

FLORIDA STATE UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2010



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

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to 3-18-10, Chair from 3-19-10 (1)
Susie Busch-Transou, Vice Chair from 6-10-10
Jim Smith, Chair to 3-18-10
Harold Knowles, Vice Chair to 1-06-10 (2)
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Dustin R. Daniels from 3-22-10 (3)
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Robert J. Jakubik to 3-21-10 (3)
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Richard McFarlain to 1-06-10
Leslie Pantin, Jr.
Margaret A. Rolando from 1-07-10
Brent W. Sembler from 3-19-10
Dr. Eric C. Walker (4)

Dr. Eric J. Barron, President
from February 1, 2010

Dr. T. K. Wetherell, President
to January 31, 2010

Notes: (1) Vice Chair position vacant from
March 19, 2010, to June 9, 2010.
(2) Vice Chair position vacant from
January 7, 2010, to February 18, 2010.
(3) Student body president.
(4) Faculty Senate chair.

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

The audit team leader was Kathy Stich, CPA, and the audit was supervised by Cheryl B. Pueschel, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

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

**FLORIDA STATE UNIVERSITY
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

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

Audit Objectives and Scope

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

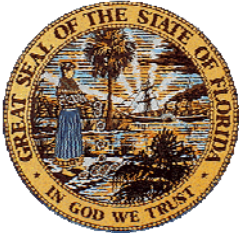
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
-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

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

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

Audit Methodology

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida State University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2010, which collectively comprise the University's basic financial statements as shown on pages 12 through 42. 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 State University and of its aggregate discretely presented component units as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, the Florida Medical Practice Plan, Inc. reported financial activities for an 18-month period ended June 30, 2010. This affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 2 to the financial statements, the University changed its reporting of the liability for Capital Improvement (Housing, Parking, and Dining) Revenue Bonds and the 2001 Research Foundation Revenue Bonds from bonds payable to capital improvement debt payable during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

As discussed in note 3 to the financial statements, the University discontinued reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds on the University's statement of net assets during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 11 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 43 and 44 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 principally of inquiries of management regarding the methods of measurement 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
January 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Florida State University (University) for the fiscal year ended June 30, 2010, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$2.3 billion at June 30, 2010. This balance reflects a \$66.1 million, or 2.9 percent, increase from the 2008-09 fiscal year. Total investments increased by \$53 million or 10 percent and net capital assets increased by \$54 million or 3.6 percent. The amount due from the State decreased by \$36.2 million or 33.4 percent due to a reduction in large construction projects at the University. While assets grew, liabilities decreased by \$69.2 million, or 15.6 percent, totaling \$374.5 million at June 30, 2010, compared to \$443.7 million at June 30, 2009. This decrease was largely due to the removal of \$50 million of State University Capital Improvement Trust Fund Revenue Bonds from the University's books. Further information on this adjustment is presented in note 3 to the financial statements. Additionally, deferred revenues decreased by \$22.8 million, or 27.4 percent, because of a reduction in capital appropriations not yet approved for spending. As a result, the University's net assets increased by \$135.3 million, or 7.5 percent, reaching a year-end balance of \$1.9 billion.

The University's operating revenues totaled \$463.4 million for the 2009-10 fiscal year, representing a 7.1 percent increase over the 2008-09 fiscal year, primarily as a result of tuition increases to offset decreases in State funding. Operating expenses totaled \$894.6 million for the 2009-10 fiscal year, representing an increase of 2.8 percent over the 2008-09 fiscal year due mainly to a related increase in scholarships and fellowships. Net nonoperating revenues for the 2009-10 fiscal year totaled \$462.5 million, representing an increase of 6 percent from the 2008-09 fiscal year primarily due to a decrease in State appropriations, offset by increases in unrealized gains on investments, Federal and State student financial aid, and by new State appropriated American Recovery and Reinvestment Act moneys.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include the Florida State University College of Medicine Self-Insurance Program, eight discretely presented direct-support organizations, and the Florida State University Developmental Research School.

Information regarding these component units, including a description of each and summaries of their separately issued financial statements, is presented in the notes 1, 4, and 17 to the 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. While audited financial statements for the 2008-09 fiscal year are not presented with this report, condensed data will be presented in the MD&A to illustrate certain increases and decreases.

THE STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the University at fiscal year end. This statement provides a picture of assets minus liabilities and their availability for expenses by the University. The change in net assets is one indicator of whether the overall financial condition of the University has improved or worsened during the year.

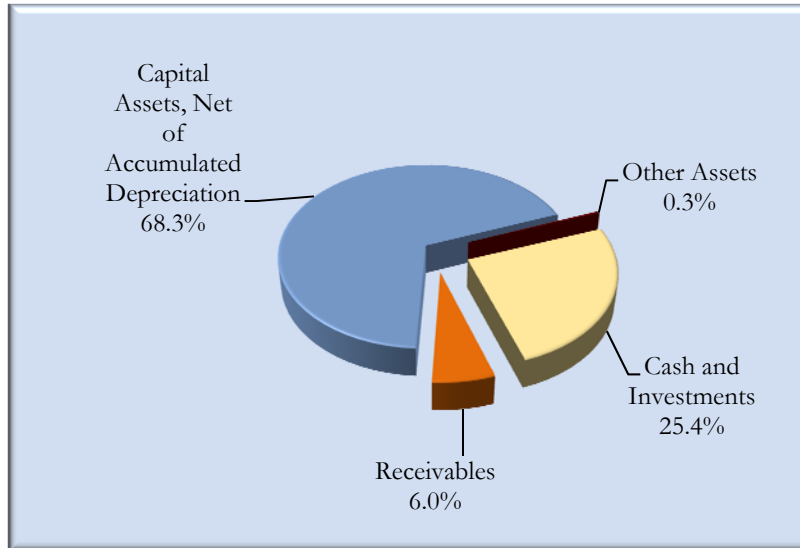
The following table shows a condensed statement of net assets at June 30:

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

	2010	2009
Assets		
Current Assets	\$ 677,815	\$ 662,422
Capital Assets, Net	1,574,125	1,520,147
Other Noncurrent Assets	53,724	57,041
Total Assets	2,305,664	2,239,610
Liabilities		
Current Liabilities	119,505	138,857
Noncurrent Liabilities	254,986	304,874
Total Liabilities	374,491	443,731
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,384,027	1,284,138
Restricted	166,715	169,063
Unrestricted	380,431	342,678
Total Net Assets	\$ 1,931,173	\$ 1,795,879

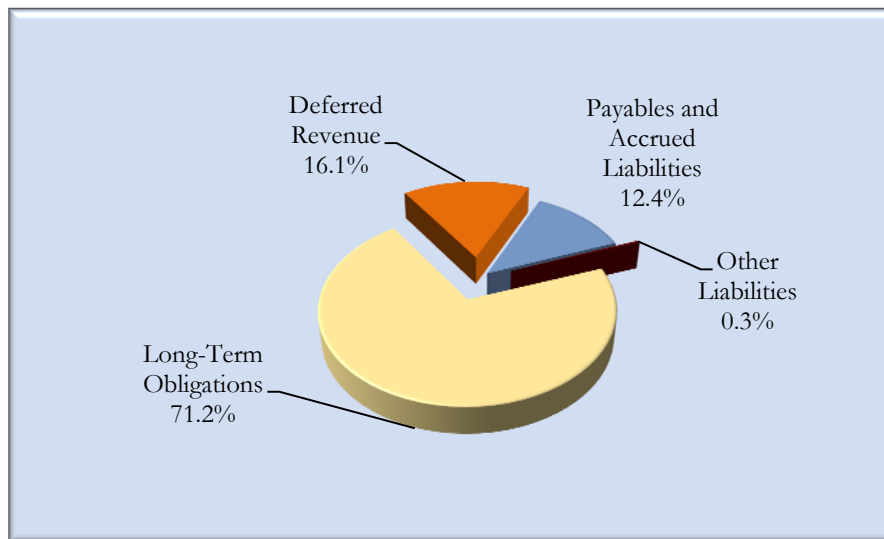
Assets are what the University owns and are measured in current value, except for property and equipment, which are recorded at historical costs less accumulated depreciation. Assets are categorized as either current or noncurrent. Current assets are generally considered to be convertible to cash within one year. The following chart presents assets by percent:

