$339,208 | \$1,796,465  | -34.59%  |  |
| Women's Study Center  | \$2,262,071               | \$365,038   | \$2,627,109 | \$0         | \$0       | \$0          | N/A      |  |
| College of Business Administration  |                           |             |             |             |           |              |          |  |
| Eugenio Pino and Global Entrepreneurship<br>Center                            | \$129,012                 | \$0         | \$129,012   | \$0         | \$0       | \$0          | N/A      |  |
| College of Engineering and Computing  |                           |             |             |             |           |              |          |  |
| Center for Diversity in Engineering and Computing                             | \$563,674                 | \$52,516    | \$616,190   | \$9,963,937 | \$801,435 | \$10,765,372 | 1647.09% |  |
| Division of Information Technology  |                           |             |             |             |           |              |          |  |
| CIARA: Center for Internet Augmented<br>Research                              | \$184,327                 | \$71,061    | \$255,388   | \$242,223   | \$57,777  | \$300,000    | 17.47%   |  |

| Table 5: Comparison of Applications Submitted by Centers, Institutes, Museums |                           |             |              |              |             |              |                 |
|---|---------------------------|-------------|--------------|--------------|-------------|--------------|-----------------|
| Callaga/Division  | July 2010 - December 2010 |             |              | July 20      | 0/0         |              |                 |
| College/Division  | Direct                    | F&A         | Total        | Direct       | F&A         | Total        | change          |
| School of Journalism and Mass Communication                                   |                           |             |              |              |             |              |                 |
| International Media Center (IMC)  | \$857,799                 | \$223,027   | \$1,080,826  | \$445,461    | \$107,367   | \$552,828    | -48.85%         |
| Total   | \$18,954,942              | \$4,610,021 | \$23,564,963 | \$15,015,091 | \$2,326,212 | \$17,341,303 | <b>-26.41</b> % |
| Effective F&A rate  |                           | 24.32%      |              |              | 15.49%      |              |                 |

# THE FLORIDA INTERNATIONAL UNIVERSITY BOARD OF TRUSTEES

# Finance and Audit Committee

March 14, 2012

Subject: Review of Financial and Operational Audits for Fiscal Year Ended June 30, 2011

# **Proposed Committee Action:**

None. Discussion Item.

# Background information:

The results of the State of Florida Auditor General's Financial and Operational Audits of the University for the fiscal year ended June 30, 2011 are submitted for Board of Trustees review.

**Supporting Documentation:** Financial Audit for Fiscal Year ended June 30, 2011

Operational Audit for Fiscal Year ended June 30, 2011

Facilitator/Presenter: Kenneth A. Jessell

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# FLORIDA INTERNATIONAL UNIVERSITY

# **Financial Audit**

For the Fiscal Year Ended June 30, 2011



STATE OF FLORIDA AUDITOR GENERAL DAVIDW. MARTIN, CPA

# BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Albert Maury, Chair from 3-30-11, Vice Chair to 3-29-11 (1) Michael M. Adler, Vice Chair from 3-30-11 Albert E. Dotson, Sr., to 3-21-11, Chair to 1-06-11 Sukrit Agrawal Cesar L. Alvarez Dr. Jose J. Armas from 3-22-11 Jorge L. Arrizurieta Thomas A. Breslin (2) Joseph L. Caruncho Marcelo Claure Mayi de la Vega from 3-22-11 S. Lawrence Kahn, III, to 6-21-11 (3) Miriam Lopez to 1-20-11 (4) Patrick O'Keefe from 5-01-11 (5) Claudia Puig Helena Ramirez to 4-30-11 (5)

## Dr. Mark B. Rosenberg, President

Notes: (1) Chair position remained vacant from January 7, 2011, through March 29, 2011.

(2) Faculty senate chair.

(3) Position remained vacant from June 22, 2011, through June 30, 2011.

(4) Position remained vacant from January 21, 2011, through March 21, 2011.

(5) Student body president.

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

The audit team leader was Pierre Chammas, and the audit was supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at <a href="mailto:imstultz@aud.state.fl.us">imstultz@aud.state.fl.us</a> or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at <a href="https://www.myflorida.com/audgen">www.myflorida.com/audgen</a>; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

# FLORIDA INTERNATIONAL UNIVERSITY TABLE OF CONTENTS

|  | PAGE<br>NO. |
|--|-------------|
| EXECUTIVE SUMMARY  | i           |
| INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS   | 1           |
| MANAGEMENT'S DISCUSSION AND ANALYSIS   | 3           |
| BASIC FINANCIAL STATEMENTS   |             |
| Statement of Net Assets  | 11          |
| Statement of Revenues, Expenses, and Changes in Net Assets   | 13          |
| Statement of Cash Flows  | 14          |
| Notes to Financial Statements  | 16          |
| OTHER REQUIRED SUPPLEMENTARY INFORMATION   |             |
| Schedule of Funding Progress - Other Postemployment Benefits Plan  | 49          |
| Notes to Required Supplementary Information  | 50          |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 51          |
| Internal Control Over Financial Reporting  | 51          |
| Compliance and Other Matters   |             |

#### **EXECUTIVE SUMMARY**

#### **Summary of Report on Financial Statements**

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

## Summary of Report on Internal Control and Compliance

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

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

#### **Audit Objectives and Scope**

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

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

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2011. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2012-092.

#### **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.



DAVID W. MARTIN, CPA AUDITOR GENERAL

# AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534 FAX: 850-488-6975

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

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida 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, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida International University and of its aggregate discretely presented component units as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

Respectfully submitted,

David W. Martin, CPA

March 2, 2012

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2011, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

#### FINANCIAL HIGHLIGHTS

The University's assets totaled \$1.2 billion at June 30, 2011. This balance reflects a \$70.1 million, or 6.1 percent, increase from the 2009-10 fiscal year, resulting primarily from an increase in net capital assets of \$36.8 million, amounts due from the State, used for construction related projects of \$9.7 million and an increase in cash and investments of \$19.5 million. While assets increased, liabilities decreased by \$0.3 million, totaling \$350.2 million at June 30, 2011, compared to \$350.5 million at June 30, 2010. As a result, the University's net assets increased by \$70.4 million, reaching a year-end balance of \$876.6 million.

The University's operating revenues totaled \$377 million for the 2010-11 fiscal year, representing an 11 percent increase over the 2009-10 fiscal year due mainly to an increase in net student tuition and fees of \$18.6 million, an increase in grant and contract revenues of \$7.7 million and an increase in sales and services revenue of \$11.9 million. Operating expenses totaled \$695.7 million for the 2010-11 fiscal year, representing an increase of 11.3 percent over the 2009-10 fiscal year due mainly to an increase in compensation and employee benefits expense of \$36.5 million, an increase in services and supplies expense of \$13.1 million, and an increase in scholarships, fellowships, and waivers expense of \$17.8 million.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

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

#### Florida International University Foundation, Inc.

The purpose of the Florida International University Foundation, Inc., is to encourage, solicit, receive, and administer gifts and bequests of property and funds for the advancement of Florida International University and its objectives.

#### Florida International University Research Foundation, Inc.

The purpose of the Florida International University Research Foundation, Inc., includes the promotion and encouragement of, and assistance to, the research and training activities of faculty, staff, and students of Florida International 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

The purpose of the FIU Athletics Finance Corporation includes the support to the University in matters pertaining to the financing of the FIU football stadium and, subsequently, the managing and operating of the facility.

# FIU Academic Health Center Health Care Network Faculty Group Practice, Inc.

The purpose of the FIU Academic Health Center Health Care Network Faculty Group Practice, Inc., is to improve and support health education at FIU.

# FIU College of Medicine Self-Insurance Program

The purpose of the FIU Self-Insurance Program is to provide 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's faculty, staff and resident physicians.

Based upon the application of the criteria for determining component units, the Self-Insurance Program is included within the University reporting entity as a blended component unit, and the Foundation, Research Foundation, Athletics Finance Corporation, and Academic Health Center Health Care Network Faculty Group Practice are included within the University reporting entity as discretely presented component units. Information regarding these component units, including summaries of the discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the component units. For those component units reporting under GASB standards, MD&A information is included in their separately issued audit reports.

#### THE STATEMENT OF NET ASSETS

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

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

# Condensed Statement of Net Assets at June 30 (In Millions)

|  | 2011                      | 2010                      |
|--|---------------------------|---------------------------|
| Assets Current Assets Capital Assets, Net Other Noncurrent Assets                  | \$ 441.6<br>757.0<br>28.2 | \$ 396.6<br>720.2<br>39.9 |
| Total Assets   | 1,226.8                   | 1,156.7                   |
| Liabilities Current Liabilities Noncurrent Liabilities                             | 185.8<br>164.4            | 187.7<br>162.8            |
| Total Liabilities  | 350.2                     | 350.5                     |
| Net Assets Invested in Capital Assets, Net of Related Debt Restricted Unrestricted | 633.2<br>45.2<br>198.2    | 588.2<br>39.5<br>178.5    |
| Total Net Assets   | \$ 876.6                  | \$ 806.2                  |

The statement of net assets reflects the University's growth, primarily its continued physical expansion to meet student and faculty needs. Total assets increased by \$70.1 million, or 6.1 percent, while total liabilities decreased by \$0.3 million, or 0.1 percent. As a result, the net assets balance at June 30, 2011, had a favorable increase of \$70.4 million to \$876.6 million. This ending balance included \$633.2 million invested in capital assets, net of related debt, \$45.2 million in restricted funds, and \$198.2 million in unrestricted funds, which increased \$19.7 million.

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

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

The following summarizes the University's activity for the 2010-11 and 2009-10 fiscal years:

# Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Millions)

|  | 2010-11 |                  | 2  | 009-10           |
|--|---------|------------------|----|------------------|
| Operating Revenues Operating Expenses  | \$      | 377.0<br>695.7   | \$ | 339.7<br>625.1   |
| Operating Loss Net Nonoperating Revenues   |         | (318.7)<br>356.0 |    | (285.4)<br>319.9 |
| Income (Loss) Before Other Revenues,<br>Expenses, Gains, or Losses<br>Other Revenues, Expenses, Gains, or Losses |         | 37.3<br>33.1     |    | 34.5<br>48.7     |
| Net Increase In Net Assets   |         | 70.4             |    | 83.2             |
| Net Assets, Beginning of Year<br>Adjustments to Beginning Net Assets (1)   |         | 806.2            |    | 701.4<br>21.6    |
| Net Assets, Beginning of Year, as Restated   |         | 806.2            |    | 723.0            |
| Net Assets, End of Year  | \$      | 876.6            | \$ | 806.2            |

Note: (1) The 2009-10 prior period adjustment to recognize a change in reporting State University System Capital Improvement Trust Fund Revenue Bonds. It was determined that these bonds were not debt to the University.

### **Operating Revenues**

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2010-11 and 2009-10 fiscal years:

# Operating Revenues (In Millions)

|   | 2010-11 |                     | 2009-10 |                     |
|---|---------|---------------------|---------|---------------------|
| Net Tuition and Fees Grants and Contracts   | \$      | 167.3<br>90.4       | \$      | 148.7<br>82.7       |
| Sales and Services of Educational Departments Sales and Services of Auxiliary Enterprises Other |         | 0.2<br>109.2<br>9.9 |         | 0.4<br>97.1<br>10.8 |
| Total Operating Revenues  | \$      | 377.0               | \$      | 339.7               |

Operating revenues totaled \$377 million for the 2010-11 fiscal year, representing an 11 percent increase over the 2009-10 fiscal year. This was due to an increase in net student tuition and fees of \$18.6 million, an increase in grant and contract revenues of \$7.7 million, an increase in sales and services revenues of \$11.9 million, and a decrease in other revenues of \$0.9 million.

### **Operating Expenses**

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net assets and has displayed the functional classification in the notes to financial statements.

The following summarizes the operating expenses by natural classifications for the 2010-11 and 2009-10 fiscal years:

# Operating Expenses (In Millions)

|  | 2( | 010-11  | 2009-10 |   |  |
|--|----|---|---------|---|--|
| Compensation and Employee Benefits Services and Supplies Utilities and Communications Scholarships, Fellowships, and Waivers Depreciation Self-Insured Claims and Expenses | \$ | 413.2<br>143.6<br>14.7<br>85.2<br>38.8<br>0.2 | \$      | 376.7<br>130.5<br>13.7<br>67.4<br>36.7<br>0.1 |  |
| Sell-illisuled Claims and Expenses   |    | 0.2   |         | 0.1   |  |
| Total Operating Expenses   | \$ | 695.7   | \$      | 625.1   |  |

Operating expenses totaled \$695.7 million for the 2010-11 fiscal year. This represents an 11.3 percent increase over the 2009-10 fiscal year and was primarily due to an increase in compensation and employee benefits of \$36.5 million, an increase in services and supplies expense of \$13.1 million, and an increase of \$17.8 million in scholarships, fellowships and waivers.

#### Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets.

The following summarizes the University's nonoperating revenues and expenses for the 2010-11 and 2009-10 fiscal years:

## Nonoperating Revenues (Expenses) (In Millions)

|  | 2010-11 |                | 20 | 009-10        |
|--|---------|----------------|----|---------------|
| State Noncapital Appropriations Federal and State Student Financial Aid State Appropriated American Recovery | \$      | 214.1<br>109.9 | \$ | 203.1<br>82.4 |
| and Reinvestment Act Funds   |         | 14.5           |    | 15.1          |
| Investment Income  |         | 23.9           |    | 24.3          |
| Other Nonoperating Revenues  |         | 1.2            |    | 1.0           |
| Loss on Disposal of Capital Assets   |         |                |    | (0.2)         |
| Interest on Capital Asset-Related Debt   |         | (6.3)          |    | (5.7)         |
| Other Nonoperating Expenses  |         | (1.3)          |    | (0.1)         |
| Net Nonoperating Revenues  | \$      | 356.0          | \$ | 319.9         |

Net nonoperating revenues increased by 11.3 percent from the prior year due mainly to an increase of \$27.5 million in Federal and State Student financial aid and an increase of \$11 million in State noncapital appropriations, the increases were partially offset by an increase of \$1.2 million in other nonoperating expenses. The 2010-11 fiscal year is the second and final year the University will receive State appropriated American Recovery and Reinvestment income, which decreased \$0.6 million from the 2009–10 fiscal year.

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

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2010-11 and 2009-10 fiscal years:

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

|   | 2010-11 |             | 2009-10 |             |
|---|---------|-------------|---------|-------------|
| State Capital Appropriations Capital Grants, Contracts, Donations, and Fees | \$      | 31.9<br>1.2 | \$      | 45.8<br>2.9 |
| Total   | \$      | 33.1        | \$      | 48.7        |

Other revenues, expenses, gains, or losses totaled \$33.1 million for the 2010-11 fiscal year. This represents a 32 percent decrease over the 2009-10 fiscal year and was primarily due to a \$13.9 million decrease in State capital appropriations and a decrease of \$1.7 million in capital grants, contracts, donations and fees.

