REPORT NO. 2011-139
MARCH 2011

# UNIVERSITY OF NORTH FLORIDA

## Financial Audit

For the Fiscal Year Ended
June 30, 2010

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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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 Donald D. Hemmingway, CPA, and the audit was supervised by John P. Duffy, 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.

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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 the University of North Florida 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.**

# AUDITOR GENERAL
## STATE OF FLORIDA

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

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

**INDEPENDENT AUDITOR'S**
**REPORT ON FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the University of North Florida, 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 11 through 41. 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' column. 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 the University of North Florida 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 2 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 our report on our consideration of the University of North Florida'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 10 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on pages 42 and 43 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying **SCHEDULES OF RECEIPTS AND EXPENDITURES OF CITY OF JACKSONVILLE GRANT FUNDS – BUDGET AND ACTUAL** on pages 44 through 47 are presented for purposes of additional analysis as required by the Ordinance Code of the City of Jacksonville, Section 118, Part 2, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



David W. Martin, CPA
March 7, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 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 $565.3 million at June 30, 2010. This balance reflects a $13.1 million, or 2.4 percent, increase from the 2008-09 fiscal year, resulting primarily from an increase in capital assets. While assets grew, liabilities decreased by $6.3 million, or 3.2 percent, totaling $189.3 million at June 30, 2010, compared to $195.6 million at June 30, 2009. As a result, the University's net assets increased by $19.4 million, reaching a year-end balance of $376 million. The increase was mainly from an increase in capital assets (net of related debt) with the completion of the Student Union, Osprey Fountains, and College of Education building projects, and the change in reporting State University System Capital Improvement Trust Fund Revenue Bonds previously included in the University's statement of net assets.

The University's operating revenues totaled $86.8 million for the 2009-10 fiscal year, representing a 15.9 percent increase over the 2008-09 fiscal year due mainly to increases in student tuition and fees and housing revenues associated with the opening of Osprey Fountains in the Fall 2009. Operating expenses totaled $210.6 million for the 2009-10 fiscal year, representing an increase of 3.7 percent over the 2008-09 fiscal year due mainly to increases in expenses for salaries and benefits; scholarships, fellowships and waivers; depreciation; and utilities and communications.

## 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 University of North Florida Foundation, Inc. (Foundation); The University of North Florida Training and Services Institute, Inc. (TSI); the Museum of Contemporary Art Jacksonville, Inc. (MOCA); and The University of North Florida Financing Corporation, Inc. (Financing Corporation), all of which are legally separate, not-for-profit corporations. The Foundation, TSI, and MOCA are reported as discretely presented component units. The Financing Corporation is included within the University reporting entity as a blended component unit, because it was formed to facilitate the financing and acquisition of University capital assets and provides services exclusively for the University.

Information regarding the discretely presented component units, including summaries from their separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University and its blended component unit. Since the discretely presented component units report under GASB standards, MD&A information is included in their separately issued audit reports.

## THE STATEMENT OF NET ASSETS

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

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

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

| | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Current Assets | $ 136,020 | $ 126,161 |
| Capital Assets, Net | 404,920 | 389,460 |
| Other Noncurrent Assets | 24,374 | 36,642 |
| **Total Assets** | 565,314 | 552,263 |
| **Liabilities** | | |
| Current Liabilities | 34,512 | 32,590 |
| Noncurrent Liabilities | 154,799 | 163,053 |
| **Total Liabilities** | 189,311 | 195,643 |
| **Net Assets** | | |
| Invested in Capital Assets, Net of Related Debt | 265,205 | 241,972 |
| Restricted | 59,951 | 68,644 |
| Unrestricted | 50,847 | 46,004 |
| **Total Net Assets** | $ 376,003 | $ 356,620 |

The University's financial position, as a whole, improved during the fiscal year ended June 30, 2010, with an increase in net assets of $19.4 million, or 5.4 percent, over the 2008-09 fiscal year. This is an indicator of the sound overall financial condition and health of the University.

The University's total assets increased by $13.1 million. Capital assets, net of accumulated depreciation increased $15.5 million while noncurrent assets decreased by $12.3 million, primarily from a decrease in noncurrent investments resulting from expending bond proceeds on construction projects during the 2009-10 fiscal year. Current assets increased $9.9 million, mainly from an increase in current investments of $16 million, an increase in accounts receivable of $2.1 million, and offset by a decrease in due from State of $8 million.

The University's total liabilities decreased by $6.3 million, which consisted of an increase of $1.9 million in current liabilities offset by a decrease of $8.3 million in noncurrent liabilities. The major decrease in noncurrent liabilities was associated with 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 University debt (see note 2 to the financial statements – Prior Period Adjustment). This decrease was offset by an increase of $3.1 million for other postemployment benefits payable.

In summary, the University's net assets of $376 million at June 30, 2010, included $265.2 million invested in capital assets, net of related debt, $60 million in restricted net assets, and $50.8 million in unrestricted net assets. Capital

assets, net of related debt increased and restricted net assets decreased, mainly from the completion of the Student Union, Osprey Fountains, and the College of Education building projects.