Total Assets



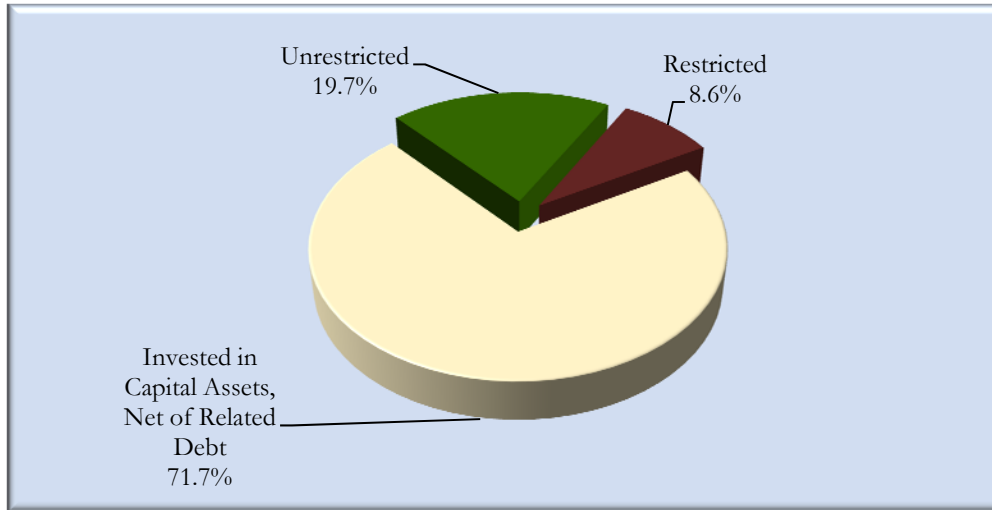
Liabilities are what the University owes to others or what it has collected from others before it has provided the related services. Liabilities are also categorized as either current or noncurrent. Current liabilities are amounts becoming due and payable within the next year. The following chart presents liabilities by percent:

Total Liabilities



Net assets are divided into three categories. Invested in capital assets, net of related debt represents the historical cost of capital assets reduced by the balance of related outstanding debt and accumulated depreciation. Restricted net assets include amounts that have been restricted for use by an external party and are further broken down into nonexpendable and expendable. Restricted expendable net assets include amounts restricted by external parties for such things as debt service, student loans, and capital projects. Finally, unrestricted net assets include amounts institutionally designated or committed to support specific academic and research programs, and for working capital requirements. The following chart presents net asset categories by percent:

Total Net Assets



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

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

The following summarizes the University’s activity for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Operating Revenues	\$ 463,406	\$ 432,863
Operating Expenses	(894,644)	(870,250)
Operating Loss	(431,238)	(437,387)
Net Nonoperating Revenues	462,467	436,386
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	31,229	(1,001)
Net Other Revenues	54,030	66,754
Net Increase In Net Assets	85,259	65,753
Net Assets, Beginning of Year	1,795,879	1,730,126
Adjustments to Beginning Net Assets (1)	50,035	
Net Assets, Beginning of Year, as Restated	1,845,914	1,730,126
Net Assets, End of Year	\$ 1,931,173	\$ 1,795,879

Note: (1) Due to a change in reporting State University System Capital Improvement Trust Fund Revenue Bonds. See note 3 to the financial statements.

Operating Revenues

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

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

Operating Revenues (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Net Tuition and Fees	\$ 156,832	\$ 132,154
Grants and Contracts	170,474	158,283
Sales and Services of Educational Departments	1,325	1,443
Sales and Services of Auxiliary Enterprises	128,657	129,247
Other	6,118	11,736
Total Operating Revenues	<u>\$ 463,406</u>	<u>\$ 432,863</u>

Total operating revenues increased \$30.5 million, or 7.1 percent, with the change being primarily attributable to two factors. Student tuition and fees, net of scholarship allowances, increased by \$24.7 million, or 18.7 percent, mainly due to tuition increases to offset decreases in State funding. Grants and contracts revenues increased by \$12.2 million, or 7.7 percent, primarily driven by an increase in American Recovery and Reinvestment Act (ARRA) funds received by the University.

Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2009-10 and 2008-09 fiscal years:

Operating Expenses (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Compensation and Employee Benefits	\$ 524,482	\$ 513,723
Services and Supplies	172,821	171,991
Utilities and Communications	45,831	50,128
Scholarships, Fellowships, and Waivers	84,738	67,212
Depreciation	66,361	67,047
Self-Insurance Claims and Expenses	411	149
Total Operating Expenses	<u>\$ 894,644</u>	<u>\$ 870,250</u>

Operating expenses increased \$24.4 million, or 2.8 percent, for the fiscal year with the change being primarily attributable to an increase of \$17.5 million, or 26.1 percent, in scholarships, fellowships, and waivers. This increase was mainly the result of additional Pell Grant monies disbursed.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2009-10 and 2008-09 fiscal years:

Nonoperating Revenues (Expenses)		
(In Thousands)		
	2009-10	2008-09
State Appropriations	\$ 302,976	\$ 362,682
Federal and State Student Financial Aid	99,606	82,618
State Appropriated American Recovery and Reinvestment Act Funds	23,376	
Noncapital Grants, Contracts, and Gifts	21,644	18,579
Investment Income	30,959	8,435
Other Nonoperating Revenues	1,050	1,833
Loss on Disposal of Capital Assets	(1,030)	(3,989)
Interest on Capital Asset-Related Debt	(8,813)	(10,784)
Other Nonoperating Expenses	(7,301)	(22,988)
Net Nonoperating Revenues	\$ 462,467	\$ 436,386

Net nonoperating revenues increased by \$26.1 million, or 6 percent. Investment income was up \$22.5 million primarily due to an increase in unrealized gains on investments. Federal and State student financial aid increased by \$17 million, or 20.6 percent, primarily as a result of increased Pell Grant monies received. Other nonoperating expenses decreased by \$15.7 million, or 68.2 percent, primarily because of \$14.6 million in nonoperating expenses recorded in the 2008-09 fiscal year related to a Federal capital contribution liability for the Perkins loan program. State appropriations decreased by \$59.7 million or 16.5 percent, which was partially offset by \$23.4 million in new State appropriated ARRA moneys.

Other Revenues, Expenses, Gains, or Losses

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

Other Revenues, Expenses, Gains, or Losses		
(In Thousands)		
	2009-10	2008-09
Capital Appropriations	\$ 40,439	\$ 48,172
Capital Grants, Contracts, Donations, and Fees	13,591	18,582
Total	\$ 54,030	\$ 66,754

Adjustment to Beginning Net Assets

The University recorded a prior period adjustment that increased beginning net assets by \$50 million, which represents the removal of State University System Capital Improvement Trust Fund Revenue Bonds and related deferred charges. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all Florida universities and remitted in total to the Florida Department of Education. See note 3 to the financial statements for additional information.