#### 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 2010-11 and 2009-10 fiscal years:

## Condensed Statement of Cash Flows (In Millions)

|  | 2  | 010-11  | _ 2 | 009-10  |
|--|----|---------|-----|---------|
| Cash Provided (Used) by: Operating Activities        | \$ | (281.2) | \$  | (238.4) |
| Noncapital Financing Activities                      | Ψ  | 334.6   | Ψ   | 299.6   |
| Capital and Related Financing Activities             |    | (59.1)  |     | (20.6)  |
| Investing Activities                                 |    | 7.7     |     | (49.2)  |
| Net Increase (Decrease) in Cash and Cash Equivalents |    | 2.0     |     | (8.6)   |
| Cash and Cash Equivalents, Beginning of Year         |    | 8.0     |     | 16.6    |
| Cash and Cash Equivalents, End of Year               | \$ | 10.0    | \$  | 8.0     |

Major sources of funds came from State appropriations (\$229.4 million), net student tuition and fees (\$168.2 million), sales and services of auxiliary enterprises (\$108.5 million), and grants and contracts (\$95.3 million). Major uses of funds included payments made to and on behalf of employees (\$406.4 million), payments to suppliers of goods and services (\$163.3 million), payments to and on behalf of students for scholarships and fellowships (\$85.2 million), and purchase or construction of capital assets (\$76 million).

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

#### **CAPITAL ASSETS**

At June 30, 2011, the University had \$1.2 billion in capital assets, less accumulated depreciation of \$420.8 million, for net capital assets of \$757 million. Depreciation charges for the current fiscal year totaled \$38.8 million. During the 2010-11 fiscal year approximately \$63.5 million was capitalized with the completion of the Social Science & International Studies Building and Parking Garage V.

The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

## Capital Assets, Net at June 30 (In Millions)

|   | 2011 |                     | 2010 |                     |
|---|------|---------------------|------|---------------------|
| Land Works of Art and Historical Treasures Construction in Progress | \$   | 31.0<br>4.3<br>80.6 | \$   | 31.0<br>4.1<br>94.5 |
| Buildings   |      | 534.0               |      | 486.4               |
| Infrastructure and Other Improvements                               |      | 2.0                 |      | 2.3                 |
| Furniture and Equipment   |      | 47.5                |      | 44.6                |
| Library Resources   |      | 56.1                |      | 55.3                |
| Computer Software   |      | 0.9                 |      | 0.8                 |
| Property Under Capital Leases                                       |      | 0.6                 |      | 1.2                 |
| Capital Assets, Net   | \$   | 757.0               | \$   | 720.2               |

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

#### CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2011, included \$2.6 million incurred on the University's Science Classroom Complex. The University's capital construction commitments at June 30, 2011, are as follows:

|                   | Amount            | Amount (In Millions) |  |  |
|-------------------|-------------------|----------------------|--|--|
|                   | (111 14111110113) | _                    |  |  |
| Total Committed   | \$ 226.7          |                      |  |  |
| Completed to Date | (80.6)            |                      |  |  |
| Balance Committed | \$ 146.1          |                      |  |  |

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

#### **DEBT ADMINISTRATION**

As of June 30, 2011, the University had \$125.1 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of \$7 million, or 5.3 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

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

|  | :  | 2011         |    | 2010         |  |
|--|----|--------------|----|--------------|--|
| Capital Improvement Debt Payable<br>Capital Leases Payable | \$ | 124.3<br>0.8 | \$ | 130.7<br>1.4 |  |
| Total  | \$ | 125.1        | \$ | 132.1        |  |

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

#### ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Florida's difficult economic situation is an important factor affecting State appropriations to higher education. For the 2011-12 fiscal year, State noncapital appropriations to FIU decreased by \$19.2 million. This decline in State noncapital appropriations is offset by tuition increases approved by the Legislature and the Florida Board of Governors. The Legislature approved an 8 percent Statewide tuition increase for undergraduate students and a tuition differential that allowed the University to increase undergraduate tuition up to 15 percent.

The FIU College of Medicine (COM) admitted its third class in August 2011. The COM receives line-item appropriations from the Florida Legislature. For the 2011-12 fiscal year, general revenue State noncapital appropriations to the COM increased by \$1.1 million to \$26.3 million. The 2011-12 fiscal year COM budget is aligned with the implementation plan approved by the Board of Governors in July 2007.

FIU will continue to implement its long-range strategic plan for the 2011-12 fiscal year, which incorporates a reduction strategy that minimizes impact on critical operations and strategic areas while increasing funding for the priority areas in accordance with the strategic plan.

The global and national economic situation and the overall State agenda will continue to influence appropriations to higher education. The main factors affecting FIU in the future are its ability to carry out the cost reduction strategies, finding alternate revenue sources through existing and new ventures, and attracting external monetary support, while remaining intently focused on its mission and goals. FIU continues to stay abreast of all actions and potential changes that could have an effect on how its resources are attained and allocated.

#### REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, financial statements and notes thereto, and other required supplemental information, 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 8th Street, Miami, Florida 33199.

#### **BASIC FINANCIAL STATEMENTS**

## FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2011

|  | University       | Component<br>Units |  |
|--|------------------|--------------------|--|
| ASSETS                                   |                  |                    |  |
| Current Assets:                          |                  |                    |  |
| Cash and Cash Equivalents                | \$ 9,152,406     | \$ 26,404,620      |  |
| Investments                              | 259,362,302      | 154,975,957        |  |
| Accounts Receivable, Net                 | 30,047,603       | 42,880,052         |  |
| Loans and Notes Receivable, Net          | 1,498,322        | , ,                |  |
| Due from State                           | 139,991,825      |                    |  |
| Due from Component Units/University      | 754,105          | 289,306            |  |
| Inventories                              | 397,956          |                    |  |
| Other Current Assets                     | 368,839          | 2,232,132          |  |
| Total Current Assets                     | 441,573,358      | 226,782,067        |  |
| Noncurrent Assets:                       |                  |                    |  |
| Restricted Cash and Cash Equivalents     | 882,683          | 3,015,581          |  |
| Restricted Investments                   | 20,940,280       | 3,020,941          |  |
| Loans and Notes Receivable, Net          | 1,926,980        | 2,2-2,2 : :        |  |
| Depreciable Capital Assets, Net          | 641,190,152      | 12,571,424         |  |
| Nondepreciable Capital Assets            | 115,829,310      | 2,500              |  |
| Due from Component Units/ University     | 3,262,773        | 2,000              |  |
| Other Noncurrent Assets                  | 1,207,992        | 28,574,986         |  |
| Total Noncurrent Assets                  | 785,240,170      | 47,185,432         |  |
| TOTAL ASSETS                             | \$ 1,226,813,528 | \$ 273,967,499     |  |
| LIABILITIES                              |                  |                    |  |
| Current Liabilities:                     |                  |                    |  |
| Accounts Payable                         | \$ 8,880,527     | \$ 1,061,495       |  |
| Construction Contracts Payable           | 4,868,074        | . , ,              |  |
| Salaries and Wages Payable               | 7,045,848        |                    |  |
| Deposits Payable                         | 10,398,579       |                    |  |
| Due to State                             | 278,409          |                    |  |
| Due to Component Units/University        | 289,306          | 754,105            |  |
| Deferred Revenue                         | 144,341,854      | 1,281,264          |  |
| Other Current Liabilities                | 111,011,001      | 208,570            |  |
| Long-Term Liabilities - Current Portion: |                  | 200,010            |  |
| Capital Improvement Debt Payable         | 6,701,454        |                    |  |
| Bonds Payable                            | 0,701,404        | 618,074            |  |
| Notes Payable                            |                  | 605,000            |  |
| Capital Leases Payable                   | 572,552          | 000,000            |  |
| Compensated Absences Payable             | 2,412,378        |                    |  |
| Liability for Self-Insured Claims        | 2,412,376        |                    |  |
| Total Current Liabilities                |                  |                    |  |

## FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS (Continued) June 30, 2011

|   | University |               | Component<br>Units |
|---|------------|---------------|--------------------|
| LIABILITIES (Continued)                         |            |               |                    |
| Noncurrent Liabilities:                         |            |               |                    |
| Capital Improvement Debt Payable                | \$         | 117,541,052   | \$                 |
| Bonds Payable                                   |            |               | 32,994,869         |
| Notes Payable                                   |            |               | 8,180,000          |
| Capital Leases Payable                          |            | 252,314       |                    |
| Compensated Absences Payable                    |            | 31,757,280    |                    |
| Due to Component Units/University               |            |               | 3,262,773          |
| Other Postemployment Benefits Payable           |            | 12,082,000    |                    |
| Liability for Self-Insured Claims               |            | 219,389       |                    |
| Other Long-Term Liabilities                     |            | 2,572,065     | 6,254,604          |
| Total Noncurrent Liabilities                    |            | 164,424,100   | 50,692,246         |
| TOTAL LIABILITIES                               |            | 350,237,458   | 55,220,754         |
| NET ASSETS                                      |            |               |                    |
| Invested in Capital Assets, Net of Related Debt |            | 633,219,533   |                    |
| Restricted for Nonexpendable:                   |            |               |                    |
| Endowment                                       |            |               | 163,519,710        |
| Restricted for Expendable:                      |            |               |                    |
| Debt Service                                    |            | 2,891,138     |                    |
| Loans   |            | 288,111       |                    |
| Capital Projects                                |            | 11,455,629    |                    |
| Other   |            | 30,580,555    | 34,874,337         |
| Unrestricted                                    |            | 198,141,104   | 20,352,698         |
| TOTAL NET ASSETS                                |            | 876,576,070   | 218,746,745        |
| TOTAL LIABILITIES AND NET ASSETS                | \$         | 1,226,813,528 | \$ 273,967,499     |

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 ASSETS For the Fiscal Year Ended June 30, 2011

|   | University     | Component<br>Units |
|---|----------------|--------------------|
| REVENUES  |                |                    |
| Operating Revenues:   |                |                    |
| Student Tuition and Fees, Net of Scholarship                    |                |                    |
| Allowances of \$86,467,552                                      | \$ 167,312,056 | \$                 |
| Federal Grants and Contracts                                    | 69,041,615     |                    |
| State and Local Grants and Contracts                            | 11,927,180     |                    |
| Nongovernmental Grants and Contracts                            | 9,487,924      |                    |
| Sales and Services of Educational Departments                   | 164,553        |                    |
| Sales and Services of Auxiliary Enterprises                     | 109,162,112    |                    |
| Sales and Services of Component Units                           |                | 1,369,739          |
| Gifts and Donations   |                | 25,831,519         |
| Interest on Loans and Notes Receivable                          | 54,872         |                    |
| Other Operating Revenues  | 9,820,519      | 6,835,414          |
| Total Operating Revenues  | 376,970,831    | 34,036,672         |
| EXPENSES  |                |                    |
| Operating Expenses:   |                |                    |
| Compensation and Employee Benefits                              | 413,154,397    |                    |
| Services and Supplies   | 143,607,162    | 259,234            |
| Utilities and Communications                                    | 14,722,460     | 114,701            |
| Scholarships, Fellowships, and Waivers                          | 85,218,314     |                    |
| Depreciation  | 38,770,678     | 890                |
| Other Operating Expenses  |                | 14,573,343         |
| Self-Insured Claims and Expenses                                | 182,510        |                    |
| Total Operating Expenses  | 695,655,521    | 14,948,168         |
| Operating Income (Loss)   | (318,684,690)  | 19,088,504         |
| NONOPERATING REVENUES (EXPENSES)                                |                |                    |
| State Noncapital Appropriations                                 | 214,081,170    |                    |
| Federal and State Student Financial Aid                         | 109,870,907    |                    |
| State Appropriated American Recovery and Reinvestment Act Funds | 14,494,913     |                    |
| Investment Income   | 23,870,622     | 26,638,632         |
| Other Nonoperating Revenues                                     | 1,225,100      |                    |
| Gain on Disposal of Capital Assets                              | 15,831         | (4. 400. 0.40)     |
| Interest on Capital Asset-Related Debt                          | (6,316,383)    | (1,423,612)        |
| Other Nonoperating Expenses                                     | (1,209,677)    | (44,953)           |
| Net Nonoperating Revenues                                       | 356,032,483    | 25,170,067         |
| Income Before Other Revenues, Expenses,                         |                |                    |
| Gains, or Losses  | 37,347,793     | 44,258,571         |
| State Capital Appropriations                                    | 31,841,501     |                    |
| Capital Grants, Contracts, Donations, and Fees                  | 1,176,090      |                    |
| Increase in Net Assets  | 70,365,384     | 44,258,571         |
| Net Assets, Beginning of Year                                   | 806,210,686    | 174,488,174        |
| Net Assets, End of Year   | \$ 876,576,070 | \$ 218,746,745     |

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

## FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2011

|   | University      |
|---|-----------------|
| CASH ELOWS EDOM ODEDATING ACTIVITIES                            |                 |
| CASH FLOWS FROM OPERATING ACTIVITIES  Tuition and Fees, Net     | \$ 168,153,752  |
| Grants and Contracts  | 95,295,185      |
| Sales and Services of Educational Departments                   | 164,553         |
| Sales and Services of Auxiliary Enterprises                     | 108,547,685     |
| Interest on Loans and Notes Receivable                          | 415,191         |
| Payments to Employees   | (406,352,854)   |
| Payments to Suppliers for Goods and Services                    | (163,251,745)   |
| Payments to Students for Scholarships and Fellowships           | (85,218,314)    |
| Payments on Self-Insured Claims and Expenses                    | (14,003)        |
| Loans Issued to Students  | (8,583,647)     |
| Collection on Loans to Students                                 | 7,652,188       |
| Other Operating Receipts  | 2,014,709       |
| Net Cash Used by Operating Activities                           | (281,177,300)   |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES                 |                 |
| State Noncapital Appropriations                                 | 217,996,651     |
| State Appropriated American Recovery and Reinvestment Act Funds | 11,412,617      |
| Direct Loan Program Receipts                                    | 210,688,751     |
| Direct Loan Program Disbursements                               | (212,219,834)   |
| Federal and State Student Financial Aid                         | 109,791,998     |
| Operating Subsidies and Transfers                               | 291,759         |
| Net Change in Funds Held for Others                             | (2,053,089)     |
| Other Nonoperating Disbursements                                | (1,295,373)     |
| Net Cash Provided by Noncapital Financing Activities            | 334,613,480     |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES        |                 |
| State Capital Appropriations                                    | 28,602,814      |
| Capital Grants, Contracts, Donations, and Fees                  | 687,910         |
| Capital Subsidies and Transfers                                 | 12,364          |
| Proceeds from Sale of Capital Assets                            | 18,439          |
| Other Receipts for Capital Projects                             | 1,221,959       |
| Purchase or Construction of Capital Assets                      | (76,035,190)    |
| Principal Paid on Capital Debt and Leases                       | (7,072,954)     |
| Interest Paid on Capital Debt and Leases                        | (6,526,340)     |
| Net Cash Used by Capital and Related Financing Activities       | (59,090,998)    |
| CASH FLOWS FROM INVESTING ACTIVITIES                            |                 |
| Proceeds from Sales and Maturities of Investments               | 1,309,628,723   |
| Purchase of Investments   | (1,318,030,397) |
| Investment Income   | 16,090,630      |
|   | 10,090,030      |
| Net Cash Provided by Investing Activities                       | 7,688,956       |
| Net Increase in Cash and Cash Equivalents                       | 2,034,138       |
| Cash and Cash Equivalents, Beginning of Year                    | 8,000,951       |
| Cash and Cash Equivalents, End of Year                          | \$ 10,035,089   |

# FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF CASH FLOWS (Continued) For the Fiscal Year Ended June 30, 2011

|  | <br>University      |
|--|---------------------|
| RECONCILIATION OF OPERATING LOSS   |                     |
| TO NET CASH USED BY OPERATING ACTIVITIES   |                     |
| Operating Loss   | \$<br>(318,684,690) |
| Adjustments to Reconcile Operating Loss  |                     |
| to Net Cash Used by Operating Activities:  |                     |
| Depreciation Expense   | 38,770,678          |
| Change in Assets and Liabilities:  |                     |
| Receivables, Net   | (4,203,748)         |
| Inventories  | (8,911)             |
| Other Assets   | (144,159)           |
| Accounts Payable   | (5,281,900)         |
| Salaries and Wages Payable   | (2,156,166)         |
| Deposits Payable   | 1,241,878           |
| Compensated Absences Payable   | 5,115,706           |
| Deferred Revenue   | 163,505             |
| Liability for Self-Insurance   | 168,507             |
| Other Postemployment Benefits Payable  | <br>3,842,000       |
| NET CASH USED BY OPERATING ACTIVITIES  | \$<br>(281,177,300) |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES  |                     |
| Unrealized gains on investments were recognized as an increase to investment   |                     |
| income on the statement of revenues, expenses, and changes in net assets,  |                     |
| but are not cash transactions for the statement of cash flows.   | \$<br>8,946,667     |
| Gains from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions |                     |
| for the statement of cash flows.   | \$<br>15,831        |

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

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit. Based on the application of the criteria for determining component units, the Florida International University College of Medicine Self-Insurance Program (the Program) is included within the University reporting entity as a blended component unit. The Program was created on June 18, 2009, by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes and provides professional and general liability protection for faculty, medical residents, and students of the College of Medicine.