## 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 | $ 86,785 | $ 74,906 |
| Operating Expenses | 210,573 | 203,087 |
| **Operating Loss** | (123,788) | (128,181) |
| Net Nonoperating Revenues | 122,456 | 115,850 |
| **Loss Before Other Revenues, Expenses, Gains, or Losses** | (1,332) | (12,331) |
| Other Revenues, Expenses, Gains, or Losses | 10,370 | 33,078 |
| **Increase In Net Assets** | 9,038 | 20,747 |
| Net Assets, Beginning of Year | 356,620 | 335,873 |
| Adjustments to Beginning Net Assets (1) | 10,345 | |
| **Net Assets, Beginning of Year, as Restated** | 366,965 | 335,873 |
| **Net Assets, End of Year** | $ 376,003 | $ 356,620 |

Note: (1) Due to a change in reporting State University System Capital Improvement Trust Fund Revenue Bonds. See note 2 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)**

| | 2009-10 | 2008-09 |
|---|---|---|
| Net Tuition and Fees | $ 47,281 | $ 41,526 |
| Grants and Contracts | 12,278 | 10,823 |
| Sales and Services of Auxiliary Enterprises | 27,009 | 22,531 |
| Other | 217 | 26 |
| **Total Operating Revenues** | $ 86,785 | $ 74,906 |

Net tuition and fees increased $5.8 million, or 13.9 percent, mainly from increases in enrollment and tuition and fee rates. Sales and services of auxiliary enterprises increased by $4.5 million, or 19.9 percent, mainly as a result of an increase in student housing fee revenues, including the opening of additional housing units, Osprey Fountains, in the Fall 2009 term.

## Operating Expenses

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

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

**Operating Expenses**
**(In Thousands)**

| | 2009-10 | 2008-09 |
|---|---|---|
| Compensation and Employee Benefits | $ 126,767 | $ 120,967 |
| Services and Supplies | 38,900 | 43,222 |
| Utilities and Communications | 8,881 | 7,520 |
| Scholarships, Fellowships, and Waivers | 18,704 | 15,762 |
| Depreciation | 17,321 | 15,616 |
| **Total Operating Expenses** | $ 210,573 | $ 203,087 |

University's operating expenses increased primarily as a result of increases in expenses for salaries and benefits; and scholarships, fellowships, and waivers; depreciation; and utilities and communications, while services and supplies expenses declined. The increase in compensation and benefits expenses is primarily due to increases in the University's benefits costs for health insurance and other postemployment benefits. Services and supplies expenses decreased as a result of budget reductions in anticipation of the phase out of Federal stabilization funds. Scholarships, fellowships, and waivers expenses increased because of increases in tuition, fees, and other costs of attendance.

## 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 | $ 74,588 | $ 84,482 |
| Federal and State Student Financial Aid | 33,630 | 26,080 |
| State Appropriated American Recovery and Reinvestment Act Funds | 5,855 | |
| Investment Income | 5,332 | 3,885 |
| Other Nonoperating Revenues | 8,350 | 4,264 |
| Loss on Disposal of Capital Assets | (169) | (283) |
| Interest on Capital Asset-Related Debt | (1,885) | (2,202) |
| Other Nonoperating Expenses | (3,245) | (376) |
| **Net Nonoperating Revenues** | $ 122,456 | $ 115,850 |

The increase in net nonoperating revenues is mainly attributable to the increase in Federal and State student financial aid of $7.6 million, or 28.9 percent, as a result of increases in the number of students receiving financial aid and the amounts of individual student aid awards. While other nonoperating revenues increased $4.1 million and $5.9 million was received from State appropriated American Recovery and Reinvestment Act (ARRA) funds, the University's State appropriations decreased by $9.9 million.

### 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 | $ 9,331 | $ 32,313 |
| Capital Grants, Contracts, Donations, and Fees | 1,039 | 765 |
| **Total** | $ 10,370 | $ 33,078 |

Capital appropriations decreased by $23 million, or 71.1 percent, due to a decrease in new capital project funding to the University for the 2009-10 fiscal year. The University will be able to continue its capital projects implementation (see listing of projects in the Capital Expenses and Commitments section below) since moneys needed for 2009-10 fiscal year work were appropriated in the prior years.

## THE STATEMENT OF CASH FLOWS

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

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

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

| | 2009-10 | 2008-09 |
|---|---|---|
| Cash Provided (Used) by: | | |
| Operating Activities | $ (103,319) | $ (111,017) |
| Noncapital Financing Activities | 114,668 | 113,660 |
| Capital and Related Financing Activities | (13,043) | (70,815) |
| Investing Activities | 5,313 | 74,407 |
| **Net Increase in Cash and Cash Equivalents** | 3,619 | 6,235 |
| Cash and Cash Equivalents, Beginning of Year | 6,235 | |
| **Cash and Cash Equivalents, End of Year** | $ 9,854 | $ 6,235 |

Major sources of funds came from State appropriations ($80.7 million, including $5.9 million State appropriated ARRA), net student tuition and fees ($47.3 million), Federal and State student financial aid ($33.6 million), sales and services of auxiliary enterprises ($25.8 million), State capital appropriations ($17 million), and grants and contracts ($12.4 million). Major uses of funds were for payments made to and on behalf of employees ($123 million); payments to suppliers ($47.1 million); payments for purchase or construction of capital assets ($25.6 million); and payments to students for scholarships ($18.7 million).