THE STATEMENT OF CASH FLOWS

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

The following summarizes cash flows for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (361,313)	\$ (351,961)
Noncapital Financing Activities	445,491	444,095
Capital and Related Financing Activities	(75,872)	(73,509)
Investing Activities	(21,203)	(11,434)
Net Increase (Decrease) in Cash and Cash Equivalents	(12,897)	7,191
Cash and Cash Equivalents, Beginning of Year	16,327	9,136
Cash and Cash Equivalents, End of Year	\$ 3,430	\$ 16,327

Major sources of funds came from State appropriations totaling \$304 million, net student tuition and fees totaling \$156.8 million, grants and contracts totaling \$166.8 million, and sales and services of auxiliary enterprises totaling \$128.6 million. Major uses of funds were for payments made to and on behalf of employees totaling \$516.7 million; payments to suppliers totaling \$221.3 million; and payments to and on behalf of students for scholarships totaling \$84.7 million.

CAPITAL ASSETS

At June 30, 2010, the University had \$2.3 billion in capital assets, less accumulated depreciation of \$0.7 billion, for net capital assets of \$1.6 billion. Depreciation charges for the current fiscal year totaled \$66.4 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30
(In Thousands)**

	<u>2010</u>	<u>2009</u>
Land	\$ 51,087	\$ 48,389
Buildings	1,174,402	1,132,693
Construction in Progress	78,437	65,045
Infrastructure and Other Improvements	72,562	75,301
Furniture and Equipment	90,161	90,202
Library Resources	31,580	30,441
Works of Art and Historical Treasures	73,762	73,678
Computer Software and Other Capital Assets	<u>2,134</u>	<u>4,398</u>
Capital Assets, Net	<u>\$1,574,125</u>	<u>\$1,520,147</u>

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses for the 2009-10 fiscal year included the Ruby Diamond Auditorium renovations (\$17.3 million), Johnston Building remodeling (\$14.3 million), Student Success Building (\$7.2 million), and the new Center for Academic and Professional Program Services (\$6.5 million). The University’s major capital commitments at June 30, 2010, are as follows:

	<u>Amount (In Thousands)</u>
Total Commitment	\$ 173,737
Completed to Date	<u>(78,437)</u>
Balance Committed	<u>\$ 95,300</u>

CAPITAL DEBT ADMINISTRATION

In prior fiscal years, the University reported bonds payable of \$50.3 million for State University System Capital Improvement Trust Fund Revenue Bonds, \$175.2 million for Capital Improvement Revenue Bonds, and \$19.7 million for the 2001 Research Foundation Revenue Bonds. During the 2009-10 fiscal year it was determined that the State University System Capital Improvement Trust Fund Revenue Bonds were not debt of the University, and an adjustment was made by the University to eliminate the debt. Also, during the 2009-10 fiscal year the liability for the Capital Improvement Revenue Bonds and the 2001 Research Foundation Revenue Bonds was reclassified from bonds payable to capital improvement debt payable. Additional information about the changes in reporting capital debt are included in notes 2 and 3 to the financial statements.

As of June 30, 2010, the University had \$186.6 million in outstanding capital improvement debt payable, and \$1.8 million in installment purchase agreements payable, representing a decrease from the prior fiscal year of \$6.7 million, or 3.5 percent, and \$1.3 million, or 41.4 percent, respectively. The following table summarizes the outstanding long-term capital debt by type for the fiscal years ended June 30:

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

	2010	2009
Capital Improvement Debt (1)	\$ 186,588	\$ 193,282
Installment Purchases	1,790	3,057
Total	\$ 188,378	\$ 196,339

Note: (1) Bonds Payable reported at June 30, 2009, have been restated to reflect an adjustment to beginning net assets to recognize a change in reporting Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds. The University also reclassified the remaining Bonds Payable to Capital Improvement Debt to report as collateralized debt. See notes 2, 3, and 11 to the financial statements.

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The condition of the State of Florida’s economy is the primary factor impacting the University’s future. State appropriations declined by \$59.7 million for the 2009-10 fiscal year. This reduction was partially offset by the \$23.4 million of ARRA funds received from the State. State funding has not been enough to keep pace with the growth of the University. Therefore the University must rely more heavily on other revenue streams to maintain its quality programs.

For the 2009-10 fiscal year, gross tuition and fee revenues increased by \$26.1 million. This increase was possible due to a legislative approved 8 percent tuition increase for undergraduates and a tuition differential fee that allowed the University to increase undergraduate tuition up to 15 percent. Also, the University implemented a technology fee of \$4.42 per credit hour in the Fall of 2009. Given the approved increase for 2010-11 fiscal year tuition and fees with the small estimated enrollment increases, revenues should increase for the near future.

Once again, the University finished the 2009-10 fiscal year with an increase in total net assets over the previous year and is well positioned to continue providing excellence in education programs. The University’s tuition levels remain relatively low and continue to attract top students. Also the solid support from the State, the ability to attract new research funding, and the outstanding fundraising capabilities are among the factors indicating a bright future for the University.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, other required supplemental information, or requests for additional financial information should be addressed to the University Controller’s Office, Florida State University, 2200A University Center, Tallahassee, Florida 32306.

BASIC FINANCIAL STATEMENTS

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

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 3,403	\$ 28,592
Investments	544,340	117,837
Accounts Receivable, Net	37,739	26,791
Loans and Notes Receivable, Net	2,140	49
Due from State	72,138	
Due from Component Units/University	12,224	8,386
Inventories	2,621	256
Other Current Assets	3,210	1,341
	677,815	183,252
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	27	22,633
Restricted Investments	36,817	436,243
Loans and Notes Receivable, Net	13,247	50
Depreciable Capital Assets, Net	1,370,839	131,263
Nondepreciable Capital Assets	203,286	20,167
Other Noncurrent Assets	3,633	91,991
	1,627,849	702,347
	\$ 2,305,664	\$ 885,599
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 15,604	\$ 17,642
Construction Contracts Payable	9,742	
Salaries and Wages Payable	8,172	83
Deposits Payable	4,719	25
Due to State	291	
Due to Component Units/University	7,887	14,445
Deferred Revenue	60,465	24,822
Other Current Liabilities	919	9,625
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	6,919	
Bonds Payable		2,860
Loans and Notes Payable		1,192
Accrued Self-Insurance Claims	268	
Installment Purchases Payable	709	
Compensated Absences Payable	3,810	23
	119,505	70,717

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

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 179,669	\$
Bonds Payable		78,605
Loans and Notes Payable		12,757
Installment Purchases Payable	1,081	
Accrued Self-Insurance Claims	1,082	
Compensated Absences Payable	47,994	959
Other Postemployment Benefits Payable	8,632	
Other Noncurrent Liabilities	16,528	22,546
Total Noncurrent Liabilities	254,986	114,867
TOTAL LIABILITIES	374,491	185,584
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,384,027	52,163
Restricted for Nonexpendable:		
Endowment		413,280
Restricted for Expendable:		
Debt Service	276	
Loans	4,275	
Capital Projects	53,681	
Endowment		97,805
Other	108,483	59,698
Unrestricted	380,431	77,069
TOTAL NET ASSETS	1,931,173	700,015
TOTAL LIABILITIES AND NET ASSETS	\$ 2,305,664	\$ 885,599

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

FLORIDA STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2010
(In Thousands)