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 with in the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

Florida International University Foundation, Inc. – Encourages, solicits, receives, and administers gifts and bequests of property and funds for the advancement of the University and its objectives.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

- Florida International University Research Foundation, Inc. Promotes encourages, and assists 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 Supports the University in matters pertaining to the financing of the University's football stadium and subsequent managing and operating of the facility.
- FIU Academic Health Center Health Care Network Faculty Group Practice, Inc. Improves and supports health education at FIU. On August 9, 2011, the organization changed its name from Florida International University College of Medicine Health Care Network Faculty Group Practice, Inc., to FIU Academic Health Center Health Care Network Faculty Group Practice, Inc.

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

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

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

<u>Basis of Accounting</u>. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses,

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The Florida International University Foundation, Inc., follows FASB standards of accounting and financial reporting for not-for-profit organizations. The Florida International University Research Foundation, Inc., the FIU Athletics Finance Corporation and the FIU Academic Health Center Health Care Network Faculty Group Practice, Inc. follow the GASB standards of accounting and financial reporting because they meet the criteria regarding the popular election of officers or appointment of a controlling majority of the members of the organization's governing body by one or more State or local governments.

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

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

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

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

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

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

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

<u>Cash and Cash Equivalents</u>. 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 Florida International University Foundation, Inc. (Foundation), to concentration of credit risk consist principally of cash in banks. The Foundation places substantially all of its cash with high quality financial institutions which the Foundation believes limits this risk. At June 30, 2011, the Foundation did not exceed these limits. Cash and cash equivalents held with the Foundation's brokerage account at Merryll Lynch are insured by the Securities Investor Protector Corp (SIPC). The balance of this account was \$409,385 as of June 30, 2011.

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

In addition to insurance provided by the Federal Depository Insurance Corporation, the Foundation, the Finance Corporation, and the Florida International University Research Foundation, Inc., 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, with the exception noted in the preceding paragraph, are insured or collateralized with securities held by the entity or its agent in the entity's name.

The Foundation maintains certain investment accounts with financial institutions which are not insured by the FDIC. These funds may be subject to insurance by SIPC, subject to various limitations. At June 30, 2011, \$152,352,145 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 maintains investment accounts with financial institutions that are not insured by FDIC. Fund shares are not guaranteed by the United States government. Current and future portfolio holdings are subject to risk. At June 30, 2011, \$5,644,753 was held in these accounts. The Finance Corporation believes that the number, diversity, and financial strength of the issuers mitigate the credit risks associated with all investments.

The Research Foundation's blended component unit, iWASH Initative Limited, maintains a deposit balance in Tanzania, Africa, to manage the University's operations to the Tanzania Integrated Water, Sanitation and

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Hygiene (iWASH) Program under a United States Agency for International Development grant. The balance in this account of \$33,433 as of June 30, 2011, is not FDIC insured and is subject to foreign currency risk. The Research Foundation maintains its cash balances with high quality financial institutions, which the Research Foundation believes limits these risks.

Capital Assets. University capital assets consist of land; works of art and historical treasures; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; computer software; and property under capital leases. 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 \$1,000 for tangible personal property and \$50,000 for buildings 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
- ➤ Computer Software 5 years
- ➤ Property Under Capital Leases 5 years

Depreciable assets of the Florida International University Foundation, Inc., are stated at cost and are net of accumulated depreciation of \$2,905,730. 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 FIU Academic Health Center Health Care Network Faculty Group Practice, Inc., are stated at cost and are net of accumulated depreciation of \$1,780. Depreciation is provided using the straight-line method over the estimated useful lives of 5 years for the assets.

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, capital leases payable, liability for self-insured claims, compensated absences payable, other postemployment benefits payable, and other long-term liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premium or discount and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the debt using the straight-line method.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

#### 2. INVESTMENTS

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

The University's investments at June 30, 2011, are reported at fair value, as follows:

| Investment Type                                     | Amount         |
|---|----------------|
| External Investment Pools:                          |                |
| State Treasury Special Purpose Investment Account   | \$ 40,527,490  |
| State Board of Administration Fund B Surplus Funds  |                |
| Trust Fund  | 10,699         |
| State Board of Administration Debt Service Accounts | 2,875,625      |
| Mutual Funds:                                       |                |
| Limited Partnerships                                | 31,054,635     |
| Equities  | 61,564,793     |
| Fixed Income and Bond Mutual Funds                  | 109,933,757    |
| Commodities   | 9,260,900      |
| Money Market Funds                                  | 25,074,683     |
| Total University Investments                        | \$ 280,302,582 |

#### **External Investment Pools**

#### State Treasury Special Purpose Investment Account

The University reported investments at fair value totaling \$40,527,490 at June 30, 2011, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 2.13 years at June 30, 2011. 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

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

#### State Board of Administration Fund B Surplus Funds Trust Fund

On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund to establish the Fund B Surplus Funds Trust Fund (Fund B). Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2011, the University reported investments at fair value of \$10,699 in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.78965331 at June 30, 2011. The weighted-average life (WAL) of Fund B at June 30, 2011, was 7.16 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2011. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

#### State Board of Administration Debt Service Accounts

The University reported investments at fair value totaling \$2,875,625 at June 30, 2011, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to the 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:

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

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, 2011, are as follows:

#### **University Debt Investment Maturities**

| Type of Investment                 | Investment Maturities (In Years) |              |              |              |              |
|------------------------------------|----------------------------------|--------------|--------------|--------------|--------------|
|                                    | Fair Market                      | Less         | 1-5          | 6-10         | More         |
|                                    | Value                            | Than 1       |              |              | Than 10      |
| Fixed Income                       |                                  |              |              |              |              |
| Mutual Fund                        | \$ 55,641,292                    | \$ 7,144,342 | \$22,874,135 | \$13,765,656 | \$11,857,159 |
| TIPS Index Fund<br>High Yield Bond | 32,502,521                       | 27,918       | 12,069,521   | 10,628,324   | 9,776,758    |
| Mutual Fund                        | 21,789,944                       | 6,658,300    | 14,549,909   | 544,696      | 37,039       |
| Total                              | \$ 109,933,757                   | \$13,830,560 | \$49,493,565 | \$24,938,676 | \$21,670,956 |

> Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011, the securities held in the fixed income and bond mutual funds had credit quality ratings by a nationally-recognized rating agency (i.e., Standard & Poor's or Moody's), as follows:

#### **University Debt Investment Credit Quality Ratings**

| Type of Investment  | Fair<br>Value               | AAA / Aaa                  | AA / Aa      | Α            | BBB / Baa to<br>Not Rated |
|---|-----------------------------|----------------------------|--------------|--------------|---------------------------|
| Fixed Income<br>Mutual Fund<br>TIPS Index Fund<br>High Yield Bond | \$ 55,641,292<br>32,502,521 | \$35,905,325<br>32,497,355 | \$ 2,387,011 | \$ 5,614,206 | \$11,734,750<br>5,166     |
| Mutual Fund   | 21,789,944                  | 1,045,917                  |              | 43,580       | 20,700,447                |
| Total   | \$ 109,933,757              | \$ 69,448,597              | \$2,387,011  | \$ 5,657,786 | \$ 32,440,363             |

- 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.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

#### **Component Units Investments**

The Florida International University Foundation, Inc., investments at June 30, 2011, are reported at fair value as follows:

| Investment Type   | Amount  |
|---|---|
| Domestic Common Stocks and Equity Funds Fixed Income Securities and Funds Interest in Private Equity Partnerships and Limited Liability Companies International Equity Securities | \$ 59,001,957<br>28,853,367<br>37,019,161<br>27,195,207 |
| Total Plus: Accrued Income Total  | 152,069,692<br>282,453<br>\$ 152,352,145                |

Note: See note 1 for disclosures regarding concentration of credit risk.

The FIU Athletics Finance Corporation investments are made in accordance with a trust indenture. The investments at June 30, 2011, are reported at fair value, as follows:

| Investment Type   | Amount       |
|---|--------------|
| External Investment Pools: State Board of Administration Fund B Surplus |              |
| Fund Trust Fund   | \$ 673,827   |
| Money Market Funds  | 4,970,926    |
| Total   | \$ 5,644,753 |

Note: See note 1 for disclosures regarding concentration of credit risk.

At June 30, 2011, the FIU Athletics Finance Corporation (Finance Corporation) reported investments at fair value totaling \$673,827 in the Fund B Surplus Funds Trust Fund (Fund B). Fund B is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes. Disclosures regarding external investment pools are presented on pages 21 and 22.

At June 30, 2011, the Finance Corporation reported investments at fair value totaling \$4,970,926 in a money market mutual fund, which invests in United States treasury and government securities. The fund maintains a weighted average maturity of 44 days and is rated AAAm by Standard & Poor's, Aaa by Moody's, and AAA by Fitch. The fund complies with the requirements of Rule 2a-7 under the 1940 Act, which sets forth portfolio quality and diversification restrictions for money market mutual funds.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

#### 3. RECEIVABLES

<u>Accounts Receivable</u>. 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, 2011, the University reported the following amounts as accounts receivable:

| Description   | Amount                                |
|---|---------------------------------------|
| Student Tuition and Fees<br>Contracts and Grants<br>Other | 20,920,099<br>\$ 8,613,295<br>514,209 |
| Total Accounts Receivable, Net                            | \$ 9,127,504                          |

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

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Student tuition and fees receivable, contracts and grants receivable, other receivable, and loans and notes receivable, are reported net of allowances of \$17,612,013, \$2,457,046, \$411,680 and \$1,250,825, respectively, at June 30, 2011.

#### 4. DUE FROM STATE

This amount includes \$131,798,868 of Public Education Capital Outlay funds and \$4,700,000 of Capital Improvement Fee Trust Fund funds due from the State to the University for the construction of University facilities. The amount also includes \$3,492,957 of American Recovery and Reinvestment Act funds due from the State.

#### 5. INVENTORIES

Inventories have been categorized into the following two types:

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

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

#### 6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, is shown below:

| Description                           | Beginning<br>Balance | Additions     | Reductions    | Ending<br>Balance |  |
|---------------------------------------|----------------------|---------------|---------------|-------------------|--|
| Nondepreciable Capital Assets:        |                      |               |               |                   |  |
| Land                                  | \$ 30,989,550        | \$            | \$            | \$ 30,989,550     |  |
| Works of Art and Historical Treasures | 4,145,199            | 137,795       | 2,500         | 4,280,494         |  |
| Construction in Progress              | 94,502,187           | 52,208,392    | 66,151,313    | 80,559,266        |  |
| Total Nondepreciable Capital Assets   | \$ 129,636,936       | \$ 52,346,187 | \$ 66,153,813 | \$ 115,829,310    |  |
| Depreciable Capital Assets:           |                      |               |               |                   |  |
| Buildings                             | \$ 677,756,556       | \$ 66,151,313 | \$            | \$ 743,907,869    |  |
| Infrastructure and Other Improvements | 14,676,851           |               |               | 14,676,851        |  |
| Furniture and Equipment               | 168,279,431          | 17,645,393    | 5,138,094     | 180,786,730       |  |
| Library Resources                     | 110,201,098          | 6,739,212     |               | 116,940,310       |  |
| Computer Software                     | 2,262,071            | 512,593       | 23,008        | 2,751,656         |  |
| Property Under Capital Leases         | 4,472,101            | 243,364       | 1,775,343     | 2,940,122         |  |
| Total Depreciable Capital Assets      | 977,648,108          | 91,291,875    | 6,936,445     | 1,062,003,538     |  |
| Less, Accumulated Depreciation:       |                      |               |               |                   |  |
| Buildings                             | 191,353,882          | 18,506,424    |               | 209,860,306       |  |
| Infrastructure and Other Improvements | 12,397,113           | 306,179       |               | 12,703,292        |  |
| Furniture and Equipment               | 123,660,048          | 12,976,357    | 3,407,500     | 133,228,905       |  |
| Library Resources                     | 54,934,432           | 5,885,635     |               | 60,820,067        |  |
| Computer Software                     | 1,500,323            | 333,021       |               | 1,833,344         |  |
| Property Under Capital Leases         | 3,257,719            | 763,062       | 1,653,309     | 2,367,472         |  |
| Total Accumulated Depreciation        | 387,103,517          | 38,770,678    | 5,060,809     | 420,813,386       |  |
| Total Depreciable Capital Assets, Net | \$ 590,544,591       | \$ 52,521,197 | \$ 1,875,636  | \$ 641,190,152    |  |

#### 7. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay and Capital Improvement Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2011, to spend the funds. In addition, deferred revenue also includes stadium rental income for prepaid rent received from the FIU Athletics Finance Corporation, contracts and grants payments received in advance, student housing fees, athletic revenues, and student trust fund fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2011, the University reported the following amounts as deferred revenue:

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

| Description   | Amount                                    |
|---|---|
| State Capital Appropriations Stadium Rental Income Contracts and Grants | \$ 112,366,640<br>26,781,259<br>3,921,277 |
| Student Housing Fees  | 833,072                                   |
| Student Trust Fund Fees   | 438,890                                   |
| Athletic Revenues   | 716                                       |
| Total Deferred Revenue  | \$ 144,341,854                            |

#### 8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2011, include capital improvement debt payable, capital leases payable, liability for self-insured claims, compensated absences payable, other postemployment benefits payable, and other long-term liabilities. Other long-term liabilities consist of the liability for the Federal Capital Construction (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 has excess cash in the loan program. Long-term liabilities activity for the fiscal year ended June 30, 2011, is shown below:

| Description  | Beginning<br>Balance | Additions    | Reductions    | Ending<br>Balance | Current<br>Portion |
|--|----------------------|--------------|---------------|-------------------|--------------------|
| Capital Improvement Debt Payable                           | \$130,671,029        | \$           | \$ 6,428,523  | \$124,242,506     | \$6,701,454        |
| Capital Leases Payable                                     | 1,439,457            | 243,363      | 857,954       | 824,866           | 572,552            |
| Liability for Self-Insured Claims                          | 75,259               | 182,510      | 14,003        | 243,766           | 24,377             |
| Compensated Absences Payable Other Postemployment Benefits | 29,053,952           | 6,530,843    | 1,415,137     | 34,169,658        | 2,412,378          |
| Payable  | 8,240,000            | 5,222,000    | 1,380,000     | 12,082,000        |                    |
| Other Long-Term Liabilities                                | 2,694,346            |              | 122,281       | 2,572,065         |                    |
| Total Long-Term Liabilities                                | \$172,174,043        | \$12,178,716 | \$ 10,217,898 | \$174,134,861     | \$9,710,761        |