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

### CAPITAL ASSETS

At June 30, 2010, the University had $574.8 million in capital assets, less accumulated depreciation of $169.9 million, for net capital assets of $404.9 million. Depreciation charges for the current fiscal year totaled $17.3 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

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

| | 2010 | 2009 |
|---|---|---|
| Land | $ 12,863 | $ 12,863 |
| Buildings | 317,448 | 165,328 |
| Construction in Progress | 24,461 | 164,996 |
| Infrastructure and Other Improvements | 24,958 | 21,833 |
| Furniture and Equipment | 15,740 | 15,042 |
| Library Resources | 7,329 | 7,200 |
| Computer Software | 2,036 | 2,198 |
| Other Capital Assets | 84 | |
| **Capital Assets, Net** | $ 404,919 | $ 389,460 |

The changes in buildings, infrastructure and other improvements, and construction in progress were primarily related to the completion of the Osprey Fountains, Student Union, and College of Education building projects during the 2009-10 fiscal year. Additional information about the University's capital assets is presented in the notes to financial statements.

### CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2010, were incurred on the UNF Hall Renovations, Multi-Purpose Classrooms, Founders Hall, and Science and Humanities Building projects. Capital commitments include $28 million

for the Science and Humanities Building; $5.3 million for UNF Hall renovations; and $3.9 million for the Campus Recreation project. The University's major construction commitments at June 30, 2010, are as follows:

| | Amount (In Thousands) |
|---|---|
| Total Committed | $ 67,777 |
| Completed to Date | 24,461 |
| **Balance Committed** | $ 43,316 |

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

## DEBT ADMINISTRATION

As of June 30, 2010, the University had $141.3 million in long-term debt, representing a decrease of $12.6 million, or 8.2 percent, from the prior fiscal year. The main reason for the decrease was the $10.3 million prior period adjustment related to a change in reporting of State University System Capital Improvement Trust Fund Revenue Bonds (see note 2 – Prior Period Adjustment). The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

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

| | 2010 | 2009 |
|---|---|---|
| Bonds Payable | $ 140,725 | $ 153,083 |
| Installment Purchase Payable | 561 | 801 |
| **Total** | $ 141,286 | $ 153,884 |

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 budget that the Florida Legislature adopted for the 2009-10 fiscal year provided a 5.8 percent increase for the State universities as a whole when general revenue, tuition, and Federal ARRA funds are considered. The University received an increase of 1.7 percent, including $5,602,324 of Federal ARRA funds. The adopted budget included no funding provided for enrollment growth or employee salary increases. To help mitigate the impact on the budget for the 2010-11 fiscal year, the Legislature approved an 8 percent tuition increase and gave the State universities authorization to charge a differential tuition fee for undergraduate courses up to the national average of public institutions. This would be a total increase of 15 percent per year. While political support from State government is expected to remain strong and allow for moderate growth over the long-term, the State's current economic position will continue to impact the University. Given the current situation, the University has positioned itself very well and has taken appropriate steps to safeguard and preserve the University's financial condition to remain strong. The University has taken a serious approach to expenditures and hiring practices and is carefully reviewing these areas to conserve University resources while searching for other ways to lessen the economic impact while maintaining sound academic programs.

Another significant factor in the University's academic and economic position relates to its ability to recruit and retain high quality students. Our efforts to improve retention and the quality of students, such as an aggressive marketing plan, reduced class sizes, lower student to teacher ratios, and enhanced intervention to assist academic success, will

help assure this positive trend. The University's preliminary Fall 2010 enrollment of 16,317 students reflects a slight reduction from the final Fall 2009 term enrollment of 16,719, a decrease of 2.4 percent.

## REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, other required supplemental information, other supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Administration and Finance, University of North Florida, 1 UNF Drive, Building 53, Jacksonville, Florida 32224-2648.

## BASIC FINANCIAL STATEMENTS

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

| | University | Component Units |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ 9,220.32 | $ 1,452,590.00 |
| Investments | 84,440,915.42 | |
| Accounts Receivable, Net | 10,713,591.40 | 200,333.00 |
| Loans and Notes Receivable from Component Units | 200,000.00 | |
| Pledges Receivable, Net | | 1,115,142.00 |
| Due from State | 40,370,612.49 | |
| Inventories | 249,823.80 | 96,186.00 |
| Other Current Assets | 35,503.68 | 92,479.00 |
| **Total Current Assets** | 136,019,667.11 | 2,956,730.00 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | 9,844,721.34 | 8,938,201.00 |
| Investments | | 1,535,443.00 |
| Restricted Investments | 12,242,739.12 | 69,993,328.00 |
| Loans and Notes Receivable from Component Units | 731,214.00 | |
| Loans and Notes Receivable, Net | | 3,565,151.00 |
| Pledges Receivable, Net | | 2,202,605.00 |
| Depreciable Capital Assets, Net | 367,595,905.52 | 17,916,077.00 |
| Nondepreciable Capital Assets | 37,324,034.05 | 3,307,556.00 |
| Deferred Bond Issuance Costs, Net | 1,555,929.52 | |
| Other Noncurrent Assets | | 99,962.00 |
| **Total Noncurrent Assets** | 429,294,543.55 | 107,558,323.00 |
| **TOTAL ASSETS** | $ 565,314,210.66 | $ 110,515,053.00 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Temporary Cash Overdraft | $ 10,917,612.14 | $ |
| Accounts Payable | 3,733,664.12 | 481,523.00 |
| Construction Contracts Payable | 2,292,181.93 | |
| Salaries and Wages Payable | 3,476,198.60 | 62,128.00 |
| Deposits Payable | 3,723,215.41 | |
| Deferred Revenue | 7,421,659.65 | 184,727.00 |
| Other Current Liabilities | | 175,841.00 |
| Long-Term Liabilities - Current Portion: | | |
| Bonds Payable | 1,900,000.00 | |
| Loans and Notes Payable | | 1,267,177.00 |
| Loans and Notes Payable to University | | 200,000.00 |
| Installment Purchase Payable | 245,573.59 | |
| Compensated Absences Payable | 801,880.18 | 58,965.00 |
| **Total Current Liabilities** | 34,511,985.62 | 2,430,361.00 |