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$98,276 (\$7,641 Pledged for the Parking Facility Capital Improvement Debt)	\$ 156,832	\$
Federal Grants and Contracts	141,405	
State and Local Grants and Contracts	26,366	
Nongovernmental Grants and Contracts	2,703	
Sales and Services of Educational Departments	1,325	
Sales and Services of Auxiliary Enterprises (\$2,066 Pledged for Parking Facility Capital Improvement Debt and \$32,239 Pledged for Housing Facility Capital Improvement Debt)	128,657	
Sales and Services of Component Units		22,313
Royalties and Licensing Fees		11,226
Gifts and Donations		50,907
Interest on Loans and Notes Receivable	257	
Other Operating Revenues	5,861	19,218
Total Operating Revenues	463,406	103,664
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	524,482	32,059
Services and Supplies	172,821	81,336
Utilities and Communications	45,831	557
Scholarships, Fellowships, and Waivers	84,738	
Depreciation	66,361	5,412
Self-Insurance Claims and Expense	411	
Total Operating Expenses	894,644	119,364
Operating Loss	(431,238)	(15,700)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	302,976	
Federal and State Student Financial Aid	99,606	
State Appropriated American Recovery and Reinvestment Act Funds	23,376	
Noncapital Grants, Contracts, and Gifts	21,644	
Investment Income	13,953	5,805
Unrealized Gains on Investments	17,006	39,757
Other Nonoperating Revenues	1,050	2,341
Investment Expense		(17)
Loss on Disposal of Capital Assets	(1,030)	
Interest on Capital Asset-Related Debt	(8,813)	(1,005)
Other Nonoperating Expenses	(7,301)	(14,079)
Net Nonoperating Revenues	462,467	32,802
Income Before Other Revenues, Expenses, Gains, or Losses	31,229	17,102
Capital Appropriations	40,439	
Capital Grants, Contracts, Donations, and Fees	13,591	4,735
Additions to Permanent Endowments		14,229
Increase in Net Assets	85,259	36,066
Net Assets, Beginning of Year	1,795,879	663,949
Adjustments to Beginning Net Assets	50,035	
Net Assets, Beginning of Year, Restated	1,845,914	663,949
Net Assets, End of Year	\$ 1,931,173	\$ 700,015

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

FLORIDA STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010
(In Thousands)

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 156,832
Grants and Contracts	166,841
Sales and Services of Educational Departments	1,332
Sales and Services of Auxiliary Enterprises	128,601
Interest on Loans and Notes Receivable	257
Other Operating Receipts	7,102
Payments to Employees	(516,697)
Payments to Suppliers for Goods and Services	(221,283)
Payments to Students for Scholarships and Fellowships	(84,738)
Net Loans Issued to Students	450
Payments on Self-Insurance Claims	(10)
Net Cash Used by Operating Activities	(361,313)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	304,004
State Appropriated American Recover and Reinvestment Act Funds	23,376
Federal and State Student Financial Aid	117,178
Net Change in Funds Held for Others	(9)
Other Nonoperating Receipts	942
Net Cash Provided by Noncapital Financing Activities	445,491
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	51,315
Capital Grants, Contracts, Donations, and Fees	5,091
Capital Subsidies and Transfers	1
Purchase or Construction of Capital Assets	(116,657)
Principal Paid on Capital Debt	(6,740)
Interest Paid on Capital Debt	(8,882)
Net Cash Used by Capital and Related Financing Activities	(75,872)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(34,922)
Investment Income	13,719
Net Cash Used by Investing Activities	(21,203)
Net Decrease in Cash and Cash Equivalents	(12,897)
Cash and Cash Equivalents, Beginning of Year	16,327
Cash and Cash Equivalents, End of Year	\$ 3,430

FLORIDA STATE UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010
(In Thousands)

	University
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (431,238)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	66,361
Change in Assets and Liabilities:	
Receivables, Net	(2,967)
Inventories	240
Other Assets	(5,149)
Accounts Payable	1,709
Salaries and Wages Payable	1,751
Accrued Insurance Claims	402
Deposits Payable	1
Compensated Absences Payable	1,078
Deferred Revenue	1,543
Other Liabilities	1
Other Postemployment Benefits Payable	4,955
	<u>4,955</u>
NET CASH USED BY OPERATING ACTIVITIES	\$ (361,313)
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES	
Unrealized gains on investments were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 17,006
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (1,030)

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit. Based on the application of the criteria for determining component units, the Florida State University College of Medicine Self-Insurance Program is included within the University reporting entity as a blended component unit. The Self-Insurance Program was created on July 1, 2006, 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. Beginning July 1, 2009, the faculty and staff of the College of Nursing were included under the Self-Insurance Program.

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

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

- The Florida State University Foundation, Inc. (Foundation) – The University’s fund raising and private support programs are accounted for and reported separately by the Foundation. Foundation revenues include unrestricted and restricted gifts and grants, rental income, and investment income. Foundation expenses include scholarship distributions to students, departmental faculty and staff development support, various memorials and class projects, departmental research, and administrative costs of the Foundation’s development program.
- Seminole Boosters, Inc. (Boosters) – The primary purpose of the Boosters is to stimulate and promote the education, health, and physical welfare of University students by providing financial support from the private sector for the Intercollegiate Athletic Program. Funds raised by the Boosters are utilized for scholarships, recruiting expenses, and authorized travel and entertainment in accordance with the rules and regulations of the National Collegiate Athletic Association. The Boosters financial information includes the activities of the Florida State University Financial Assistance, Inc., as a blended component unit.
 - The Financial Assistance organization was created for the purpose of securing bond financing in accordance with Section 1004.28, Florida Statute. Seminole Boosters, Inc. maintains direct control of Financial Assistance and each year makes significant transfers to them to help service the bond debt.
- Florida State University International Programs Association, Inc. – The purpose of the International Programs Association is to promote intercultural activities among students, educators, and others. It provides teaching, studying, research, and conference opportunities to U.S. students, scholars, and other professionals and community groups through Florida State University Study-Abroad Programs in England, Italy, Costa Rica, and other sites.
- Florida State University Alumni Association, Inc. (Alumni Association) – The Alumni Association serves as a connecting link between alumni and the University. The nature and purpose of the Alumni Association is to aid, strengthen, and expand Florida State University and its alumni. The Alumni Association utilizes private gifts, devises, other contributions, and advertising income to publish and exchange information with University alumni, to assist the University’s development programs, and to provide public and community service.
- The Florida State University Research Foundation, Inc. (Research Foundation) – The Research Foundation was established to promote and assist the research and training activities of the University through income from contracts, grants, and other sources, including income derived from the development and commercialization of the University’s work products.
- The John and Mable Ringling Museum of Art Foundation, Inc. (Museum Foundation) – The Museum Foundation was established to provide charitable and educational aid to the University’s John and Mable Ringling Museum of Art. An annual agreement is executed between the Museum and the Foundation to allow the Foundation to act as the direct-support organization for the Museum.
- Florida Medical Practice Plan, Inc. (FMPP) – FMPP’s purpose is to improve and support medical education in the Florida State University College of Medicine. FMPP changed its fiscal year end from December 31 to June 30 to have the same fiscal period as the University. FMPP’s financial statements shown in note 17 are for the 18-month period ended June 30, 2010. This affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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

- Florida State University Magnet Research and Development, Inc. (Magnet Research and Development Organization) – The Magnet Research and Development Organization was incorporated to promote, encourage, and assist the research and training activities of faculty, staff, and students of the Florida State University and specifically to design, develop, invent, assemble, construct, test, repair, maintain, and fabricate magnets or magnet systems of any type or design.

The Florida State University Schools, Inc. – The Developmental Research School is a charter school established pursuant to Section 1002.33(5)(a), Florida Statutes. The School provides a setting where University faculty, School faculty, and graduate students can design, demonstrate, and analyze the effectiveness of new instructional materials, technological advances, and strategies under controlled conditions. It also offers an environment for the systematic research, evaluation, and development of commercial or prototype materials and techniques adaptable to other Florida public schools and supported by School and University researchers or private sector partners.