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

<u>Capital Improvement Debt Payable</u>. The University had the following capital improvement debt payable outstanding at June 30, 2011:

| Capital Improvement Debt<br>Type and Series | Amount of Original | Amount<br>Outstanding | Interest<br>Rates | Maturity<br>Date |
|---|--------------------|-----------------------|-------------------|------------------|
|   | Debt               | (1)                   | (Percent)         | To               |
| Student Housing Debt:                       |                    |                       |                   |                  |
| 1998 Student Apartments                     | \$ 26,525,000      | \$ 19,872,789         | 4.40 - 5.00       | 2028             |
| 2000 Student Apartments                     | 14,605,000         | 10,615,018            | 4.875 - 5.75      | 2025             |
| 2004A Student Apartments                    | 53,915,000         | 41,170,531            | 4.00 - 5.00       | 2034             |
| Total Student Housing Debt                  | 95,045,000         | 71,658,338            |                   |                  |
| Parking Garage Debt:                        |                    |                       |                   |                  |
| 1995 Parking Garage                         | 7,780,000          | 2,765,550             | 5.30 - 5.375      | 2016             |
| 1999 Parking Garage                         | 7,530,000          | 3,991,047             | 5.20 - 5.625      | 2019             |
| 2002 Parking Garage                         | 22,915,000         | 14,840,408            | 3.40 - 4.60       | 2022             |
| 2009 Parking Garage A&B                     | 32,000,000         | 30,987,163            | 2.00 - 6.875      | 2039             |
| Total Parking Garage Debt                   | 70,225,000         | 52,584,168            |                   |                  |
| Total Capital Improvement Debt              | \$ 165,270,000     | \$ 124,242,506        | :                 |                  |

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 \$165,270,000 in capital improvement (housing, parking, etc.) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities. The bonds are payable solely from housing rental income, traffic and parking fees, and assessed transportation fees per student, payable through 2039. The University has committed to appropriate each year from the housing rental income, traffic and parking fees, and transportation fees, amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$199,323,250, and principal and interest paid for the current year totaled \$12,702,478. During the 2010-11 fiscal year housing rental, traffic and parking fees, and assessed transportation fees totaled \$25,983,956, \$4,063,919, and \$8,055,350, respectively.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2011, are as follows:

| Fiscal Year Ending June 30  | Principal  | Interest  | Total   |
|---|--|---|---|
| 2012<br>2013<br>2014<br>2015<br>2016<br>2017-2021<br>2022-2026<br>2027-2031 | \$ 6,475,000<br>6,765,000<br>7,065,000<br>7,400,000<br>7,740,000<br>28,025,000<br>24,215,000<br>17,715,000 | \$ 6,220,675<br>5,938,299<br>5,634,993<br>5,311,226<br>4,959,440<br>20,343,627<br>13,778,452<br>8,350,988 | \$ 12,695,675<br>12,703,299<br>12,699,993<br>12,711,226<br>12,699,440<br>48,368,627<br>37,993,452<br>26,065,988 |
| 2032-2036<br>2037-2039  | 13,470,000<br>5,255,000  | 3,927,331<br>733,219  | 17,397,331<br>5,988,219   |
| Subtotal Plus: Net Discounts and Premiums on Refundings                     | 124,125,000  | 75,198,250  | 199,323,250   |
| Total   | \$ 124,242,506   | \$75,198,250  | \$ 199,440,756  |

<u>Capital Leases Payable</u>. Food service equipment and vehicles in the amount of \$2,940,122 are being acquired under capital lease agreements. The stated interest rates range from 3.45 to 11.60 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2011, are as follows:

| Fiscal Year Ending June 30                                | <br>Amount              |
|---|-------------------------|
| 2012  | \$<br>602,990           |
| 2013  | 162,434                 |
| 2014  | 54,017                  |
| 2015  | 54,017                  |
| 2016  | <br>6                   |
| Total Minimum Payments Less, Amount Representing Interest | <br>873,464<br>(48,598) |
| Present Value of Minimum Payments                         | \$<br>824,866           |

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

anticipation of future appropriations. At June 30, 2011, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$34,169,658.

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

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

Funding Policy. Plan benefits are pursuant to 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 or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2010-11 fiscal year, 392 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,380,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$2,302,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of 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 year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

| <u>Description</u>   | <br>Amount       |
|--|------------------|
| Normal Cost (Service Cost for One Year) Amortization of Unfunded Actuarial | \$<br>2,675,000  |
| Accrued Liability  | 2,293,000        |
| Interest on Normal Cost and Amortization                                   | 199,000          |
|  |                  |
| Annual Required Contribution   | 5,167,000        |
| Interest on Net OPEB Obligation  | 330,000          |
| Adjustment to Annual Required Contribution                                 | <br>(275,000)    |
|  | <b>5</b> 000 000 |
| Annual OPEB Cost (Expense)   | 5,222,000        |
| Contribution Toward the OPEB Cost  | <br>(1,380,000)  |
| Increase in Net OPEB Obligation  | 3,842,000        |
| Net OPEB Obligation, Beginning of Year                                     | <br>8,240,000    |
| Net OPEB Obligation, End of Year   | \$<br>12,082,000 |

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2011, and for the two preceding years, were as follows:

| Fiscal Year        | Annual<br>OPEB Cost       | Percentage of<br>Annual<br>OPEB Cost | Net OPEB<br>Obligation    |
|--------------------|---------------------------|--------------------------------------|---------------------------|
|                    |                           | Contributed                          |                           |
| 2008-09<br>2009-10 | \$ 3,216,000<br>5,521,000 | 43.9%<br>24.6%                       | \$ 4,077,000<br>8,240,000 |
| 2010-11            | 5,222,000                 | 26.4%                                | 12,082,000                |

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$72,099,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$72,099,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$267,241,000 for the 2010-11 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 26.8 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.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

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

The University's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2011, and the University's 2010-11 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. Healthcare cost trend rates were 9.02, 9.47, and 9.62 percent for the current and two subsequent years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 7.11, 10.5, and 10.5 percent for the current and two subsequent years, respectively, for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.6 percent in the fourth year grading identically to 5.1 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, 2011, was 26 years.

#### 9. COMPONENT UNIT 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 Florida International University Foundation, Inc. (Foundation), and the Authority.

The bonds are secured by an irrevocable letter of credit issued by a commercial bank as described below. The Foundation will finance the payments to the Authority under the loan agreement with lease payments received from the University under an operating lease (see note 14). The \$13 million original principal amount was issued under a variable rate structure with a final maturity date of May 1, 2022. The variable rate on 50 percent of the original issue, \$6.5 million, has been synthetically fixed at 4.63 percent through February 1, 2015, by way of an interest rate swap agreement with a commercial bank (see note 10). The bond proceeds are being 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, 2011, the outstanding principal balance due under this note payable was \$8.785 million. For the year ended June 30, 2011, total interest incurred and paid was \$389,890.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

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.

Due to significant stress in the bank market the bonds were repurchased by the Trustee under the Sun Trust 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 commercial bank converted the variable rate demand bonds into a five-year tax exempt qualified loan. After the initial five-year period, the bank would have the right to require the Foundation to refinance the bank qualified loan or could agree to extend the maturity date for an additional five-year period. The Foundation agrees to pay interest at a rate of 67 percent of one 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. 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.

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 aggregate maturities of the notes payable, as of June 30, 2011, are shown in the following table:

| Fiscal Year Ending June 30 |          | Amount    |
|----------------------------|----------|-----------|
| 2012                       | Φ        | COE 000   |
| 2012                       | \$       | 605,000   |
| 2013                       |          | 640,000   |
| 2014                       |          | 670,000   |
| 2015                       |          | 705,000   |
| 2016                       |          | 745,000   |
| Thereafter                 |          | 5,420,000 |
| Total                      | \$       | 8,785,000 |
| . •                        | <u> </u> | 0,100,000 |

## Notes Payable – Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (FIU HCN)

On June 1, 2009, the FIU HCN entered into a loan agreement totaling \$100,000 with the University in order to fund start up costs associated with the operations. This agreement was amended on January 25, 2010, reducing the total principal payment due to \$51,100. Interest on the loan accrues at 3.25 percent and the loan is scheduled to mature on May 31, 2013.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

On August 27, 2010, the FIU HCN 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. Draw downs on the loan as of June 30, 2011, totaled \$234,985, of which \$163,000 represented noncash operating expenses paid by the University on behalf of the FIU HCN. The loan also includes \$114 of accrued interest as of June 30, 2011. Payments on the loan are scheduled to begin on June 1, 2015, at which time draw downs on the loan will be completed and a final amortization schedule will be available.

Estimated principal and interest payments for the life of the amounts due to the University based on the balances as of June 30, 2011, are due as follows:

| Fiscal Year Ending June 30 | P  | rincipal | Interest |        | Total |         |
|----------------------------|----|----------|----------|--------|-------|---------|
| 0040                       | •  | 07.500   | •        | 4 770  | •     | 00.050  |
| 2012                       | \$ | 27,583   | \$       | 1,770  | \$    | 29,353  |
| 2013                       |    | 27,674   |          | 899    |       | 28,573  |
| 2014                       |    |          |          |        |       |         |
| 2015                       |    |          |          | 4,700  |       | 4,700   |
| 2016                       |    |          |          | 4,700  |       | 4,700   |
| 2017-2021                  |    | 235,099  |          | 9,400  |       | 244,499 |
|                            | •  | 000 050  | •        | 04 400 | •     | 044.005 |
| Total                      | \$ | 290,356  | \$       | 21,469 | \$    | 311,825 |

The University has entered into an agreement with a contractor to complete the facility, with a contracted amount of approximately \$1.3 million. Expenditures under this contract will be disbursed by the University in future periods and subsequently allocated to the FIU HCN as part of the above-noted loan agreement.

#### Bonds Payable – FIU Athletics Finance Corporation

On December 1, 2009, the FIU Athletics 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 a 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 three-month LIBOR plus 1.90 percent. The interest rate on the Series 2009B Bonds shall be at a rate equal to three-month LIBOR plus 2.65 percent. The total proceeds from the new bond issue were used solely to retire and refund outstanding Series 2007A and B bonds and pay issuance costs 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, 2011, was \$34,003,984.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

The FIU Athletics 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 \$3,020,941 and is presented as restricted investments.

The FIU Athletics Finance Corporation is required to maintain minimum deposits of \$3,000,000 with Regions Bank. The deposit is to be held in an interest-bearing additional reserve fund and is presented as restricted cash.

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

The aggregate maturities of these bonds as of June 30, 2011, are as follows:

| Fiscal Year Ending June 30         | F    | Principal | Interest |            | Total     |            |
|------------------------------------|------|-----------|----------|------------|-----------|------------|
|                                    |      |           |          |            |           |            |
| 2012                               | \$   | 618,074   | \$       | 1,567,747  | \$        | 2,185,821  |
| 2013                               |      | 636,987   |          | 1,627,027  |           | 2,264,014  |
| 2014                               |      | 656,479   |          | 1,677,592  |           | 2,334,071  |
| 2015                               |      | 676,567   |          | 1,719,051  |           | 2,395,618  |
| 2016                               |      | 697,270   |          | 1,684,647  |           | 2,381,917  |
| 2017-2021                          |      | 6,654,321 |          | 7,587,967  |           | 14,242,288 |
| 2022-2026                          |      | 8,507,143 |          | 5,593,976  |           | 14,101,119 |
| 2027-2031                          | 1    | 0,607,143 |          | 3,092,065  |           | 13,699,208 |
| 2033-2033                          |      | 4,950,000 |          | 402,395    |           | 5,352,395  |
|                                    |      |           |          |            |           |            |
| Subtotal                           | 3    | 4,003,984 |          | 24,952,467 |           | 58,956,451 |
| Less, Amount Deferred on Refunding |      | (391,041) |          |            |           | (391,041)  |
|                                    |      |           |          |            |           |            |
| Total                              | \$ 3 | 3,612,943 | \$       | 24,952,467 | <u>\$</u> | 58,565,410 |

#### 10. DERIVATIVE FINANCIAL INSTRUMENTS - COMPONENT UNITS

The Florida International University Foundation, Inc., the Florida International University Research Foundation, Inc., and the FIU Athletics Finance Corporation all 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 FIU Athletics Finance Corporation, are discussed below.

#### Florida International University Foundation, Inc. (Foundation)

On February 1, 2000, the Foundation entered into an interest rate swap agreement (swap agreement) with a commercial bank on a notional amount of \$6.5 million, which represents 50 percent of the principal amount of the bond issue, as described in note 9. Under the original swap agreement, the Foundation agreed to pay

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

a fixed rate of 5.03 percent per annum and receive variable rates based on 67 percent of the one-month United States Dollar London Interbank Offered Rate (LIBOR). Effective October 1, 2005, the Foundation renegotiated the swap agreement reducing the interest rate swap to 4.63 percent per annum. The renegotiated swap agreement expires on February 1, 2015. The derivative liability at June 30, 2011, was \$536,947.

#### FIU Athletics Finance Corporation (Finance Corporation)

Objectives. As a means to lower its borrowing costs and increase its savings, the Organization entered into an interest rate swap agreement in connection with its \$30 million 2009A Miami-Dade County Industrial Development Authority Revenue Bond issuance. The intention of the swap agreement was to effectively change the Organization's variable interest rate on the bonds to a synthetic fixed rate of 3.60 percent.

Terms. On December 22, 2009, Athletics Finance Corporation entered into an interest rate swap agreement to hedge the floating rate on \$21 million of the principal amount of the 2009A Bonds. This represents the fixed portion of the tax exempt bonds payable mentioned in note 9 above. Under the swap agreement, the Athletics Finance Corporation agrees to pay a fixed rate of 3.60 percent and receive a variable rate equal to 63.7 percent of three-month LIBOR. The swap agreement has a maturity date of March 1, 2033.

Fair Value. As of June 30, 2011, the FIU Athletics Finance Corporation swap has a derivative liability of \$3,274,250 as reported in the statement of net assets. The negative fair value was determined using a Mark-to-Market Value and represents the closing mid-market values.

As of June 30, 2011, the fair value of the Series 2007A ineffective interest rate swap was \$2,106,379. This interest rate swap was not terminated when the bonds were refunded in December 2009. The interest rate on the refunded Series 2009 bonds reflects a higher rate due to not terminating this interest rate swap. Accordingly, the fair value of \$2,106,378 of the ineffective Series 2007A interest rate swap is being amortized over the remaining life of the refunded Series 2009A bond.

The dollar offset method evaluates the effectiveness by quantitative approach. The dollar offset method evaluates effectiveness by comparing the changes in expected cash flows or fair values of the potential hedging derivative instrument with the changes in expected cash flows or fair values of the hedgeable item. The Organization determined that it met the criteria of the dollar offset method. Therefore, the change in the fair value of the effective interest rate swap is presented in the statement of net assets as a deferred outflow of resources in the amount of \$1,167,871.