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

| | University | Component Units |
|---|---|---|
| **LIABILITIES (Continued)** | | |
| Noncurrent Liabilities: | | |
| Bonds Payable | $ 138,825,498.96 | $ |
| Loans and Notes Payable | | 16,719,531.00 |
| Loans and Notes Payable to University | | 731,214.00 |
| Installment Purchase Payable | 315,664.63 | |
| Compensated Absences Payable | 10,653,551.06 | 326,012.00 |
| Other Postemployment Benefits Payable | 5,004,000.00 | |
| Other Noncurrent Liabilities | | 312,793.00 |
| **Total Noncurrent Liabilities** | 154,798,714.65 | 18,089,550.00 |
| **TOTAL LIABILITIES** | 189,310,700.27 | 20,519,911.00 |
| **NET ASSETS** | | |
| Invested in Capital Assets, Net of Related Debt | 265,204,671.09 | 4,014,686.00 |
| Restricted for Nonexpendable: | | |
| Endowment | | 69,830,996.00 |
| Other | | 537,716.00 |
| Restricted for Expendable: | | |
| Debt Service | 10,026,080.95 | |
| Capital Projects | 44,912,517.27 | |
| Other | 5,012,716.87 | 15,201,819.00 |
| Unrestricted | 50,847,524.21 | 409,925.00 |
| **TOTAL NET ASSETS** | 376,003,510.39 | 89,995,142.00 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 565,314,210.66 | $ 110,515,053.00 |

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

**UNIVERSITY OF NORTH FLORIDA**
**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**

| | University | Component Units |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net of Scholarship Allowances of $25,891,767.93 ($1,742,403.18 Pledged for the Student Union Revenue Bonds) | $ 47,281,139.66 | $ |
| Federal Grants and Contracts | 8,667,688.29 | |
| State and Local Grants and Contracts | 1,063,314.67 | |
| Nongovernmental Grants and Contracts | 2,547,155.22 | |
| Sales and Services of Auxiliary Enterprises ($15,494,420.35 Pledged for the Housing System Revenue Bonds and $4,182,281.59 Pledged for the Parking System Revenue Bonds) | 27,008,450.58 | |
| Other Operating Revenues | 217,322.51 | 12,388,405.00 |
| **Total Operating Revenues** | 86,785,070.93 | 12,388,405.00 |
| **EXPENSES** | | |
| Operating Expenses: | | |
| Compensation and Employee Benefits | 126,767,126.24 | 711,132.00 |
| Services and Supplies | 38,900,366.91 | 16,683,567.00 |
| Utilities and Communications | 8,880,720.43 | 252,669.00 |
| Scholarships, Fellowships, and Waivers | 18,703,500.30 | |
| Depreciation | 17,320,810.69 | 418,699.00 |
| **Total Operating Expenses** | 210,572,524.57 | 18,066,067.00 |
| **Operating Loss** | (123,787,453.64) | (5,677,662.00) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State Appropriations | 74,587,864.00 | |
| Federal and State Student Financial Aid | 33,630,174.55 | |
| State Appropriated American Recovery and Reinvestment Act Funds | 5,854,946.00 | |
| Investment Income | 5,331,965.87 | 6,386,300.00 |
| Other Nonoperating Revenues | 8,349,698.70 | |
| Loss on Disposal of Capital Assets | (169,104.85) | |
| Interest on Capital Asset-Related Debt | (1,884,830.99) | (106,271.00) |
| Other Nonoperating Expenses | (3,244,955.72) | (1,023,282.00) |
| **Net Nonoperating Revenues** | 122,455,757.56 | 5,256,747.00 |
| **Loss Before Other Revenues, Expenses, Gains, or Losses** | (1,331,696.08) | (420,915.00) |
| Capital Appropriations | 9,331,488.00 | |
| Capital Grants, Contracts, Donations, and Fees | 1,038,589.45 | |
| Additions to Permanent Endowments | | 2,113,219.00 |
| **Increase in Net Assets** | 9,038,381.37 | 1,692,304.00 |
| Net Assets, Beginning of Year | 356,619,951.63 | 88,302,838.00 |
| Adjustment to Beginning Net Assets | 10,345,177.39 | |
| **Net Assets, Beginning of Year, as Restated** | 366,965,129.02 | 88,302,838.00 |
| **Net Assets, End of Year** | $ 376,003,510.39 | $ 89,995,142.00 |

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

**UNIVERSITY OF NORTH FLORIDA**
**A COMPONENT UNIT OF THE STATE OF FLORIDA**
**STATEMENT OF CASH FLOWS**
**For the Fiscal Year Ended June 30, 2010**