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

Condensed financial statements are not presented for the following direct-support organizations that were not operational during the fiscal year or had activity that was determined to be immaterial to the University’s financial statements.

- The Florida State University Performing Arts Center Foundation, Inc., was approved by the Board of Trustees on September 15, 2006, to raise money for building maintenance and improvement for the Center in Sarasota, Florida.
- Florida State University College of Business Investment Fund, Inc., was approved by the Board of Trustees on September 19, 2008, to support a student management investment fund and other FSU College of Business programs.

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

- Management’s Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets

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

- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements
- Other Required Supplementary Information

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

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

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

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

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income, 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

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

a third party making payment on behalf of the student. The University applied “The Alternate Method” as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

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

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, and computer software and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for tangible personal property, \$50,000 for new buildings, and \$100,000 for building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 50 years
- Infrastructure and Other Improvements – 12 to 50 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Computer Software and Other Capital Assets – 5 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of capital improvement debt payable, installment purchases payable, accrued self-insurance claims, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Capital Improvement Debt Payable is reported net of unamortized premiums or discounts, issuance costs paid from debt proceeds, and deferred losses on refundings. The University amortizes debt premiums and discounts and issuance costs paid from debt proceeds 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.

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

2. REPORTING CHANGES

In prior fiscal years, the University reported the liability for Capital Improvement (Housing, Parking, and Dining) Revenue Bonds, and the 2001 Research Foundation Revenue Bonds issued by the Florida Board of Governors on behalf of the University and the Research Foundation, as bonds payable on the statement of net assets. The Florida Board of Governors loaned the bond proceeds to the University and the Research Foundation for the stated capital improvement projects. Pursuant to an agreement with the Florida Board of Governors, revenues to be generated from the constructed facilities were pledged by the University and the Research Foundation to repay the bonds. Pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, the liability for the Capital Improvement Revenue Bonds and the Research Foundation Revenue Bonds should be reported as collateralized borrowing. Accordingly, for the 2009-10 fiscal year, the University began reporting the outstanding liability for these bonds as capital improvement debt payable. When reclassifying these liabilities from bonds payable to capital improvement debt payable the University eliminated the related deferred charges for unamortized debt issuance costs paid from debt proceeds by netting the outstanding balance with bonds payable. This change affects the comparability of amounts reported as bonds payable, deferred charges, and capital improvement debt payable on the statement of net assets for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

3. PRIOR PERIOD ADJUSTMENTS

The University's beginning net assets was increased by \$50,035,110 to record a change in reporting bonds payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years the liability for these bonds was reported on the University's statement of net assets. It has subsequently been determined that these bonds are not debt of the University. Although proceeds from the bonds were provided to the University for capital projects, the University is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all Florida universities and remitted in total to the Florida Department of Education.

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees approved a written investment policy on June 25, 2010; however, this policy did not take effect until the fiscal year beginning July 1, 2010. As such, pursuant to Sections 218.415(17) and 1011.42(5), Florida Statutes, the University was authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury;

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

and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

External Investment Pools

The University reported investments at fair value totaling \$580,940,243 at June 30, 2010, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor’s and had an effective duration of 1.81 years at June 30, 2010. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

State Board of Administration Debt Service Accounts

The University reported investments at fair value totaling \$216,734 at June 30, 2010, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University’s investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State’s Comprehensive Annual Financial Report.

Component Units Investments

Investments held by the University’s component units at June 30, 2010, are reported at fair market value as follows:

Investment Type	The Florida State University Foundation, Inc.	Florida State University Alumni Association, Inc.	Seminole Boosters, Inc.	The Florida State University Research Foundation, Inc.	The John and Mable Ringling Museum of Art Foundation, Inc.	Florida State University Schools, Inc.	Total
External Investment Pools:							
SBA - PRIME	\$	\$	\$	\$ 100,171,674	\$	\$	\$100,171,674
SBA - Fund B				1,160,967			1,160,967
SBA - CAMPMM - Restricted				272,277			272,277
Certificates of Deposit		164,081					164,081
Money Market Funds	15,546,732					4,729,943	20,276,675
U.S. Government Obligations					2,736,140		2,736,140
Stocks and Other Equity Securities			15,425,679				15,425,679
Real Estate Investments	388,741		16,166,689				16,555,430
Mutual Funds	296,631,488		15,313,498		440,843		312,385,829
Investment Agreements	84,931,112						84,931,112
Total Component Unit Investments	\$ 397,498,073	\$ 164,081	\$46,905,866	\$ 101,604,918	\$ 3,176,983	\$ 4,729,943	\$554,079,864

External Investment Pools

State Board of Administration Florida PRIME

The Research Foundation reported investments at fair value totaling \$100,171,674 at June 30, 2010, in the SBA Local Government Surplus Trust Funds Trust Fund Investment Pool, which effective July 1, 2009,

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

became known as Florida PRIME investment pool administered by the SBA pursuant to Section 218.405, Florida Statutes. The investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool at June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME carried a credit rating of AAAm by Standard & Poor's and had a weighted-average days to maturity (WAM) of 46 days at June 30, 2010. A portfolio's WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

State Board of Administration Fund B Surplus Funds Trust Fund

On December 4, 2007, the 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 balances within the Florida PRIME investment pool.

At June 30, 2010, the Research Foundation reported investments at fair value of \$1,160,967, for amounts held in the Fund B. The investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.6735 at June 30, 2010. The weighted-average life (WAL) of Fund B at June 30, 2010, was 8.05 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, 2010. WAL measures the sensitivity of Fund B to interest rate changes. The component unit's investment in Fund B is unrated.

State Board of Administration Commingled Asset Management Program

The Research Foundation reported investments at fair value totaling \$272,277 at June 30, 2010, in the Commingled Asset Management Program (CAMP) administered by the SBA. All securities purchased are consistent with Section 215.47, Florida Statutes, and may be loaned to qualified borrowers in accordance with Florida Statutes. These funds are invested in the CAMP Money Market Restricted pool (CAMPMM - Restricted).

The Research Foundation's written investment policy authorizes investment in highly diversified index funds that utilize futures, options, and other securities authorized under Section 215.47, Florida Statutes. The Research Foundation's investment policy for these diversified index funds does not specifically address interest rate risk or credit risks. The Research Foundation relies on policies developed by SBA for managing interest rate risk and credit risk for this account. The SBA has taken the position that participants in the CAMPMM - Restricted pool are required to disclose information related to interest rate risk and credit risk. This investment pool was not ranked by a nationally recognized rating agency as of June 30, 2010. The

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CAMPMM - Restricted pool principally consists of segregated securities, which are securities originally purchased for the Commingled Asset Management Pool Money Market Fund (CAMPMM) that (1) defaulted in the payment of principal and interest; (2) were extended; (3) were restructured or otherwise subject to workout; or (4) experienced elevated market illiquidity. Participants in the CAMPMM - Restricted pool receive periodic distributions to the extent that the CAMPMM - Restricted pool receives proceeds deemed material by the SBA from (1) the natural maturities of securities, coupon interest collections, or collateral interest and principal paydowns; or (2) the sales of securities, collateral liquidation, or other restructure and workout activities undertaken. The WAL (based on expected future cash flows) of the CAMPMM - Restricted pool at June 30, 2010, is estimated at 8.05 years. However, because the CAMPMM - Restricted pool consists of restructured or defaulted securities there is considerable uncertainty regarding the WAL.