Credit Risks. As of June 30, 2011, the FIU Athletics Finance Corporation was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Organization would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty (Regions Bank) was rated Ba2 by Moody's Investors Service, BBB- by Standard & Poor's and BBB- by Fitch Ratings.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

*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 are based on 63.7 percent of the three-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 swap agreement may be terminated if: (i) the loan or other indebtedness in connection with which a transaction entered into by the Athletics 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 Athletics Finance Corporation, with or without the consent of the counterparty (Regions Bank); or (ii) any credit support document expires, terminates or ceases to be of full force and effect. Also, the swap agreement may be terminated or assigned by Athletics Finance Corporation if the counterparty's (Regions Bank) long-term, senior, unsecured, unenhanced debt rating is withdrawn, suspended, or falls below at least two of the following: a) "Baa3" as determined by Moody's; or b) "BBB-" as determined by Standard & Poor's; or c) "BBB-" as determined by Fitch.

Swap Payments and Associated Debt. Using rates as of June 30, 2011, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows:

| Fiscal Year Ending June 30 | Variable-Rate Bond |                       | Interest Rate         | Total                     |
|----------------------------|--------------------|-----------------------|-----------------------|---------------------------|
|                            | Principal          | Interest              | Swap, Net             |                           |
| 2012<br>2013               | \$                 | \$ 399,714<br>399,714 | \$ 755,286<br>755,286 | \$ 1,155,000<br>1,155,000 |
| 2014                       |                    | 399,714               | 755,286<br>755,286    | 1,155,000                 |
| 2015                       |                    | 399,714               | 755,286               | 1,155,000                 |
| 2016                       |                    | 399,714               | 755,286               | 1,155,000                 |
| 2017-2021                  | 4,155,000          | 1,871,710             | 3,536,715             | 9,563,425                 |
| 2022-2026                  | 5,955,000          | 1,386,533             | 2,619,942             | 9,961,475                 |
| 2027-2031                  | 7,425,000          | 766,404               | 1,448,171             | 9,639,575                 |
| 2032-2033                  | 3,465,000          | 99,738                | 188,462               | 3,753,200                 |
| Total                      | \$21,000,000       | \$6,122,955           | \$11,569,720          | \$38,692,675              |

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

#### 11. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

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

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

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2010-11 fiscal year were as follows: **Error! Hyperlink reference not valid.** 

| Class  | Percent of Gross Salary |          |
|--|-------------------------|----------|
|  | Employee                | Employer |
|  |                         | (A)      |
| FI 11 B 11 10 1                                      | 0.00                    | 10.77    |
| Florida Retirement System, Regular                   | 0.00                    | 10.77    |
| Florida Retirement System, Senior Management Service | 0.00                    | 14.57    |
| Florida Retirement System, Special Risk              | 0.00                    | 23.25    |
| Deferred Retirement Option Program - Applicable to   |                         |          |
| Members from All of the Above Classes                | 0.00                    | 12.25    |
| Florida Retirement System, Reemployed Retiree        | (B)                     | (B)      |

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011, totaled \$8,286,522, \$8,493,631, and \$9,998,061, respectively, which were equal to the required contributions for each fiscal year.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 394 University participants during the 2010-11 fiscal year. Required contributions made to the PEORP totaled \$1,814,087.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 1,878 University participants during the 2010-11 fiscal year. Required employer contributions made to the Program totaled \$15,784,583 and employee contributions totaled \$5,675,212.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

#### 12. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2011, are as follows:

| Project Description                               | Total<br>Commitment | Completed to Date | Balance<br>Committed |
|---|---------------------|-------------------|----------------------|
| Science Classroom Complex                         | \$ 56,163,409       | \$ 2,614,906      | \$ 53,548,503        |
| Robert Stempel College of Public Health and       | Ψ 00,100,100        | Ψ 2,011,000       | Ψ 00,010,000         |
| Social Science                                    | 23,300,000          | 591,674           | 22,708,326           |
| Student Academic Support Center                   | 20,146,976          | 230,314           | 19,916,662           |
| International Hurricane Center                    | 15,000,000          | 470,320           | 14,529,680           |
| FIU Ambulatory Care Center                        | 10,015,500          | 15,519            | 9,999,981            |
| Satellite Chiller Plant                           | 7,110,000           | 127,439           | 6,982,561            |
| US Century Bank Arena/Fitness Center Renovation   | 6,409,513           | 560,968           | 5,848,545            |
|   |                     |                   |                      |
| Subtotal  | 138,145,398         | 4,611,140         | 133,534,258          |
| Projects with Balance Committed Under \$3 Million | 88,508,539          | 75,948,126        | 12,560,413           |
| Total   | \$ 226,653,937      | \$80,559,266      | \$ 146,094,671       |

#### 13. OPERATING LEASE COMMITMENTS

The University leased building space under operating leases, which expire in 2027. These leased assets and the related commitments are not reported on the University's statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

| Fiscal Year Ending June 30      |    | Amount     |  |  |
|---------------------------------|----|------------|--|--|
| 2012                            | \$ | 1,341,927  |  |  |
| 2013                            |    | 1,603,862  |  |  |
| 2014                            |    | 1,120,605  |  |  |
| 2015                            |    | 1,160,633  |  |  |
| 2016                            |    | 1,200,660  |  |  |
| 2017-2027                       |    | 9,294,126  |  |  |
| Total Minimum Payments Required | \$ | 15,721,813 |  |  |

#### 14. OPERATING LEASE COMMITMENTS – RELATED PARTY TRANSACTIONS

#### Florida International University Foundation, Inc. (Foundation)

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.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Total amounts paid to the Foundation under this agreement were \$1,270,027 and \$1,178,248 for the years ended June 30, 2011, and 2010, 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 assets; however, the operational lease payments are recorded as expenses in the statement of revenues, expenses, and changes in net assets when paid or incurred. The following schedule by years presents management's best estimate of future minimum rental payments for this noncancelable operating lease as of June 30, 2011:

| Fiscal Year Ending June 30      |    | Amount                 |  |  |
|---------------------------------|----|------------------------|--|--|
| 2012                            | \$ | 1,260,000              |  |  |
| 2013<br>2014                    |    | 1,260,000<br>1,260,000 |  |  |
| 2015                            |    | 1,260,000              |  |  |
| 2016<br>Thereafter              |    | 1,260,000<br>6,300,000 |  |  |
| Total Minimum Payments Required | \$ | 12,600,000             |  |  |

## Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc (FIU HCN)

The University and the FIU HCN entered into two distinct space leasing agreements during 2011. The first agreement dated July 27, 2009, whereby the FIU HCN will use the University Health Service Building to provide medical care to the faculty and staff of FIU. FIU HCN shall pay the University for rental of the premises in the sum of \$15,284 per year. The term of this agreement was originally scheduled to expire on July 26, 2011, but was subsequently renewed for an additional period of one year. Rent expense related to this lease was \$15,285 as of June 30, 2011.

The second agreement is effective beginning on February 10, 2011, for an initial term of ten years and will be for the Faculty Group Practice site at the PG 5 Market Station. For the period through June 30, 2011, the FIU HCN will be responsible for the rental of the premises at the initial monthly lease amount of \$10,500. From July 1, 2011, until expiration or termination of this agreement, FIU HCN will pay for this lease \$10,500 per month with step increases throughout the term of the lease. Rent expense related to this lease was \$49,125 for the year ended June 30, 2011.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Future minimum annual lease commitments are as follows:

| Fiscal Year Ending June 30      | Amount |                    |
|---------------------------------|--------|--------------------|
| 2012<br>2013                    | \$     | 154,000<br>196,000 |
| 2014                            |        | 196,000            |
| 2015                            |        | 182,000            |
| 2016                            |        | 182,000            |
| 2017-2021                       |        | 839,000            |
| Total Minimum Payments Required | \$     | 1,749,000          |

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

The Wolfsonian, Inc. (Wolfsonian), was established in 1986 to create and operate a museum and research center in Miami Beach, Florida, and to support a comprehensive program focused on the collection, exhibition, interpretation, preservation, research and publication of the decorative, 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 in July 2001, for ten years through July 2011 and the Foundation is in the process of extending it another ten years through 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 assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets 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 asset 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, with the intention to effect a transfer of complete control of all of the assets, interest, and obligations of the

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

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 activities within the University.

The most significant of the obligations under the Agreement is for the University to provide the Wolfsonian with the same financial support from its general budget, as provided to other departments, and to continue the museum and educational activities and operations of the Wolfsonian. The University provided support of approximately \$1.9 million during the 2010-11 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 \$124,000 during the 2010-11 fiscal year for utilities, repairs, and maintenance expenses for buildings used by the Wolfsonian.

#### 16. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2010-11 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$58.75 million for named windstorm and flood losses through February 14, 2011, and increased to \$61 million starting February 15, 2011. 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 \$100,000 per person, and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

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.

<u>University Self-Insurance Program</u>. 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; \$250,000 per occurrence of protection for the participants that are not subject to the provisions of Section 768.28, Florida Statutes; \$250,000 per claim protection for participants who engage in approved community service and act as Good Samaritans; and student protections of \$100,000 for a claim arising from an occurrence for any one person, \$250,000 for all claims arising from an occurrence and professional liability required by a hospital or other healthcare facility for educational purposes not to exceed 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 2009-10 and 2010-11 fiscal years are presented in the following table:

| Fiscal Year Ended | Claims Liabilities<br>Beginning of<br>Year | Current Claims and Changes in Estimates | and Changes Payments |            |
|-------------------|--|---|----------------------|------------|
| June 30, 2010     | \$   | \$ 83,688                               | \$ (8,429)           | \$ 75,259  |
| June 30, 2011     | \$ 75.259                                  | \$ 182.510                              | \$ (14,003)          | \$ 243,766 |

#### 17. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

| Functional Classification          | Amount     |             |  |
|------------------------------------|------------|-------------|--|
|                                    | •          | 405 440 700 |  |
| Instruction                        | \$         | 195,112,708 |  |
| Research                           |            | 49,494,938  |  |
| Public Service                     |            | 5,715,423   |  |
| Academic Support                   |            | 93,744,784  |  |
| Student Services                   |            | 29,505,154  |  |
| Institutional Support              |            | 72,762,595  |  |
| Operation and Maintenance of Plant | 59,298,955 |             |  |
| Scholarships and Fellowships       | 85,233,242 |             |  |
| Depreciation                       |            | 38,770,678  |  |
| Auxiliary Enterprises              | 65,996,274 |             |  |
| Loan Operations                    | 20,770     |             |  |
| Total Operating Expenses           | \$         | 695,655,521 |  |

#### 18. SEGMENT INFORMATION

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

#### **Condensed Statement of Net Assets**

|   | Housing<br>Facility | Parking<br>Facility |
|---|---------------------|---------------------|
| Assets  |                     |                     |
| Current Assets                                  | \$ 20,960,373       | \$ 6,996,607        |
| Capital Assets, Net                             | 82,545,174          | 75,902,539          |
| Other Noncurrent Assets                         | 588,946             | 6,245,060           |
| Total Assets                                    | 104,094,493         | 89,144,206          |
| Liabilities                                     |                     |                     |
| Current Liabilities                             | 4,954,361           | 5,499,487           |
| Noncurrent Liabilities                          | 67,868,517          | 50,034,310          |
| Total Liabilities                               | 72,822,878          | 55,533,797          |
| Net Assets                                      |                     |                     |
| Invested in Capital Assets, Net of Related Debt | 11,495,250          | 23,977,404          |
| Restricted - Expendable                         | 7,571               | 2,897,569           |
| Unrestricted                                    | 19,768,794          | 6,735,436           |
| Total Net Assets                                | \$ 31,271,615       | \$ 33,610,409       |

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

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

|  | Housing<br>Facility                          | Parking<br>Facility                         |
|--|--|---|
| Operating Revenues Depreciation Expense Other Operating Expenses                                   | \$ 25,983,956<br>(3,047,151)<br>(14,483,736) | \$ 12,119,269<br>(1,833,162)<br>(6,217,044) |
| Operating Income   | 8,453,069                                    | 4,069,063                                   |
| Nonoperating Revenues (Expenses): Nonoperating Revenue Interest Expense Other Nonoperating Expense | 125,907<br>(3,301,956)<br>(27,041)           | 78,675<br>(2,976,402)<br>(32,410)           |
| Net Nonoperating Expenses  | (3,203,090)                                  | (2,930,137)                                 |
| Income Before Transfers and Other Revenues Net Transfers Capital Grants                            | 5,249,979<br>30,317                          | 1,138,926<br>170,011<br>642,310             |
| Increase in Net Assets   | 5,280,296                                    | 1,951,247                                   |
| Net Assets, Beginning of Year<br>Adjustment to Beginning Net Assets (1)                            | 27,661,519<br>(1,670,200)                    | 31,659,162                                  |
| Net Assets, Beginning of Year, as Restated   | 25,991,319                                   | 31,659,162                                  |
| Net Assets, End of Year  | \$ 31,271,615                                | \$ 33,610,409                               |

Note: (1) Beginning net assets and cash are adjusted to correct previous amounts erroneously included in the carry forward.

#### Condensed Statement of Cash Flows

|   | Housing<br>Facility                            | Parking<br>Facility                           |
|---|--|---|
| Net Cash Provided (Used) by: Operating Activities Capital and Related Financing Activities Investing Activities | \$<br>10,949,184<br>(7,554,109)<br>(2,095,676) | \$<br>3,901,289<br>(15,958,405)<br>10,994,129 |
| Net Increase (Decrease) in Cash and Cash Equivalents  | <br>1,299,399                                  | <br>(1,062,987)                               |
| Cash and Cash Equivalents, Beginning of Year Adjustment to Beginning Cash (1)                                   | <br>2,864,665<br>(1,670,200)                   | <br>1,415,048                                 |
| Cash and Cash Equivalents, As Restated  | <br>1,194,465                                  | <br>1,415,048                                 |
| Cash and Cash Equivalents, End of Year  | \$<br>2,493,864                                | \$<br>352,061                                 |

Note: (1) Beginning net assets and cash are adjusted to correct previous amounts erroneously included in the carry forward.

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

The adjustment to beginning net assets shown in the condensed statements for University Housing reflects a correction to the cash and net assets carried forward from prior years. This cash balance was not in fact related to the segment, but was attributable to other university operations and had been erroneously included in the Housing segment.