| | University |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Tuition and Fees, Net | $ 47,281,139.66 |
| Grants and Contracts | 12,352,771.85 |
| Sales and Services of Auxiliary Enterprises | 25,784,352.45 |
| Payments to Employees | (123,043,399.91) |
| Payments to Suppliers for Goods and Services | (47,071,789.26) |
| Payments to Students for Scholarships and Fellowships | (18,703,500.30) |
| Other Operating Receipts | 81,503.84 |
| **Net Cash Used by Operating Activities** | (103,318,921.67) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State Appropriations | 74,869,387.00 |
| Federal and State Student Financial Aid | 33,630,174.55 |
| State Appropriated American Recovery and Reinvestment Act Funds | 5,854,946.00 |
| Net Change in Funds Held for Others | 57,774.17 |
| Other Nonoperating Receipts | 256,015.05 |
| **Net Cash Provided by Noncapital Financing Activities** | 114,668,296.77 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Capital Appropriations | 17,012,555.01 |
| Capital Grants, Contracts, Donations, and Fees | 738,589.45 |
| Other Receipts for Capital Projects | 3,344,457.02 |
| Purchase or Construction of Capital Assets | (25,616,404.99) |
| Principal Paid on Capital Debt and Leases | (2,079,552.78) |
| Interest Paid on Capital Debt and Leases | (6,442,948.46) |
| **Net Cash Used by Capital and Related Financing Activities** | (13,043,304.75) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Purchase of Investments, Net | 1,547,933.68 |
| Investment Income | 3,764,488.47 |
| **Net Cash Provided by Investing Activities** | 5,312,422.15 |
| **Net Increase in Cash and Cash Equivalents** | 3,618,492.50 |
| Cash and Cash Equivalents, Beginning of Year | 6,235,449.16 |
| **Cash and Cash Equivalents, End of Year** | $ 9,853,941.66 |

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

| | University |
|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | |
| Operating Loss | $ (123,787,453.64) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 17,320,810.69 |
| Change in Assets and Liabilities: | |
| Receivables, Net | (1,678,663.45) |
| Inventories | (26,108.89) |
| Other Current Assets | (15,711.44) |
| Payables | 751,118.41 |
| Deposits Payable | 31,231.28 |
| Compensated Absences Payable | 597,726.33 |
| Deferred Revenue | 362,129.04 |
| Other Postemployment Benefits Payable | 3,126,000.00 |
| **NET CASH USED BY OPERATING ACTIVITIES** | $ (103,318,921.67) |

| | |
|---|---|
| **SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES** | |
| Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows. | $ (169,104.85) |
| Revenues were recognized for the fair value of donated software on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows. | $ 300,000.00 |
| Unrealized gains on investments were recognized as increases in investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows. | $ 1,567,477.40 |

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

**UNIVERSITY OF NORTH FLORIDA**
**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 University of North Florida Financing Corporation (Financing Corporation) is included within the University reporting entity as a blended component unit. The Financing Corporation was created in October 2005, as a not-for-profit entity organized to receive, hold, invest, and administer property and to issue revenue bonds or other forms of indebtedness (finance or refinance capital projects) with the associated expenditures and debt service, exclusively for the University. An annual audit of the Financing Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Financing Corporation, including copies of its audit reports, is available by contacting the University Controller's Office.

**Discretely Presented Component Units**. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

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

- University of North Florida Foundation, Inc. (Foundation), solicits, invests, administers, and distributes private gifts for the funding of activities and facilities directly related to the mission, role, and scope of the University. This organization provides funding and services to support and foster the pursuit of higher education at the University. Although the Foundation is chartered as a private not-for-profit corporation, it operates solely for the benefit of the University and its mission of teaching, research, and service. The Foundation serves as the vehicle whereby taxpayers who want to advance the cause of higher education and to pay more than their share of the cost of education may do so. The Foundation does not serve any private causes, but generally benefits the public.
- The University of North Florida Training and Service Institute, Inc. (TSI), conducts, accounts for, and reports on special educational and training programs and related specialized activities. TSI was organized for the purpose of providing training and service to assist the University in achieving excellence by providing supplemental resources from external sources and to provide valuable educational support services. In March 2010, the TSI Board of Directors met and approved the formation of UNF TSI Investments, LLC (TSI Investments Corporation) as its wholly-owned Florida limited liability corporation.
- Museum of Contemporary Art Jacksonville, Inc. (MOCA), operates a museum of contemporary art which also provides visual arts education and cultural resources to the University in furtherance of its mission and operations, and the University may add its own educational and outreach programs. MOCA serves the community and its visitors through exhibitions, collections, educational programs, and publications designed to enhance an understanding and appreciation of modern and contemporary art with particular emphasis on works created from 1960 to the present.

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

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

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

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

- 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 recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting.

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

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

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

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

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

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

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, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, 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, and $100,000 for new buildings and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 5 to 40 years, depending on construction
- Infrastructure and Other Improvements – 5 to 20 years
- Furniture and Equipment:
  - Equipment (Nonoffice) – 5 to 15 years
  - Computer Equipment – 2 to 10 years
  - Moveable Equipment – 3 to 20 years
- Library Resources – 10 years
- Computer Software and Other Capital Assets – 5 to 15 years

The University capitalizes interest on new construction during the construction period. Interest is capitalized using an interest rate which is equivalent to the average borrowing rate on the University's long-term debt issued for the assets to be constructed.

Capital assets of the University's discretely presented component units, if applicable, are recorded at cost. Donated items are stated at independent appraisal or estimated value at the date of donation. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which are as follows:

- Buildings – 25 years
- Leasehold Improvements – 5 to 20 years

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

- Furniture and Equipment – 3 to 10 years

Interest cost incurred on borrowed funds will be expensed as incurred for capital additions not related to construction.

**Noncurrent Liabilities**. Noncurrent liabilities include bonds payable, installment purchase payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premiums. The University amortizes bond premiums over the life of the bonds using the straight-line method. Issuance costs paid from the debt proceeds are reported as net deferred bond issuance costs on the statement of net assets. These costs are amortized over the life of the bonds using the straight-line method.