Other Component Unit Investments

For the component units, the majority of investments are those reported by the Foundation. Because the Foundation reports under the FASB reporting model, disclosure of the various investment risks is not required for the Foundation's investments. The following are required risk disclosures applicable to investments of the remaining component units, which report under the GASB reporting model.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The John and Mable Ringling Museum of Art Foundation, Inc. (Museum Foundation), investment policy limits the investment activity of the Fine Arts Endowment to United States Government securities with maturities not to exceed five years. The Museum Foundation's investment policy does not limit the investment maturities of the remaining 30 percent of its portfolio as a means of managing its exposure to fair value losses arising from increasing interest rates. The Seminole Boosters, Inc., Florida State University Alumni Association, Inc., and the Florida State University Schools, Inc., do not have written investment policies addressing interest rate risk. Investments of these component units in debt securities, money market and mutual funds, and certificates of deposit, have their future maturities at June 30, 2010, as follows:

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Investment Type	Investment Maturities			
	Fair Value	Daily	(In Years)	
			Less than 1	1-5
The John and Mable Ringling Museum of Art Foundation, Inc.				
U.S. Government Obligations	\$ 2,736,140	\$	\$ 1,547,674	\$ 1,188,466
Mutual Funds	440,843		440,843	
Total	\$ 3,176,983	\$	\$ 1,988,517	\$ 1,188,466
Seminole Boosters, Inc.				
Mutual Funds	\$ 15,313,498	\$ 15,313,498	\$	\$
Florida State University Alumni Association, Inc.				
Certificates of Deposit	\$ 164,081	\$	\$ 164,081	\$
Florida State University Schools, Inc.				
Money Market Funds	\$ 4,729,943	\$	\$ 4,729,943	\$

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Obligations of the United States Government or obligations explicitly guaranteed by the United States Government are not considered to have credit risk and do not require disclosure of credit quality. At June 30, 2010, The John and Mable Ringling Museum of Art Foundation, Inc., had \$440,843 of mutual funds that were not rated, Seminole Boosters, Inc., had \$15,313,498 of mutual funds rated as AAAm by Standard & Poor’s, and The Florida State University Schools, Inc., had \$4,729,943 of money market funds rated as Aaa by Standards & Poor’s.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the component unit will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the component unit and are not registered in the component unit’s name. The John and Mable Ringling Museum of Art Foundation, Inc., the Seminole Boosters, Inc., the Florida State University Alumni Association, Inc., and the Florida State University Schools, Inc., do not have written investment policies addressing custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the component unit’s investment in a single issuer. The John and Mable Ringling Museum of Art Foundation, Inc., investment policy provides that the maximum amount that may be invested in the securities of an individual issuer other than the United States Government and its agencies shall not exceed five percent of the market value of the portfolio. The Seminole Boosters, Inc., investment policy provides that investment in any one issuer must be limited to five percent at cost and seven percent of the market value of the portfolio. The Florida State University Schools, Inc., does not have a written investment policy addressing concentration of credit risk.

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5. RECEIVABLES

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

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 9,716,738
Contracts and Grants	21,938,311
Sales and Services of Educational Departments	32,541
Sales and Services of Auxiliary Enterprises	4,977,876
Interest	1,423,700
Other	<u>1,020,444</u>
Total Accounts Receivable	<u>\$ 39,109,610</u>

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

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based on management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$1,370,545 and \$1,684,275, respectively, at June 30, 2010.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

6. DUE FROM STATE

This amount primarily consists of \$72,137,632 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction of University facilities.

7. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The University’s financial statements are reported for the fiscal year ended June 30, 2010. The University’s component units’ financial statements are reported as of the most recent fiscal year for which an audit report is available. One component unit has a fiscal year other than June 30. Accordingly, amounts reported by the University as due from and to component units on the statement of net assets do not agree with amounts reported by the component units as due from and to the University.

8. INVENTORIES

Inventories have been categorized into the following two types:

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

9. CAPITAL ASSETS

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 48,388,935	\$ 2,698,176	\$	\$ 51,087,111
Works of Art and Historical Treasures	73,677,639	163,557	79,071	73,762,125
Construction in Progress	65,045,344	84,485,326	71,093,461	78,437,209
Total Nondepreciable Capital Assets	\$ 187,111,918	\$ 87,347,059	\$ 71,172,532	\$ 203,286,445
Depreciable Capital Assets:				
Buildings	\$ 1,417,863,167	\$ 70,868,148	\$ 382,784	\$ 1,488,348,531
Infrastructure and Other Improvements	115,186,859	1,110,079		116,296,938
Furniture and Equipment	304,130,445	26,884,693	11,987,252	319,027,886
Library Resources	107,106,554	8,365,940	1,372,007	114,100,487
Computer Software and Other Capital Assets	29,569,807	455,706	151,212	29,874,301
Total Depreciable Capital Assets	1,973,856,832	107,684,566	13,893,255	2,067,648,143
Less, Accumulated Depreciation:				
Buildings	285,169,557	29,036,829	260,225	313,946,161
Infrastructure and Other Improvements	39,886,452	3,848,594		43,735,046
Furniture and Equipment	213,927,967	23,607,021	8,667,856	228,867,132
Library Resources	76,665,719	7,227,180	1,372,007	82,520,892
Computer Software and Other Capital Assets	25,171,677	2,641,057	72,852	27,739,882
Total Accumulated Depreciation	640,821,372	66,360,681	10,372,940	696,809,113
Total Depreciable Capital Assets, Net	\$ 1,333,035,460	\$ 41,323,885	\$ 3,520,315	\$ 1,370,839,030

10. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2010, to spend the funds, student tuition and fees, and other revenue received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2010, the University reported the following amounts as deferred revenue:

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Description	Amount
Capital Appropriations	\$ 37,800,000
Athletic Revenues	10,498,168
Sponsored Research	5,840,364
Housing Fees	6,271,235
Other	55,502
Total Deferred Revenue	\$ 60,465,269

11. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include capital improvement debt payable, installment purchases payable, accrued self-insurance claims, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Other noncurrent liabilities consist mainly of the liability for the Federal Capital Contribution (advance) provided to fund the University’s Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University cease making Federal Perkins Loans or has excess cash in the loan program. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable (1)	\$193,281,500	\$	\$ 6,693,685	\$ 186,587,815	\$ 6,918,684
Installment Purchases Payable	3,057,092		1,267,498	1,789,594	708,775
Accrued Self-Insurance Claims	948,554	411,492	9,569	1,350,477	268,327
Compensated Absences Payable	50,725,586	4,521,370	3,443,059	51,803,897	3,809,540
Other Postemployment Benefits Payable	3,677,000	8,038,000	3,083,000	8,632,000	
Other Noncurrent Liabilities	16,564,103	19,969	55,503	16,528,569	
Total Long-Term Liabilities	\$268,253,835	\$12,990,831	\$14,552,314	\$266,692,352	\$11,705,326

Note: (1) The University recorded an adjustment to beginning net assets to recognize a change in the reporting of Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds totaling \$50,035,110, which was net of deferred charges of \$242,725. The University also reclassified Capital Improvement Revenues Bonds and the 2001 Research Foundation Revenue Bonds totaling \$193,281,500, which was net of deferred charges of \$1,613,767 from bonds payable to capital improvement debt payable. See Notes 2 and 3.