#### 19. COMPONENT UNITS

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

|   | Direct-Support Organizations |               |                | Total           |                |
|---|------------------------------|---------------|----------------|-----------------|----------------|
|   | Florida                      | Florida       | FIU Athletics  | FIU Academic    | _              |
|   | International                | International | Finance        | Health Center   |                |
|   | University                   | University    | Corporation    | Health Care     |                |
|   | Foundation,                  | Research      |                | Network Faculty |                |
|   | Inc.                         | Foundation,   |                | Group           |                |
|   |                              | Inc.          |                | Practice, Inc.  |                |
|   |                              | - '           |                |                 |                |
| Condensed Statement of Net Assets Assets:                               |                              |               |                |                 |                |
| Current Assets  | \$ 221,007,807               | \$ 213,146    | \$ 5,474,347   | \$ 86,767       | \$ 226,782,067 |
| Capital Assets, Net   | 12,571,256                   |               |                | 2,668           | 12,573,924     |
| Other Noncurrent Assets   | 135,060                      | _             | 34,476,448     | <del>-</del> -  | 34,611,508     |
| Total Assets  | 233,714,123                  | 213,146       | 39,950,795     | 89,435          | 273,967,499    |
| Liabilities:  |                              |               |                |                 |                |
| Current Liabilities   | 2,877,756                    | 70,909        | 1,527,527      | 52,316          | 4,528,508      |
| Noncurrent Liabilities  | 9,680,354                    | 70,000        | 40,749,119     | 262,773         | 50,692,246     |
| Horiodiron Elabinio   | 0,000,001                    | -             | 10,7 10,110    | 202,110         | 00,002,210     |
| Total Liabilities   | 12,558,110                   | 70,909        | 42,276,646     | 315,089         | 55,220,754     |
| Net Assets:   |                              |               |                |                 |                |
| Restricted  | 198,394,047                  |               |                |                 | 198,394,047    |
| Unrestricted  | 22,761,966                   | 142,237       | (2,325,851)    | (225,654)       | 20,352,698     |
| Total Net Assets  | \$ 221,156,013               | \$ 142,237    | \$ (2,325,851) |                 | \$ 218,746,745 |
| Total Not Added   | Ψ 221,100,010                | Ψ 112,207     | Ψ (2,020,001)  | Ψ (ΣΣΟ,ΟΟΊ)     | Ψ 210,140,140  |
| Condensed Statement of Revenues,<br>Expenses, and Changes in Net Assets |                              |               |                |                 |                |
| Operating Revenues  | \$ 30,342,173                | \$ 83,500     | \$ 3,591,348   | \$ 19,651       | \$ 34,036,672  |
| Operating Expenses  | (12,534,778                  |               | (2,135,027)    |                 | (14,948,168)   |
| Operating Expenses  | (12,554,110                  | (10,239)      | (2, 100,021)   | (200, 124)      | (14,340,100)   |
| Operating Income (Loss)   | 17,807,395                   | 65,261        | 1,456,321      | (240,473)       | 19,088,504     |
| Net Nonoperating Revenues (Expenses)                                    | 26,374,436                   | (41,580)      | (1,160,960)    | (1,829)         | 25,170,067     |
| Lancas (Danna and Sa Nati An  | 44 404 004                   | 00.001        | 005.001        | (0.40, 600)     | 44.050.574     |
| Increase (Decrease) in Net Assets                                       | 44,181,831                   | 23,681        | 295,361        | (242,302)       | 44,258,571     |
| Net Assets, Beginning of Year   | 176,974,182                  | 118,556       | (2,621,212)    | 16,648          | 174,488,174    |
| Net Assets, End of Year   | \$ 221,156,013               | \$ 142,237    | \$ (2,325,851) | \$ (225,654)    | \$ 218,746,745 |

#### FLORIDA INTERNATIONAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

#### 20. SUBSEQUENT EVENTS

On December 21, 2011, the University received a \$23,763,522 distribution from the sale of Florida International University Dormitory Revenue Refunding Bonds, Series 2011A, with a par value of \$22,210,000. The proceeds from this debt will be used to refund all or a portion of the outstanding State of Florida, Board of Regents, Florida International University Housing Facility Revenue Bonds, Series 1998 and 2000 and to pay issuance costs.

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

| Actuarial<br>Valuation<br>Date (1) | Actuarial<br>Value of<br>Assets<br>(a) | <br>Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) (1) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|------------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2007                           | \$                                     | \$<br>48,762,000  | \$ 48,762,000                      | 0%                       | \$ 223,494,966            | 21.8%   |
| 7/1/2009                           | \$                                     | \$<br>72,099,000  | \$ 72,099,000                      | 0%                       | \$ 239,560,000            | 30.1%   |

Note: (1) The actuarial cost method used by the institution is the entry-age cost actuarial method.

#### FLORIDA INTERNATIONAL UNIVERSITY OTHER REQUIRED SUPPLEMENTARY INFORMATION NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

## 1. SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT HEALTHCARE BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$72,099,000 was significantly higher than the July 1, 2007, liability of \$48,762,000 as a result of changes to demographic, trend, actuarial and coverage assumptions.

#### **Changes in Demographic Assumptions**

More eligible employees elected coverage than expected resulting in a considerable increase in the number of participants receiving healthcare benefits, accordingly the number employees and retirees used to compute the liability was increased.

#### **Changes in Trend Assumptions**

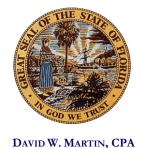
For the first two years the actuarial study used trends from the December 7, 2009, Financial Outlook for the State Employees' Group Health Self-Insurance Fund. For subsequent years the trend model has been changed to the Getzen trend model for retiree healthcare valuations. The Getzen trend model does not differentiate between pre-Medicare and post-Medicare medical trends and considers long-term healthcare trends relating what United States citizens will accept for healthcare as a percent of total gross domestic product output/consumption.

#### **Changes in Actuarial Assumptions**

Participants are living longer after retirement and receiving healthcare benefits for more years than assumed previously which increases healthcare costs. Reductions in healthcare costs resulted from retirement rates which were less than expected as participants are retiring at older ages and disability rates which were less than expected. The assumptions for these factors have been adjusted to be more in line with experience and to recognize general trends.

#### **Changes in Coverage Assumptions**

As a result of the change in demographic assumptions the number of participants that are expected to elect coverage at retirement has also been increased to reflect the revised expectations.



**AUDITOR GENERAL** 

### AUDITOR GENERAL STATE OF FLORIDA

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



PHONE: 850-488-5534 FAX: 850-488-6975

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

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

We have audited the financial statements of Florida 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, 2011, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

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

We noted certain matters that we reported to University management in our operational audit report No. 2012-092.

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

Respectfully submitted,

Q W. Marker

David W. Martin, CPA

March 2, 2012

### FLORIDA INTERNATIONAL UNIVERSITY

### **Operational Audit**



STATE OF FLORIDA AUDITOR GENERAL DAVIDW. MARTIN, CPA

#### **BOARD OF TRUSTEES AND PRESIDENT**

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Albert Maury, Chair from 3-30-11, Vice Chair to 3-29-11 (1) Michael M. Adler, Vice Chair from 3-30-11 Albert E. Dotson, Sr., Chair to 1-06-11 Sukrit Agrawal Cesar L. Alvarez Dr. Jose J. Armas from 3-22-11 Jorge L. Arrizurieta Thomas A. Breslin (2) Joseph L. Caruncho Marcelo Claure Mayi de la Vega from 3-22-11 S. Lawrence Kahn, III to 6-21-11 (3) Miriam Lopez to 1-20-11 (4) Patrick O'Keefe from 5-01-11 (5) Claudia Puig Helena Ramirez to 4-30-11 (5)

#### Dr. Mark B. Rosenberg, President

Notes: (1) Chair position remained vacant from January 7, 2011, through March 29, 2011.

(2) Faculty senate chair.

(3) Position remained vacant from June 22, 2011, through June 30, 2011.

(4) Position remained vacant from January 21, 2011, through March 21, 2011.

(5) Student body president.

The audit team leader was Pierre Chammas and the audit was supervised by Ramon A. Gonzalez, CPA. For the information technology portion of this audit, the audit team leader was Sue Graham, CPA, CISA, and the supervisor was Heidi G. Burns CPA, CISA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at <a href="mailto:imstultz@aud.state.fl.us">imstultz@aud.state.fl.us</a> or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at <a href="https://www.myflorida.com/audgen">www.myflorida.com/audgen</a>; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

#### FLORIDA INTERNATIONAL UNIVERSITY

#### **SUMMARY**

Our operational audit disclosed the following:

#### **RECEIVABLES**

Finding No. 1: The University's controls over parking citation receivables needed improvement.

#### **CAPITAL ASSETS**

Finding No. 2: The University's controls over tangible personal property needed improvement.

#### **MOTOR VEHICLE UTILIZATION**

<u>Finding No. 3:</u> Vehicle usage logs were not always complete and did not always include evidence of supervisory review.

Finding No. 4: The University's procedures for monitoring motor fuel consumption needed improvement.

#### **PROCUREMENT OF GOODS AND SERVICES**

Finding No. 5: The University's controls over its credit card programs needed improvement.

<u>Finding No. 6:</u> In some instances, purchases exceeding the bid threshold were made utilizing a University credit card without the benefit of a competitive selection process.

#### INFORMATION TECHNOLOGY

Finding No. 7: Some inappropriate or unnecessary information technology (IT) access privileges existed.

Finding No. 8: The University did not timely deactivate the IT access privileges of some former employees.

<u>Finding No. 9:</u> The University's IT security controls related to user authentication, logging and monitoring, and data loss prevention needed improvement.

#### BACKGROUND

The Florida International University (University) 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 five years. The faculty senate chair and student body president also are members.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and Board of Governors' Regulations. The University President is selected by the Trustees and confirmed by the Board of Governors. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

The results of our financial audit of the University for the fiscal year ended June 30, 2011, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2011, will be presented in a separate report.

#### FINDINGS AND RECOMMENDATIONS

Receivables

#### Finding No. 1: Parking Citations Receivable

Department of Parking and Transportation (Department) records indicated that accounts receivable for parking citations totaled approximately \$1.5 million at June 30, 2011, which included amounts due from students and visitors. During the 2010-11 fiscal year, the University wrote-off approximately \$774,000 of parking citation receivables. The Department's Collection Policy 11.9.1, requires that a hold be placed on student transcripts or diplomas for the nonpayment of parking citations older than 10 days and a hold on student registration records for citations older than 120 days.

Our test of 20 parking citations issued to students disclosed that for 5 students tested, with parking citations older than 10 days, a hold was not timely placed on student transcripts or diplomas (holds were placed from 16 to 85 days after the date the citation was issued). In response to our inquiry, University personnel indicated that the primary cause of not timely placing holds on these records was because the citations were not entered into the system in a timely manner. To place a hold, the system counts 10 days from the date the citation is entered into the system rather than from the date the citation is issued. In addition, holds are not placed if citations are under appeal or when a student has an existing hold and a new citation is issued. A similar finding was noted in our report No. 2010-096. The failure to timely place registration, transcript, or diploma holds on records of students that do not pay amounts owed for parking citations limits the University's collection efforts.

Recommendation: The University should continue its efforts to ensure that timely holds are placed on students' records for nonpayment of parking citations.

#### **Capital Assets**

#### Finding No. 2: Tangible Personal Property and Computer Software

To ensure proper accountability and safeguarding of tangible personal property and computer software, the University should maintain adequate records of property items. In addition, property items not located during physical inventory counts should be promptly reported to the property custodian, a thorough investigation made, and items not located after the investigation should be reported to the appropriate law enforcement agency. The University's Property Control Manual (Manual) requires the Property Control Department (Department) to establish guidelines and procedures governing the accountability, control, transfer, and ultimate disposal of tangible personal property, including computer software. The Department is to be notified in writing when property items are transferred, deleted, or surplused.

The University reported tangible personal property and computer software of \$184 million at June 30, 2011. We selected 30 items from the property records for physical observation. As similarly noted in our report No. 2010-096, our audit disclosed the University's controls over tangible personal property and computer software could be improved. Specifically, we noted that:

Four items with a cost value of approximately \$27,000 could not be located. The items included computer software, a laptop computer, an elliptical machine, and motion capture software. University personnel were

unable to locate the computer software as of September 2011. The laptop computer and the motion capture software were determined to have been taken off campus by faculty members; however, forms authorizing the use of the items off campus had not been prepared. The elliptical machine was reported lost or stolen and steps were being taken to remove the item from the property records; however, University personnel had not reported the lost item to an appropriate law enforcement agency.

Five items with a cost value of \$23,000 were at locations other than those stated on the property records. Contrary to the Manual, forms authorizing the transfer of these property items to locations other than those noted in the property records were not prepared.

During the 2010-11 fiscal year, the University performed a physical count of its tangible personal property and computer software, as of June 30, 2011, and 13,749 property items with a cost of approximately \$56.7 million and a net book value of \$15.6 million had not been located. University records indicated that the last inventory dates for these property items ranged from January 2004 through June 2010; however, according to University personnel, these items had not been reported to a law enforcement agency. University personnel also indicated they have continued their efforts to locate these items subsequent to fiscal year end. We selected ten of these property items that had not been located to determine their status as of August 31, 2011. Subsequent to our inquiry regarding these ten property items, University personnel indicated that four of the items were located off-campus without the authorizing forms; five of the items were located at locations other than those stated on the property records; and one item had been disposed of as surplus property, but was not removed from the property records.

Failure to maintain accurate property records for tangible personal property and computer software limits accountability over this property and increases the risk that property items may become lost, stolen, or otherwise not properly accounted for. Failure to timely report property items considered to be lost or stolen to an appropriate law enforcement agency limits the University's ability to locate or recover the missing property.

Recommendation: The University should strengthen procedures to ensure that property records are complete and accurate, including investigating property items not located during annual physical inventory counts and reporting missing property to an appropriate law enforcement agency. Also, property transfer forms or off-campus use forms should be completed to document approval for transfers or off-campus use of property.

#### Motor Vehicle Utilization

#### Finding No. 3: Vehicle Records

University records indicated that there were approximately 180 University-owned vehicles as of June 2011. University Policy 540.005, states that University vehicles are not to be used for personal use. Although the revised policy does not require that vehicle trip logs be maintained to document each trip taken by the vehicle user department, University personnel indicated that department heads are asked verbally to complete and submit vehicle logs to the Vehicles Services Department (Department). Department personnel verify the signatures and vehicle numbers and then file the logs in each vehicle's folder.

Our review of 20 vehicles used for off-campus travel disclosed that vehicle trip logs continued to be used for 17 of the 20 vehicles. The vehicle trip log provided preprinted areas to document the driver's name, destination, and purpose of the trip, date, time, and mileage. The log also provided an area for the driver's supervisor to sign as evidence of supervisory review of the log. We reviewed the vehicle logs prepared for the 17 vehicles. We noted one or more of the following for 5 of the 17 vehicle logs tested:

- The logs for 3 vehicles did not always disclose the destination or purpose of the trips.
- The log for 1 vehicle had a gap of 2,075 miles between the ending mileage on one trip and beginning mileage on the next trip.
- The logs for 3 vehicles did not include a supervisor's signature to evidence supervisory review.

To ensure that the vehicles are used for an authorized University purpose, vehicle trip logs should provide information regarding the destination and purpose of the trip. Additionally, timely supervisory review of the logs would further enhance the completeness of these records and document the propriety of vehicle usage. A similar finding was noted in our report No. 2010-096.

Recommendation: The University should implement procedures to ensure that University-owned vehicle usage is adequately documented and includes supervisory approval.

#### Finding No. 4: Monitoring Vehicle Fuel Consumption

University records indicated during the 2010-11 fiscal year, fuel expenses totaled approximately \$397,000. The University has a computerized fuel system in place that is programmed to identify each University vehicle by wireless interface prior to fueling and automatically captures each vehicle's current odometer reading, date and time of transaction, fuel quantity, and fuel type. The system allows each vehicle to pump only up to its maximum capacity and prevents fueling of vehicles that are not equipped with the system. The system also provides for the input of an allotted number of gallons by month and fuel transaction limits for each vehicle. The system does not allow a vehicle to be fueled in excess of what is programmed for that vehicle by authorized personnel, unless this control is overridden. The automated process only takes place on those vehicles that had the fuel systems installed and programmed and the system generates several reports that provide management vehicle fuel usage information, such as transaction date, vehicle operator, odometer reading, and fuel quantity for each refueling. University procedures provide for the Vehicle Services Department (Department) to forward the fuel system reports with fuel bills to the appropriate department head for review. Any inconsistencies noted by the department heads are to be reported to the Department.