## 2. PRIOR PERIOD ADJUSTMENT

The University's beginning net assets was increased by $10,345,177.39 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 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.

## 3. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University's investments at June 30, 2010, are reported at fair value, as follows:

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

| Investment Type | Amount |
|---|---|
| External Investment Pools: | |
| State Treasury Special Purpose Investment Account | $ 9,092,529.16 |
| State Board of Administration Fund B Surplus Funds Trust Fund | 2,379,264.11 |
| **Total External Investment Pools** | 11,471,793.27 |
| Other Investments: | |
| United States Government Obligations | 18,077,178.40 |
| Federal Agency Obligations | 38,602,080.93 |
| Bonds and Notes | 27,900,999.70 |
| Money Market Mutual Funds | 631,602.24 |
| **Total Other Investments** | 85,211,861.27 |
| **Total University Investments** | $ 96,683,654.54 |

**External Investment Pools**

**State Treasury Special Purpose Investment Account (SPIA)**. The University reported investments at fair value totaling $9,092,529.16 at June 30, 2010, in the 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 Fund B Surplus Funds Trust Fund**. On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund to establish the Fund B Surplus Funds Trust Fund (Fund B). Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the Florida PRIME investment pool, consistent with the pro rata allocation of pool shareholders of record at the creation date of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the Florida PRIME investment pool.

At June 30, 2010, the University reported investments at fair value of $2,379,264.11 for amounts held in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.67353149 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 University's investment in Fund B is unrated.

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

**Other Investments**

In addition to external investment pools, the University's investments (which include those of its blended component unit, the Financing Corporation) consisted of various debt securities and money market mutual funds totaling $85,211,861.27 at June 30, 2010. The following risks apply to those University investments:

*Interest Rate Risk:* Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The University's investment policy generally requires that the investment portfolio be maintained with short-term maturities to provide sufficient liquidity to pay obligations as they come due, based on anticipated cash-flow requirements, and includes certain restrictions on specific investment durations up to a maximum of five years. The Financing Corporation does not have a written investment policy, although the bond documents provide that funds may be invested in authorized investments provided that the investments mature or are redeemable at not less than par on or before the date the funds are estimated to be needed. Investments maturities at June 30, 2010, were as follows:

| Investment Type | Investment Maturities (In Years) | | |
|---|---|---|---|
| | Fair Value | Less Than 1 | 1 - 5 |
| United States Government Obligations | $18,077,178.40 | $ 1,936,069.50 | $16,141,108.90 |
| Federal Agency Obligations | 38,602,080.93 | 5,685,820.47 | 32,916,260.46 |
| Bonds and Notes | 27,900,999.70 | 447,447.89 | 27,453,551.81 |
| Money Market Mutual Funds | 631,602.24 | 631,602.24 | |
| **Total** | $85,211,861.27 | $ 8,700,940.10 | $76,510,921.17 |

*Credit Risk*: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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 University had $18,077,178.40 of these investments. The University's investment policy requires that the portfolio provide specific types of investments that may be purchased, including credit quality guidelines, where applicable, and maintain a total average quality rating of "AA" or higher. The Financing Corporation is authorized to invest in obligations permitted by law. At June 30, 2010, the University and the Financing Corporation had Federal Agency Obligations, bonds and notes, and money market mutual funds with quality ratings by nationally recognized rating agencies, as follows:

| Investment Type | Fair Value | Credit Quality Rating (1) | | |
|---|---|---|---|---|
| | | AAA/Aaa | AA/Aa | A |
| Federal Agency Obligations | $ 38,602,080.93 | $ 38,602,080.93 | $ | $ |
| Bonds and Notes | 27,900,999.70 | 6,339,425.33 | 9,154,106.44 | 12,407,467.93 |
| Money Market Mutual Funds | 631,602.24 | 631,602.24 | | |
| **Total** | $ 67,134,682.87 | $ 45,573,108.50 | $ 9,154,106.44 | $ 12,407,467.93 |

Note: (1) The credit quality ratings are from Moody's Investor Service and Standard & Poor's.

**UNIVERSITY OF NORTH FLORIDA**
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*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investment securities that are held by someone other than the entity and are not registered in the entity's name. All University investments are held in safekeeping by a third-party custodian. The Financing Corporation's investments are held by a trustee in accordance with applicable bond financing documents.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University policy states that a maximum of five percent of the Fund may be invested in securities of any single issuer, except that United States Government and Federal Agency Obligations are not subject to the limitations. The Financing Corporation's applicable bond financing documents do not address concentration of credit risk.

**Discretely Presented Component Units Investments**

Investments held by the University's component units are reported at fair value and consist of United States government and Federal agency securities, corporate bonds, fixed income mutual funds, equity mutual funds, hedge funds, private equity funds, corporate bonds, and money market funds.

The University of North Florida Foundation, Inc. (Foundation), reported investments totaling $69,336,818. The Foundation's investment policy states equity securities will be broadly diversified (e.g., country, economic sector, industry, etc.) to minimize the impact during sudden and severe market downturns, as equity markets have historically displayed a high degree of such correlation during these periods. The role of hedge funds and private equity is to reduce the overall volatility of the equity fund performance. Fixed income securities will be diversified among different sectors of the fixed income market. The principal purpose of the fixed income fund will be to reduce risk by reducing the overall volatility of the investment returns and to serve as a partial hedge against periods of prolonged economic contraction. The fixed income objective is to preserve principal during periods of deflation, provide a source of current income, and reduce overall portfolio volatility. These portfolios are primarily domestically focused, but do include exposure to international and emerging markets' debt as well. Decisions as to individual security selection, security size and quality, etc., will be left to broad manager discretion.