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

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Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
1993 Housing	\$ 3,500,000	\$ 1,813,207	3.0	2022
2001 Housing	9,000,000	7,250,215	4.2 - 5.0	2030
2001A Housing	25,500,000	21,144,521	4.3 - 5.0	2031
2004A Housing	23,145,000	18,669,563	3.0 - 4.5	2034
2005A Housing	71,285,000	68,841,929	3.75 - 5.0	2035
Total Student Housing Debt	<u>132,430,000</u>	<u>117,719,435</u>		
2001 Parking	10,310,000	7,086,390	4.5 - 5.125	2022
2003A Parking	5,585,000	2,153,635	3.4 - 3.75	2014
2003B Parking	15,645,000	11,264,656	3.2 - 4.5	2023
2005A Parking	11,270,000	9,234,263	3.75 - 5.0	2025
2007A Parking	13,230,000	11,522,936	4.0 - 4.625	2026
Total Student Parking Debt	<u>56,040,000</u>	<u>41,261,880</u>		
2005A Dining	10,000,000	8,441,500	5.083 (2)	2025
Total Auxiliary Debt	<u>198,470,000</u>	<u>167,422,815</u>		
2001 Research Foundation Revenue Debt	22,590,000	19,165,000	4.0 - 4.875	2031
Total Capital Improvement Debt	<u>\$ 221,060,000</u>	<u>\$ 186,587,815</u>		

Notes: (1) Amount outstanding includes unamortized discounts and premiums, issuance costs paid from debt proceeds, and deferred losses on refunding issues.

(2) Rate listed is for interest payments through July 1, 2012. Rates are still to be determined for interest payments after July 1, 2012.

The University has pledged a portion of future housing rental revenues, traffic and parking fees, and an assessed student transportation fee based on credit hours to repay \$188.5 million in capital improvement (housing and parking) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and student housing facilities, and other student service facilities. The bonds are payable solely from housing rental income, traffic and parking fees, and an assessed student transportation fee based on credit hours and are payable through 2035. The University has committed to appropriate each year from the housing rental income and traffic and parking fees and assessed student transportation fee amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$251.5 million, and principal and interest paid for the current year totaled \$13.3 million. During the 2009-10 fiscal year housing rental income and traffic, parking, and transportation fees totaled \$32,238,785 and \$9,707,105, respectively.

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

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 6,965,000	\$ 8,649,143	\$ 15,614,143
2012	7,225,000	8,383,900	15,608,900
2013	7,510,000	8,105,163	15,615,163
2014	7,805,000	7,804,242	15,609,242
2015	7,530,000	7,467,414	14,997,414
2016-2020	43,050,000	31,905,142	74,955,142
2021-2025	47,495,000	21,088,218	68,583,218
2026-2030	34,640,000	10,974,488	45,614,488
2031-2035	23,930,000	3,249,831	27,179,831
Subtotal	186,150,000	107,627,541	293,777,541
Less: Unamortized Loss on Refundings	(615,898)		(615,898)
Less: Unamortized Issuance Costs	(1,531,434)		(1,531,434)
Plus: Net Unamortized Discounts and Premiums	2,585,147		2,585,147
Total	<u>\$ 186,587,815</u>	<u>\$ 107,627,541</u>	<u>\$ 294,215,356</u>

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$6,143,208. The stated interest rates ranged from 2.43 percent to 3.78 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2011	\$ 724,242
2012	451,623
2013	214,191
2014	134,412
2015	134,412
2016-2017	235,220
Total Minimum Payments	1,894,100
Less, Amount Representing Interest	(104,506)
Present Value of Minimum Payments	<u>\$ 1,789,594</u>

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

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\$51,803,897. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 1,141 retirees received postemployment healthcare benefits. The University provided required contributions of \$3,083,000 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 \$4,323,000.

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

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 4,124,000
Amortization of Unfunded Actuarial Accrued Liability	3,582,000
Interest on Normal Cost and Amortization	308,000
Annual Required Contribution	8,014,000
Interest on Net OPEB Obligation	147,000
Adjustment to Annual Required Contribution	(123,000)
Annual OPEB Cost (Expense)	8,038,000
Contribution Toward the OPEB Cost	(3,083,000)
Increase in Net OPEB Obligation	4,955,000
Net OPEB Obligation, Beginning of Year	3,677,000
Net OPEB Obligation, End of Year	\$ 8,632,000

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, 2010, and for the transition and preceding years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	4,479,000	58%	1,882,000
2008-09	4,243,000	63%	3,677,000
2009-10	8,038,000	38%	8,632,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$107,457,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$107,457,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$344,724,148 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 31.2 percent.

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

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

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

12. RETIREMENT PROGRAMS

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

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

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electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

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

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

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

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions, including employee contributions, for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$15,534,272, \$16,157,988, and \$15,671,982, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 581 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$2,340,130.

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

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

The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant 10.43 percent of the participant’s salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant’s annuity account.

There were 2,098 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$17,507,773 and employee contributions totaled \$7,877,791.

13. CONSTRUCTION COMMITMENTS

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Johnston Building	\$ 49,715,692	\$ 19,516,894	\$ 30,198,798
Ruby Diamond Auditorium	39,235,597	33,255,238	5,980,359
Nursing/Health Facility	18,041,163	2,945,460	15,095,703
Wildwood Halls Phase II	7,892,543	1,846,524	6,046,019
Ringling Circus Museum	7,092,444	1,751,688	5,340,756
Other (1)	51,759,484	19,121,405	32,638,079
Total	<u>\$ 173,736,923</u>	<u>\$ 78,437,209</u>	<u>\$ 95,299,714</u>

Note: (1) All other projects with committed balances less than \$5 million.

14. 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, and fleet automotive liability. During the 2009-10 fiscal year, for property losses, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$40 million for named wind and flood through

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

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

University Self-Insurance Program

The Florida State University College of Medicine Self-Insurance Program was established pursuant to Section 1004.24, Florida Statutes, on July 1, 2006. Effective July 1, 2009, the faculty and staff of the College of Nursing were added to the Self-Insurance Program. The Self-Insurance Program provides professional and general liability protection for the University for claims and actions arising from the clinical activities of the faculty, medical residents and students of the College of Medicine and College of Nursing, and includes the College's two residency programs based at Sacred Heart Hospital in Pensacola, Florida.

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 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 health care facility for educational purposes not to exceed a 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 liabilities for the Self-Insurance Program during the 2009-10 and 2008-09 fiscal years are presented in the follow table:

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JUNE 30, 2010**

Fiscal Year	Claims Liabilities Beginning of Year	Current Claims/ Changes in Estimates	Claims Payments	Claims Liabilities End of Year
2008-09	\$ 812,481	\$ 149,072	\$ 12,999	\$ 948,554
2009-10	948,554	411,492	9,569	1,350,477

15. 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:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 255,231,061
Research	114,647,449
Public Services	38,969,517
Academic Support	42,844,604
Student Services	29,688,021
Institutional Support	69,190,886
Operation and Maintenance of Plant	55,128,645
Scholarships and Fellowships	84,737,657
Depreciation	66,360,681
Auxiliary Enterprises	137,166,087
Loan Operations	679,419
Total Operating Expenses	\$ 894,644,027

16. 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 debt instruments are outstanding:

FLORIDA STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Condensed Statement of Net Assets

	Parking Facility Capital Improvement Debt	Housing Facility Capital Improvement Debt
Assets		
Current Assets	\$ 4,739,435	\$ 20,630,034
Capital Assets, Net	62,993,548	170,655,213
Other Noncurrent Assets	1,961,081	25,924,927
Total Assets	<u>69,694,064</u>	<u>217,210,174</u>
Liabilities		
Current Liabilities	2,947,572	12,741,019
Noncurrent Liabilities	39,140,195	115,896,374
Total Liabilities	<u>42,087,767</u>	<u>128,637,393</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	21,731,667	52,935,778
Restricted - Expendable	3,710,643	24,556,415
Unrestricted	2,163,987	11,080,588
Total Net Assets	<u>\$ 27,606,297</u>	<u>\$ 88,572,781</u>