We selected 15 vehicles to determine the reasonableness of fuel consumption for the period January through March 2011. We reviewed the information shown on the fuel system reports for these vehicles such as, the odometer readings, miles per gallon computations, and the quantity of fuel pumped. We also compared the odometer readings shown on the fuel system reports to the applicable vehicle trip logs. The following deficiencies were noted for 10 of the 15 vehicles tested:

- For one vehicle, the mileage on the fuel system report remained unchanged during various dates in which the vehicle was fueled between January and March 2011. The vehicle trip logs had approximately 10,000 more miles reported than the mileage reported on the fuel system report. This error in odometer reading in the fuel system report distorted the calculation of miles driven between refueling and University records did not document supervisory review of the report or the resolution of the difference in mileage between the fuel system report and the vehicle trip log.
- For ten vehicles, the odometer readings, as shown on the fuel system reports on the dates of fueling the vehicles, were not within the range of miles driven for the same dates as shown on the vehicle's trip logs. The differences noted in odometer readings ranged from 306 to 51,869 miles. Procedures were not in place to compare these records and document the reasons for these differences.

Under these circumstances, the University has limited assurance of the accuracy of the fuel system reports that are being used by management to monitor the reasonableness of fuel consumption and there is increased risk that unauthorized use of University fuel may occur. A similar finding was noted in our report No. 2010-096.

Recommendation: The University should enhance procedures to monitor the reasonableness of fuel consumption by comparing odometer readings on the fuel system reports to vehicle odometer readings. University records should document supervisory review and resolution of differences between vehicle odometer readings and odometer readings listed on the fuel system reports.

#### Procurement of Goods and Services

#### Finding No. 5: Credit Card Programs

The University's credit card programs include a purchasing card (P-card) program and a travel and entertainment credit card (T&E card) program.

#### P-card Program

The P-card program provides credit cards to authorized personnel to procure certain goods and services and to pay for employee travel costs. P-card charges are billed to the University, which is responsible for making payment to the bank. The University developed a Commodity Card Program (CCP) Manual for the purchase of goods and services and a Travel and Other Expenses Manual for the purchase of travel and entertainment services. Both manuals address the policies, procedures, and controls over P-cards. A total of 799 credit cards were outstanding as of June 30, 2011, and expenditures processed through the P-card program totaled \$21.8 million during the 2010-11 fiscal year.

As similarly noted in our report No. 2010-096, our test of 20 P-card transactions disclosed that the University's procedures for monitoring P-card purchases needed improvement. Specifically, we noted:

- Two purchases totaling \$1,834 included \$224 for Florida sales or use taxes. The University's CCP manual provides that before making a purchase, the cardholder should advise the vendor that the transaction is exempt from sales or use tax. The manual allows the cardholder to proceed with the transaction even if a vendor will not deduct the sales tax as long as the cardholder notes on the receipt that the vendor will not honor the exemption. In both instances, the cardholders did not document on the receipt the vendor's refusal to honor the University's sales tax exemption as required. Without an explanation of the reason for paying sales tax, the cardholder may have incurred unnecessary cost to the University.
- Five purchases totaling \$1,322 were for four employees' professional license renewals or license certifications. The employees' employment contract did not provide for such payments and professional licensure is a personal expense.
- One purchase totaling \$719 was for an air conditioner unit. The University's CCP Manual does not allow P-cards to be used to purchase appliances.
- One purchase totaling \$3,622 was for items classified as hazardous chemicals and lab supplies. The University has classified hazardous materials and chemicals as restricted commodities and is not an allowable purchase as provided in the University's CCP Manual. University personnel stated that based on the quantities purchased and the way the chemicals were utilized, they would be considered to be non-hazardous. However, Material Safety Data Sheets (MSDS) provided by the vendor indicated that some of the items purchased had a health hazard rating of (2), which is considered a "moderate hazard" regardless of the quantity purchased.
- For three purchases totaling \$8,438 for travel-related expenses, we noted \$1,087 of such expenses that were not in accordance with the University's Travel and Other Expenses Manual, as follows:

| Date       | Vendor<br>Category | Description  | <br>stioned<br>costs |
|------------|--------------------|--|----------------------|
| 11/12/10   | Hotel              | The charges were for lodging associated with a museum fundraising event totaling \$1,216. The University's Travel and Other Expenses Manual allows hotel accommodations as long as the maximum daily rate for the hotel room is based on the United States General Services Administration (GSA) rate (the GSA rate applies for all hotel rooms unless the room is at the "official" hotel for a meeting/convention). The charges for the hotel were \$269 a night; however, the GSA rate was \$104 per night, which resulted in \$519 in charges for lodging in excess of the amount allowed. | \$<br>519            |
| 09/24/10   | Restaurant         | The charges were for a dinner for students enrolled in the professional MBA program at a cost of \$6,917, which included \$1,236, for a 20 percent gratuity. The gratuity exceeded the amount allowed by the University's Travel and Other Expenses Manual by \$309, based on the 15 percent gratuity allowed.   | 309                  |
| 12/26/10   | Auto Rental        | The charges were for rental of a vehicle to transport seven passengers from an airport to a football game and back to the airport on the same day for \$305. The allowable rental of a van for 12 passengers was listed at \$46 per day. A list of passengers with their travel authorization numbers was not provided to support the need for this larger vehicle contrary to the University's Travel and Other Expenses Manual, and University records did not document justification for the rate charged for the vehicle.  | 259                  |
| Total Ques | stioned Costs      |  | \$<br>1,087          |

#### Travel and Entertainment Card Program

The T&E card program is offered to faculty and staff as a method to pay for University business travel and entertainment expenses. The T&E card charges are billed to the employee, who is responsible for making payment to the bank. It is the responsibility of the cardholder to submit an expense report to the University for all authorized travel and entertainment expenses and, once the transactions are approved, the cardholder receives the reimbursement prior to the date required to make payment to the bank. The University developed a T&E Card Manual, which addresses the policies, procedures, and controls over the T&E card program. A total of 98 T&E credit cards were outstanding as of June 30, 2011, and expenditures processed through this program totaled \$302,000 during the 2010-11 fiscal year.

The T&E Card Manual provides that transactions made within the State of Florida are exempt from the State of Florida sales and use tax and requires that all cardholders submit a University Certificate of Exemption to all vendors. However, since T&E card charges are billed to the cardholder and not the University, the guidance provided by the T&E Card Manual is not consistent with Florida Department of Revenue Rule 12A-1.038(3)(a), Florida Administrative Code, which states that "purchases of property or services used for an exempt entity must be made with the purchasing entity's funds and not with the funds of the entity's authorized representative. When the purchases are made with an authorized representative's personal funds, the purchases are subject to tax, even if the representative is subsequently reimbursed with the entity's funds."

The University's T&E Card Manual also provides that all travel expenses must be made in accordance with the University's travel and expense procedures. The Manual allows hotel accommodations as long as the maximum daily rate for the hotel room is based on the GSA rate and the United States Department of Defense (DOD) rate for domestic and foreign travel, respectively (the rates apply for all hotel rooms unless the room is at the "official" hotel for a meeting/convention). Our test of 25 T&E card transactions disclosed two purchases for travel expenses paid with University funds totaling \$2,738 that were not in accordance with the University's T&E Card Manual, as follows:

| Date       | Vendor<br>Category | Description  | _, | tioned<br>osts |
|------------|--------------------|--|----|----------------|
| 02/21/11   | Hotel              | The charges were for lodging in Jacksonville for student recruitment. The employee charged daily rates of \$179 and \$189 a night; however, the GSA maximum rate allowed was \$82 per night, which resulted in \$408 in charges for lodging in excess of the amount allowed. | \$ | 408            |
| 02/27/11   | Hotel              | The charges were for lodging in San Juan, Puerto Rico with a daily rate of \$249 per night; however, the DOD rate allowed was \$195 per night, resulting in \$324 in charges for lodging in excess of the amount allowed.  |    | 324            |
| Total Ques | tioned Cost        | es s   | \$ | 732            |

Recommendation: The University should enhance its monitoring procedures to ensure that credit card programs are administered in accordance with established policies and procedures. In addition, the University should revise its T&E Card Manual to be consistent with applicable rules related to purchases that qualify as exempt from sales tax.

#### Finding No. 6: Competitive Procurement

Board of Governors Regulation (BOG) 18.001, Purchasing Regulations, requires each university board of trustees to establish a competitive solicitation threshold not greater than \$75,000 for the purchase of commodities or contractual services. Additionally, this regulation establishes that the purchase of commodities and contractual services shall not be divided (split purchase order) to avoid the requirement of competitive solicitation. Board of Trustees' Purchasing Regulation 2201 and the University's Purchasing Manual (Manual) required that all purchases of commodities and contractual services in excess of \$75,000 be made by competitive solicitation, unless otherwise exempted. In addition, the splitting of orders, and failure to combine orders, when practical, to keep the total cost below the competitive solicitation threshold is prohibited.

Our review of purchases made through the University's credit card program, from July 2010 through June 2011, disclosed numerous credit card transactions for which orders of goods and services made from the same vendor were not combined or monitored to ensure compliance with the competitive solicitation requirements. As a result, in these instances, the University was precluded from the benefit of a competitive solicitation process, as noted below:

- Credit card charges at two vendors totaling \$514,000 and \$267,000, respectively, were for student meals for various masters' programs and student certifications. These are programs for which value-added fees are collected from the students. University records did not evidence that these services were subject to a competitive selection process, nor was there evidence that such services were exempt from a competitive selection process.
- ➤ Credit card charges at one vendor totaling \$218,000 were for student meals related to various masters programs conducted at an off-campus facility. These are programs for which value-added fees are collected from the students. University personnel and our review indicated that the meals provided were pursuant to an agreement renewed during the 2010-11 fiscal year. University records did not evidence that these services were subject to a competitive selection process, nor was there evidence that such services were exempt from a competitive selection process.
- Credit card charges at three vendors totaling \$118,000, \$268,000, and \$79,000, respectively, were for booklets, brochures, business cards, catalogs, posters, invitations, checks, forms, letterheads, and envelopes. These purchases were made without benefit of a competitive selection process. University personnel indicated that printing was an exceptional purchase for which a competitive selection process was not required under BOG Regulation 18.001(3)(d). While BOG Regulation 18.001(3)(d) provides that printing is an exceptional

purchase as it relates to the requirements of Chapter 283, Florida Statutes, these services are not included in the competitive selection exceptions provided in BOG Regulation 18.001(5)(d).

Credit card charges at one vendor totaling \$89,000 were for industrial supplies, outdoor tables, and benches and were made without benefit of a competitive solicitation process. Although the payments exceeded the \$75,000 competitive selection threshold, we were not provided with competitive selection documentation for these commodities, nor was there evidence that such commodities were exempt from a competitive selection process.

When goods and services are purchased without the benefit of a competitive selection process, the University is not assured that it is obtaining goods and services at the best price consistent with acceptable quality. A similar finding was noted in our report No. 2010-096.

Recommendation: The University should ensure that goods and services are procured using a competitive selection process as required by laws, rules, and regulations, or properly document that such procurements are exempt from competitive selection requirements.

#### Information Technology

#### Finding No. 7: Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access computer resources inconsistent with their assigned job responsibilities.

Our audit test of selected access privileges to the finance application disclosed that some employees had access privileges that either permitted the employees to perform incompatible duties or were unnecessary for their job duties. Specifically:

- Five employees from the Controller's Office and one employee from Purchasing Services had the ability to update vendor information. Also, five employees in the Controller's Office and one Athletics Department employee had the ability to process electronic funds transfers (EFTs). Changes in job responsibilities resulted in these access privileges being no longer necessary for these employees.
- One employee from the Division of Research retained access privileges that were unnecessary for the employee's new position. The access privileges included the ability to add and update vendors, approve vouchers, post journal entries, and process EFTs, contrary to an appropriate separation of duties.

Although the University performed limited reviews of specific access, these inappropriate or unnecessary access privileges indicated a need for improved University review of application access privileges. Without a comprehensive review, inappropriate and unnecessary access privileges may not be timely detected and addressed by the University, increasing the risk of unauthorized disclosure, modification, or destruction of University data and IT resources.

Recommendation: The University should enhance its process of reviewing the appropriateness of IT application access privileges and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges are compatible with employee job duties.

#### Finding No. 8: Timely Deactivation of Access Privileges (1.1-2.5-1/2)

Effective management of system access privileges includes the timely deactivation of employee IT access privileges when employment is terminated. Prompt action is necessary to ensure that access privileges are not misused by former employees or others.

The University created an automated process to remove access to the finance application the next business day following the termination date for employees who terminate employment. However, our audit test of 176 employees who terminated from the University during the period July 1, 2010, through March 14, 2011, disclosed that the automated process was not working consistently, resulting in access privileges to the finance application for 13 former employees remaining active from 2 to 327 days after their termination of employment. In response to audit inquiry, University management indicated that 1 of the 13 former employees' finance application access privileges had been used up to 38 days subsequent to the termination date; however, this was for authorized purposes. The finance application access privileges of the other 12 former employees had not been used subsequent to their termination of employment. Although the access privileges had been deactivated for all former employees tested, failure to timely deactivate access privileges increases the risk that access privileges could be misused by former employees or others.

Recommendation: The University should review and, as necessary, correct its automated process to ensure that access privileges of former employees are timely deactivated.

#### Finding No. 9: Security Controls - Authentication, Logging and Monitoring, and Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain University security controls related to user authentication, logging and monitoring, and data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, logging and monitoring, and data loss prevention, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that University data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The University should improve security controls related to user authentication, logging and monitoring, and data loss prevention to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

#### PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the University had taken corrective actions for findings included in our report No. 2010-096.

#### **OBJECTIVES, SCOPE, AND METHODOLOGY**

The Auditor General conducts operational 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.

We conducted this operational audit from March 2011 to October 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the University had taken corrective actions for findings included in our report No. 2010-096. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2010-11 fiscal.

Our audit methodology included obtaining an understanding of the internal controls by interviewing University personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the University's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

#### **AUTHORITY**

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA Auditor General

#### **MANAGEMENT'S RESPONSE**

Management's response is included as Exhibit B.

#### EXHIBIT A AUDIT SCOPE AND METHODOLOGY

| Scope (Topic)   | Methodology   |
|---|---|
| Information technology (IT) policies and procedures.                            | Reviewed the University's written IT policies and procedures to determine whether they addressed certain important IT control functions.  |
| IT access privileges and separation of duties.                                  | Tested application access privileges to determine whether access granted to sensitive finance functions promoted an appropriate separation of duties. Tested administrator accounts to determine whether the accounts were assigned to current users.   |
| IT disabling of employee access.  | Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely disabled.   |
| IT data loss prevention.  | Reviewed written security standards in effect governing the classification, management, and protection of sensitive and confidential information.   |
| IT security incident response.  | Reviewed written policies and procedures related to security incident response and reporting.   |
| IT risk management and assessment.  | Reviewed the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.   |
| IT authentication controls.   | Reviewed supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.   |
| Fraud policy and related procedures.  | Examined written policies, procedures, and supporting documentation related to the University's fraud policy and related procedures.  |
| Social security number requirements of Section 119.071(5)(a), Florida Statutes. | Examined supporting documentation to determine whether the University had provided individuals with a written statement of the purpose of collecting their social security numbers.   |
| Identity theft prevention program (Red Flags Rule).                             | Reviewed University policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.   |
| Parking citation receivables.   | Tested parking citations to determine the effectiveness of collection procedures.   |
| Works of art and historical treasures.  | Reviewed controls over works of art and historical treasures to determine whether the University had established adequate safeguards to protect such assets from theft or loss.   |
| Tangible personal property.   | Examined tangible personal property records to determine whether they contained information necessary to account for and identify. Tested property items to determine whether the University's property records accurately described the property item. Reviewed deleted property items to determine the authority and timeliness of the deletions. |

# EXHIBIT A (CONTINUED) AUDIT SCOPE AND METHODOLOGY

| Scope (Topic)  | Methodology   |
|--|---|
| Cash collection procedures at decentralized collection points. | Reviewed control procedures at selected locations to determine the effectiveness of the University's collection procedures.   |
| Florida residency determination and tuition.                   | Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and Board of Governors Regulation 7.005.  |
| Tuition differential fees.                                     | Reviewed tuition differential fees collected to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.   |
| Distance learning fees and excess hour surcharges.             | Determined whether distance learning fees and excess hour surcharges were assessed and collected as provided by Sections 1009.24(17) and 1009.286(2), Florida Statutes.   |
| Continuing education programs.                                 | Reviewed University policies and procedures to ensure that credit continuing education courses did not compete with, or replace, the regular on campus courses taken by degree seeking or special students.   |
| Overtime payments.   | Reviewed University policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.  |
| Terminal Pay.  | Reviewed University policies and procedures for terminal pay to ensure policies and procedures are consistent with Florida law. Tested terminal pay to former employees and determined whether the University properly calculated terminal pay in accordance with University policies and procedures. |
| Procurement policies and procedures.                           | Examined University regulations related to procurement for compliance with the Board of Governors regulations.  Tested bids and reviewed supporting documentation to determine compliance with competitive procurement requirements.  |
| Electronic vendor payments.                                    | Reviewed University policies and procedures related to electronic vendor payments and tested supporting documentation to determine if selected electronic vendor payments were properly authorized and supported.   |
| Purchasing card transactions.                                  | Reviewed transactions to determine whether purchasing cards were administered in accordance with University policies and procedures. Also, determined whether purchasing cards were timely cancelled upon termination of employment.  |
| Vehicle usage records.   | Tested University owned vehicles and reviewed vehicle logs to determine that vehicle usage was for University purposes.   |

# EXHIBIT A (CONTINUED) AUDIT SCOPE AND METHODOLOGY

| Scope (Topic)                      | Methodology   |
|------------------------------------|---|
| Vehicle fuel usage.                | Tested vehicles and related fuel management reports to determine whether the reports were accurate and reviewed by supervisory personnel, and whether the vehicles' reported miles per gallon appeared reasonable.  |
| Contractual agreements.            | Tested payments for contractual services and examined supporting documentation to determine whether payments were properly documented, classified, and made in accordance with contractual terms.   |
| Construction administration.       | Reviewed major construction projects for compliance with University policies and procedures and provisions of law and rules. Also, for construction management contracts, determined whether the University monitored the selection process of architects and engineers, construction managers, and subcontractors. |
| Insuring architects and engineers. | Tested major construction projects in progress during the audit period to determine whether the University had obtained evidence of required insurance.   |
| Direct material purchases.         | Tested a construction project in progress and reviewed supporting documentation evidencing procedures used by the University when considering direct material purchases.  |

### EXHIBIT B MANAGEMENT'S RESPONSE



February 21, 2012

Mr. David W. Martin, CPA Auditor General State of Florida G74 Claude Pepper Building 111 West Madison Street Tallahassee, FL 32399-1450

Dear Mr. Martin,

Enclosed is our response to the preliminary and tentative findings and recommendations for the Operational Audit of Florida International University for the fiscal year ended June 30, 2011. We will implement the recommendations identified during the audit in accordance with the enclosed schedule of responses.

We appreciate the thoroughness and professionalism of your staff in completing the audit. The resulting recommendations will assist us in improving our operations and safeguarding our resources.

If you have any questions or need additional information, please do not hesitate to contact Dr. Kenneth Jessell, Chief Financial Officer & Senior Vice President for Finance & Administration, at kjessell@fiu.edu.

Sincerely,

Mark B. Rosenberg

President

Cc: Douglas Wartzok, Provost & Executive Vice President Kenneth Jessell, Chief Financial Officer & Senior Vice President for Finance and Administration

OFFICE OF THE PRESIDENT

### EXHIBIT B (CONTINUED) MANAGEMENT'S RESPONSE

#### FLORIDA INTERNATIONAL UNIVERSITY Responses to Preliminary and Tentative Findings Operational Audit - Fiscal Year Ended June 30, 2011

#### Finding No. 1: Parking Citations Receivable

#### Recommendation:

The University should continue its efforts to ensure that timely holds are placed on students' records for nonpayment of parking citations.

#### Response:

We will revise our procedure to identify the exemptions in placing the hold on a student record(s). We have identified that citations placed under appeal and manually written citations constitute these exemptions.

For appealed citations the parking system will look at the appeal(s) result date before a hold is placed on the student records. During the beginning of each semester the amount of appeals received are substantially higher. Our process varies from 3-4 weeks during an off peak times and 6-8 weeks during peak times.

University police officers manually written citations will be entered in the parking computerized system within 48 hours of issuance (taking into considerations non regular business hours/weekends and holidays). The student financial hold will be set from the day the citation was entered constituting a total of 12 days.

A report will be created to ensure that these procedures are followed and the holds are placed accordingly to policy and procedures. All exemptions shall be addressed in a timely manner.

Final Implementation Date: March 31, 2012

#### Finding No. 2: Tangible Personal Property and Computer Software

#### Recommendation:

The University should strengthen procedures to ensure that property records are complete and accurate, including investigating property items not located during annual physical inventory counts and reporting missing property to an appropriate law enforcement agency. Also, property transfer forms or off-campus use forms should be completed to document approval for transfers of off-campus use of property.

#### Response:

The University is aware of the importance of the accountability and safeguarding of tangible assets and therefore has made the following changes to its procedures to ensure that property records are complete and accurate.

The University has implemented the Asset Management Self-Service function within Peoplesoft to automate the transfer of property. The transfer of property between locations, accountable officer, or funding source will be through an approval processes within Peoplesoft and eliminate the current paper process.

### EXHIBIT B (CONTINUED) MANAGEMENT'S RESPONSE

FIU RESPONSES TO PELIMINARY AND TENTATIVE FINDINGS FY10-11

The University is also in the process of eliminating our current paper forms to electronic forms, with electronic approvals, to streamline and maintain better records for those assets off campus and those requiring a Report of Survey.

The University has also strengthened its procedures for property that cannot be located. Departmental Accountable Officers will need to submit Reports of Survey within an acceptable time period. If no Report of Survey is submitted, Property Control will initiate the Report of Survey reporting the missing property to the appropriate law enforcement agency. Due to the unique nature of property that is listed as being research-related, Property Control will investigate further with the project manager/principle investigator of record to locate and account for research-related property.

<u>Final Implementation Date:</u> AM Self-Serve, November 2011 and Electronic Forms, April 2012

#### Finding No. 3: Vehicle Records

#### Recommendation:

The University should implement procedures to ensure that University-owned vehicle usage is adequately documented and includes supervisory approval.

#### Response:

Departments that currently have a vehicle will be required to record vehicle mileage and the purpose of the vehicle's usage. Policy 540.005 will be revised to ensure that all university vehicle users complete a mileage log for the vehicles assigned to them. Our department will immediately implement a form for verification of mileage for each vehicle. The items that will be verified are correct completion of form, mileage accountability and signature of supervisor. If any of these items are not completed correctly, mileage log will be returned to supervisor for clarification and verification.

<u>Final Implementation Date:</u> Procedure Implementation March 31, 2012 and Policy Revision June 30, 2012

#### Finding No. 4: Monitoring Vehicle Fuel Consumption

#### Recommendation:

The University should enhance procedures to monitor the reasonableness of fuel consumption by comparing odometer readings on the fuel system reports to vehicle odometer readings. University records should document supervisory review and resolution of differences between vehicle odometer readings and odometer readings listed on the fuel system reports.

#### Response:

Due to new federal law all fuel tanks needed to be replaced to ensure they were under EPA standards. Due to this requirement, university fuel tanks for MAM Campus were not functioning for the period of March 2010 to December 2011. Although Fuel Master Software was up and running for the BB Campus, accurate information on mileage may not have been recorded properly. In addition, approximately twenty five percent (25%) of the university fleet, excluding golf carts and mules, is comprised of newer vehicles that are capable of transmitting mileage information to the AIMS system due to their internal computer system.

### EXHIBIT B (CONTINUED) MANAGEMENT'S RESPONSE

FIU RESPONSES TO PELIMINARY AND TENTATIVE FINDINGS FY10-11

Nevertheless, the department will update the procedure to identify the definition of a "trip". A trip to pump gas is considered a "trip" performed by the vehicle and must be logged in the mileage log. Vehicle Services department will review this log and match mileage versus consumption on a monthly basis. If discrepancies are noted, log will be sent back to department head for notification as noted on mileage log procedure.

Final Implementation Date: February 28, 2012

#### Finding No. 5: Credit Card Programs

#### Recommendation:

The University should enhance its monitoring procedures to ensure that credit card programs are administered in accordance with established policies and procedures. In addition, the University should revise its T&E Card Manual to be consistent with applicable rules related to purchases that qualify as exempt from sales tax.

#### Response:

The University has taken a multi-faceted approach to enhance its monitoring procedures and improve overall cardholder compliance.

The Credit Card Solutions Team has partnered with Quality Assurance Services to expand and enhance transaction review and monitoring.

Program participants are sent regular commutations about program updates, as well as policy and procedure reminders.

During FIU's bank conversion for card services in October 2011, The Credit Card Solutions Program implemented a mandatory training for all cardholders (Departmental and Travel and Entertainment Card) and required the user to pass an assessment at the end of the training.

Participants were also required to sign an updated Cardholder Agreement Form, acknowledging their understanding of program policies and procedures.

The Travel and Entertainment Card Manual was revised to be consistent with applicable rules related to purchases that qualify as exempt from sales tax.

Final Implementation Date: November 1, 2011

#### Finding No. 6: Competitive Procurement

#### **Recommendation:**

The University should ensure that goods and services are procured using a competitive selection process as required by laws, rules, and regulations, or properly document that such procurements are exempt from competitive selection requirements.

#### Response:

#### Student Meal Expenses

The student meals were purchased to support the needs of assorted non-traditional master programs and student certifications, and as the Audit points out, "programs for which value-added fees [were] collected from the students." The value-added fees were collected by the

### EXHIBIT B (CONTINUED) MANAGEMENT'S RESPONSE

#### FIU RESPONSES TO PELIMINARY AND TENTATIVE FINDINGS FY10-11

University on behalf of the students to pay expenses associated with the programs, such as meals, graduation and special events.

The accounting for university programs that are "off book," like these programs, is through an auxiliary account called "Continuing Education," pursuant to BOG Regulation 8.002. And, as provided by BOG Regulation 18.001(5)(d)(13), "programs, conferences, workshops, continuing education events or other university programs that are offered to the general public for which fees are collected to pay all expenses associated with the event or program" are not subject to competitive solicitation. Reading these two BOG regulations together, it has generally been accepted that expenditures made from these continuing education auxiliary accounts for related program expenses did not require a competitive solicitation.

While BOG Regulation 8.002 and 18.001 may permit student meal purchases associated with special program expenses, we do recognize the benefits a competitive solicitation process can provide. Accordingly, in light of the overall need to provide student meals for special events and programs at the university-wide level and the desire to do so in the most cost effective manner, the Purchasing Department is currently working with the Office of Business Services to competitively solicit a preferred list of caterers who can be utilized by all University units special programs and events.

#### Printing

Pursuant to Fla. Stat. \$1001.706(2)(a) and (7)(a), BOG has the authority to regulate the SUS and adopt regulations as necessary to govern SUS operations and, in particular, to adopt a purchasing regulation. Pursuant to BOG Regulation 18.001(3)(d), printing is specified as an "exceptional purchase." BOG's Purchasing regulations do not define "exceptional purchase," but the term is defined under Florida Statute §287.012(12) as "any purchase of commodities or contractual services excepted by the law or rule from the requirements of competitive solicitation." And, while the SUS is not subject to Chapter 287, university procurement has, from a policy standpoint, generally followed Chapter 287. Additionally, the BOG regulation is clear that all other categories of "exceptional purchases" under 18.001(3) are exempt from competitive solicitation. As such, similar to the categories of "exceptional purchases" as defined in Chapter 287 and in the BOG regulation, it has been generally accepted that printing is also not subject to competitive solicitation requirements.

While competitive solicitation may not be required, the University does utilize competitive solicitations whenever the circumstances prove most advantageous to the University. The University has previously, on numerous occasions, competitively solicited for University printing (e.g. University stationary, student newspaper, etc.) and will continue to do so as appropriate based upon the printing needs.

Final Implementation Date: Caterer Competitive Solicitation Completed July 2012

### EXHIBIT B (CONTINUED) MANAGEMENT'S RESPONSE

FIU RESPONSES TO PELIMINARY AND TENTATIVE FINDINGS FY10-11

#### Finding No. 7: Access Privileges

#### **Recommendation:**

The University should enhance its process of reviewing the appropriateness of IT application access privileges and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges are compatible with employee job duties.

#### Response:

The security access for all employees identified in the finding was changed to remove update vendor privilege and ability to process EFTs. The changes were recorded in PAWS via Tickets No FS-IS001094 thru FS-IS001102.

The above mentioned employee from the Division of Research had previous responsibilities as the Interim Controller. As such, she was going thru the transition of her previous responsibilities to the permanent Controller and, as an exception, retained her prior access. Even before audit conclusion, per Associate VP of Research request the employee's security was changed to reflect her new job responsibilities of Assistant VP Research Accounting. This was documented in the PAWS ticket FS-IS000903.

Final Implementation Date: Completed on August 2011 and June 2011 respectively

#### Finding No. 8: Timely Deactivation of Access Privileges

#### Recommendation:

The University should review and, as necessary, correct its automated process to ensure that access privileges of former employees are timely deactivated.

#### Response:

The automated process that was in place in the past was heavily depended on ADP limitations and as such had problems and deficiencies. In addition, there was a business process issue with how terminations were entered in ADP that was causing a delay in reflecting of these terminations within Financials. With HCM deployment (replacement of ADP), all terminations are entered on HR side in the timely manner and dynamically reflected in Financials within minutes.

Final Implementation Date: Completed January 2, 2012

# <u>Finding No. 9: Security Controls - Authentication, Logging and Monitoring, and Data Loss Prevention</u>

#### Recommendation:

The University should improve security controls related to user authentication, logging and monitoring, and data loss prevention to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

### EXHIBIT B (CONTINUED) MANAGEMENT'S RESPONSE

FIU RESPONSES TO PELIMINARY AND TENTATIVE FINDINGS FY10-11

#### Response:

The Division of Information Technology has obtained approval for the implementation of a complete Data Loss Prevention (DLP) Program that will institute control for enhancing user authentication, logging and monitoring through McAfee Electronic Policy Orchestrator, desktop encryption, network monitoring for sensitive data flow in plain text, as well as email encryption for high risk areas and email monitoring for sensitive information. In addition, the division is implementing security awareness and training classes online for the university.

Final Implementation Date: October 30, 2012