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

	Parking Facility Capital Improvement Debt	Housing Facility Capital Improvement Debt
Operating Revenues	\$ 9,707,105	\$ 32,238,785
Depreciation Expense	(1,534,803)	(1,335,024)
Other Operating Expenses	(4,172,315)	(16,925,472)
Operating Income	3,999,987	13,978,289
Net Nonoperating Expenses	(1,109,030)	(3,968,111)
Income Before Other Revenues, Expenses, Gains, or Losses	2,890,957	10,010,178
Other Revenues, Expenses, Gains, or Losses	(164,780)	(404,736)
Increase in Net Assets	2,726,177	9,605,442
Net Assets, Beginning of Year	24,880,120	78,967,339
Net Assets, End of Year	<u>\$ 27,606,297</u>	<u>\$ 88,572,781</u>

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

Condensed Statement of Cash Flows

	Parking Facility Capital Improvement Debt	Housing Facility Capital Improvement Debt
Net Cash Provided (Used) by:		
Operating Activities	\$ 6,086,119	\$ 15,465,971
Noncapital Financing Activities	(164,780)	(404,736)
Capital and Related Financing Activities	(5,583,154)	(13,492,256)
Investing Activities	(374,387)	(1,596,604)
Net Decrease in Cash and Cash Equivalents	(36,202)	(27,625)
Cash and Cash Equivalents, Beginning of Year	4,145,752	15,556,989
Adjustment to Cash and Cash Equivalents, Beginning of Year (1)	(4,104,454)	(15,506,776)
Cash and Cash Equivalents, Beginning of Year - Restated	41,298	50,213
Cash and Cash Equivalents, End of Year	\$ 5,096	\$ 22,588

Note: (1) Cash and cash equivalents, beginning of year, have been restated to align the presentation with the methodology used for the University's statement of cash flows.

17. COMPONENT UNITS

The University has eleven component units as discussed in note 1, nine of which had activity during the 2009-10 fiscal year. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

**FLORIDA STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

	Direct-Support Organizations							Other	Total	
	The Florida State University Foundation, Inc. 6-30-2010	Seminole Boosters, Inc. 6-30-2010	Florida State University International Programs Association, Inc. 9-30-2009	Florida State University Alumni Association, Inc. 6-30-2010	The Florida State University Research Foundation, Inc. 6-30-2010	The John and Mable Ringling Museum of Art Foundation, Inc. 6-30-2010	Florida Medical Practice Plan, Inc. 6-30-2010	Florida State University Magnet Research and Development, Inc. 6-30-2010		Florida State University Schools, Inc. 6-30-2010
Condensed Statement of Net Assets										
Assets:										
Current Assets	\$ 16,237,087	\$ 39,732,247	\$ 5,630,554	\$ 823,154	\$ 102,389,094	\$ 2,302,100	\$ 1,606,314	\$ 1,472,151	\$ 13,059,494	\$ 183,252,195
Capital Assets, Net	1,616,788	92,956,399	20,795,265	118,586	9,595,163	217,392			26,131,138	151,430,731
Other Noncurrent Assets	429,491,770	116,147,638	7,025	109,632	3,394,338	1,765,869				550,916,272
Total Assets	447,345,645	248,836,284	26,432,844	1,051,372	115,378,595	4,285,361	1,606,314	1,472,151	39,190,632	885,599,198
Liabilities:										
Current Liabilities	10,617,470	31,774,173	2,224,909	111,600	22,979,800	109,925	748,408		700,353	1,450,192
Noncurrent Liabilities	6,182,854	77,402,673	12,526,470	15,714	337,352				18,402,168	114,867,231
Total Liabilities	16,800,324	109,176,846	14,751,379	127,314	23,317,152	109,925	748,408	700,353	19,852,360	185,584,061
Net Assets:										
Invested in Capital Assets, Net of Related Debt	1,616,788	27,670,851	6,846,345	118,586	8,567,152	217,392			7,126,138	52,163,252
Restricted	465,819,716	102,667,558				2,095,334			200,057	570,782,665
Unrestricted	(36,891,183)	9,321,029	4,835,120	805,472	83,494,291	1,862,710	857,906	771,798	12,012,077	77,069,220
Total Net Assets	\$ 430,545,321	\$ 139,659,438	\$ 11,681,465	\$ 924,058	\$ 92,061,443	\$ 4,175,436	\$ 857,906	\$ 771,798	\$ 19,338,272	\$ 700,015,137
Condensed Statement of Revenues, Expenses, and Changes in Net Assets										
Operating Revenues	\$ 25,547,069	\$ 27,280,152	\$ 11,420,941	\$ 1,693,950	\$ 13,393,731	\$ 1,428,304	\$ 10,464,694	\$ 391,052	\$ 12,043,698	\$ 103,663,591
Operating Expenses	49,497,965	30,860,802	9,924,866	1,707,926	12,030,429	1,334,586	1,968,724	454,246	11,584,442	119,363,986
Operating Income (Loss)	(23,950,896)	(3,580,650)	1,496,075	(13,976)	1,363,302	93,718	8,495,970	(63,194)	459,256	(15,700,395)
Net Nonoperating Revenues (Expenses)	44,709,008	(1,856,690)	385,964	95,215	(1,825,107)	67,956	(7,948,877)	2,235	(826,914)	32,802,790
Other Revenues, Expenses, Gains, and Losses	13,383,437	3,530,808							2,049,576	18,963,821
Increase (Decrease) in Net Assets	34,141,549	(1,906,532)	1,882,039	81,239	(461,805)	161,674	547,093	(60,959)	1,681,918	36,066,216
Net Assets, Beginning of Year	396,403,772	141,565,970	9,799,426	842,819	92,523,248	4,013,762	310,813	832,757	17,656,354	663,948,921
Net Assets, End of Year	\$ 430,545,321	\$ 139,659,438	\$ 11,681,465	\$ 924,058	\$ 92,061,443	\$ 4,175,436	\$ 857,906	\$ 771,798	\$ 19,338,272	\$ 700,015,137

**FLORIDA STATE UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

18. SUBSEQUENT EVENTS

On July 15, 2010, the University received a \$32,196,570 distribution from the sale of Florida State University Mandatory Student Fee Revenue Capital Improvement Debt, Series 2010A with a par value of \$31,320,000. The proceeds from this debt will be used for the construction of the University's Student Wellness Center.

Additionally, on August 5, 2010, the University received a \$18,212,507 distribution from the sale of Florida State University Dormitory Revenue Capital Improvement Debt, Services 2010A with a par value of \$18,910,000. The proceeds from this debt will be used for the construction of a new dormitory on the main campus of the University.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b) (1)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ -	\$ 67,043,000	\$ 67,043,000	0%	\$ 355,230,858	18.9%
7/1/2009	\$ -	\$ 107,457,000	\$ 107,457,000	0%	\$ 344,724,148	31.2%

Note: (1) The actuarial cost method used by the institution is the entry-age actuarial cost method.

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

1. SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$107,457,000 was significantly higher than the July 1, 2007, liability of \$67,043,000 primarily as a result of changes in the methodology used by the actuary to calculate this liability. The most significant of these modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and changes in the rates of decrement and mortality and the amortization factor.



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

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

We have audited the financial statements of Florida State University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2010, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

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

Respectfully submitted,



David W. Martin, CPA
January 20, 2011