As of June 30, 2010, the Foundation had approximately 90 percent ($62,400,182) of its total portfolio invested in hedge funds and private equity funds. The fund's investments are subject to various risk factors including market, credit, custodial credit risk, and currency risk, which are discussed in the following paragraphs. Additional information is contained in the Foundation's audit reports for the years ended June 30, 2010, and June 30, 2009, and may be obtained from the Director, University of North Florida TSI/Foundation Accounting, UNF Hall, Suite 2900, 1 UNF Drive, Jacksonville, Florida 32224-2648.

The University of North Florida Training and Service Institute, Inc. (TSI), reported investments totaling $1,535,443. TSI's investment policy requires equity securities to be limited to investments in publicly traded securities on a major stock exchange or NASDAQ and provides that not more than 25 percent of the total

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equity portfolio be invested in foreign companies. For fixed income securities, the investment policy provides that not more than 25 percent of the fixed income portfolio be invested in foreign companies; and that no more than 20 percent of the fair value of the portfolio be invested in Collateralized Mortgage Obligations (CMOs) comprised of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities. There is no limit on investments in securities issued directly by the United States Government or any agency or instrumentality thereof. TSI's investment policy prohibits investments in interest only or principal only CMOs, interest rate swaps, precious metals, limited partnerships of any kind, real estate, venture capital, futures contracts, or options contracts in individually managed portfolios. Trading on margin and short selling are also prohibited. TSI does not have a formal policy on limiting the duration of mid-term and long-term investments. At June 30, 2010, $1,000,000 of the investment balance was restricted by contract with the University to pay termination fees of the Institute of Police Technology and Management salaries should the University discontinue the program.

The Museum of Contemporary Art Jacksonville, Inc. (MOCA), reported investments totaling $656,510. MOCA's investments consist of money market funds and corporate bonds.

On January 28, 1991, MOCA entered into a trust agreement with the State of Florida, Department of State, creating a $600,000 fine arts endowment matching fund program. In managing the investments of the fine arts endowment fund, MOCA must comply with an established investment plan specified by the State of Florida, Department of State, which requires the preservation of the $600,000 program fund. MOCA may expend funds generated from the endowment program fund only for operating costs incurred while engaged in programs directly related to fine arts activities. The balance of the endowment at June 30, 2010, was $602,816, which is included in MOCA's investment total reported above.

The estimated fair value of the Foundation, TSI, and MOCA investments was based on valuations provided by external investment managers at June 30, 2010, and consisted of the following:

| Investment Type | Amount |
|---|---|
| United States Government and Federal Agency Securities | $ 6,555,016 |
| Fixed Income Mutual Funds | 692,362 |
| Equity Mutual Funds | 1,155,723 |
| Hedge Funds | 45,607,313 |
| Private Equity Funds | 16,792,869 |
| Corporate Bonds | 129,964 |
| Money Market Funds | 595,524 |
| **Total Foundation, TSI, and MOCA Investments** | $ 71,528,771 |

*Interest Rate Risk:* Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Foundation, TSI, and MOCA do not have formal investments policies that limit the duration of investments. However, the University component units manage exposure to declines in fair value occurring from increasing interest rates through the specific identification method and maintaining

diversification of investments and investment maturities so as to minimize the impact of downturns in the market. Investments of these component units by investment type and their future maturities at June 30, 2010, are as follows:

| Investment Type | Investment Maturities (In Years) | | | |
|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 - 5 | 6 - 10 |
| **University of North Florida Foundation, Inc.** | | | | |
| United States Government and Federal Agency Securities | $ 6,555,016 | $ 105,483 | $ 6,303,862 | $ 145,671 |
| Corporate Bonds | 68,978 | | 26,734 | 42,244 |
| Fixed Income Mutual Funds | 48,028 | | 48,028 | |
| **Total** | $ 6,672,022 | $ 105,483 | $ 6,378,624 | $ 187,915 |
| **The University of North Florida Training and Service Institute, Inc.** | | | | |
| Fixed Income Mutual Funds | $ 644,334 | $ | $ 250,139 | $ 394,195 |
| **Museum of Contemporary Art Jacksonville, Inc.** | | | | |
| Corporate Bonds | $ 60,986 | $ 35,486 | $ 25,500 | $ |

*Credit Risk*: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation and MOCA have no formal investment policies on credit risk. TSI's investment policy provides that fixed income securities shall be rated "A" or higher by Moody's Investor Service or Standard & Poor's rating services. At June 30, 2010, the credit quality ratings of the component units' investments are as follows:

| Investment Type | Fair Value | Credit Quality Rating (1) | | | | | |
|---|---|---|---|---|---|---|---|
| | | AAA | AA | A | Less Than A | Unrated | |
| United States Government and Federal Agency Securities | $ 6,555,016 | $ 474,367 | $ | $ 6,080,649 | $ | $ | |
| Fixed Income Mutual Funds | 692,362 | 391,836 | 43,839 | 80,886 | 127,773 | 48,028 | |
| Equity Mutual Funds | 1,155,723 | | | | | 1,155,723 | (2) |
| Hedge Funds | 45,607,313 | | | | | 45,607,313 | (2) |
| Private Equity Funds | 16,792,869 | | | | | 16,792,869 | (2) |
| Corporate Bonds | 129,964 | | 10,890 | 93,574 | 25,500 | | |
| Money Market Funds | 595,524 | | | | | 595,524 | |
| **Total Foundation, TSI, and MOCA Investments** | $ 71,528,771 | $ 866,203 | $ 54,729 | $ 6,255,109 | $ 153,273 | $ 64,199,457 | |

Notes: (1) The credit quality ratings are from Standard & Poor's.
(2) Disclosure of credit quality risk is not required for these investment types.

*Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investment securities that are held by someone other than the University

or its component units and are not registered in the University's or its component units' name. The Foundation, TSI, and MOCA have no formal investment policy on custodial credit risk.

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Foundation's investment policy provides that with the exception of obligations of the U.S. Government and its agencies, no purchase will be made that will cause more than 5 percent of the fixed income fund to be invested in the securities of any one issuer. TSI's investment policy provides for investments in equity securities of not more than 7 percent (at cost) in one corporate issuer, and investments in fixed income securities of not more than 10 percent (at cost) in one corporate issuer. MOCA has no formal investment policy on concentration of credit risk.

## 4. RECEIVABLES

**Accounts Receivable**. Accounts receivable represent amounts for student housing rentals, student tuition and fees, contract and grant reimbursements due from third parties, other amounts comprised of sales and services provided to students, and third parties and student fee deferments. As of June 30, 2010, the University reported the following amounts as accounts receivable:

| Description | Amount |
|---|---|
| Student Housing Rentals | $ 6,732,193.07 |
| Student Tuition and Fees | 2,975,051.34 |
| Contracts and Grants | 637,382.16 |
| Other | 368,964.83 |
| **Total Accounts Receivable, Net** | $ 10,713,591.40 |

**Allowance for Uncollectible Receivables**. Allowances for uncollectible accounts 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 are reported net of allowances of $182,379 at June 30, 2010.

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

**Loans and Notes Receivable from Component Units**. At June 30, 2010, the University had loans and notes receivable from the University of North Florida Foundation, Inc. (Foundation), and the Museum of Contemporary Art Jacksonville, Inc. (MOCA), as shown below:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Foundation - Alumni Hall | $ 775,297 | $ | $ 164,083 | $ 611,214 | $ 200,000 |
| MOCA - Line of Credit | 320,000 | | | 320,000 | |
| **Loans and Notes Receivable from Component Units** | $ 1,095,297 | $ | $ 164,083 | $ 931,214 | $ 200,000 |

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In December 2007, the University acquired the Alumni Hall building, which was partially financed with a $1 million note from the Foundation. The note is due and payable on December 31, 2012, without interest, and may be prepaid in full or in part at any time without penalty. The University anticipates that the note will be repaid within five years at an annual rate of about $200,000 per year. Effective May 15, 2009, MOCA entered into a revolving line of credit with the University, for up to $500,000, without interest except upon an event of default. MOCA may repay amounts borrowed in whole or part at any time without penalty.

**Pledges Receivable, Net**. The Foundation and MOCA account for their pledges in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB Statement No. 33 establishes reporting standards for nonexchange transactions, which in the case of the Foundation and MOCA are restricted pledges and pledges, respectively, to be contributed in the future. Pledges receivable are reported at estimated net realizable value, and reported in current and long-term portions, net of appropriate allowances and present value discounts of $1,142,733 for the Foundation and $5,212 for MOCA.

## 5. DUE FROM STATE

This amount primarily consists of $38,704,965.49 of Public Education Capital Outlay and Capital Improvement Fee Trust Fund allocations due from the State to the University for construction of University facilities.

## 6. INVENTORIES

Inventories have been categorized into the following two types:

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

## 7. CAPITAL ASSETS

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

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| Description | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Nondepreciable Capital Assets: | | | | |
| Land | $ 12,863,268.61 | $ | $ | $ 12,863,268.61 |
| Construction in Progress | 164,995,486.15 | 26,239,957.27 | 166,774,677.98 | 24,460,765.44 |
| **Total Nondepreciable Capital Assets** | $ 177,858,754.76 | $ 26,239,957.27 | $ 166,774,677.98 | $ 37,324,034.05 |
| Depreciable Capital Assets: | | | | |
| Buildings | $ 253,396,738.71 | $ 161,086,980.30 | $ | $ 414,483,719.01 |
| Infrastructure and Other Improvements | 31,981,735.47 | 4,922,906.46 | | 36,904,641.93 |
| Furniture and Equipment | 38,942,520.60 | 5,182,450.33 | 1,964,726.46 | 42,160,244.47 |
| Library Resources | 34,505,649.50 | 1,725,382.53 | | 36,231,032.03 |
| Computer Software | 7,168,984.38 | 481,608.54 | | 7,650,592.92 |
| Other Capital Assets | | 84,983.82 | | 84,983.82 |
| **Total Depreciable Capital Assets** | 365,995,628.66 | 173,484,311.98 | 1,964,726.46 | 537,515,214.18 |
| Less, Accumulated Depreciation: | | | | |
| Buildings | 88,068,571.66 | 8,967,397.24 | | 97,035,968.90 |
| Infrastructure and Other Improvements | 10,148,386.08 | 1,797,955.30 | | 11,946,341.38 |
| Furniture and Equipment | 23,900,563.98 | 4,315,037.59 | 1,795,621.61 | 26,419,979.96 |
| Library Resources | 27,305,879.84 | 1,595,878.70 | | 28,901,758.54 |
| Computer Software | 4,970,718.02 | 643,997.09 | | 5,614,715.11 |
| Other Capital Assets | | 544.77 | | 544.77 |
| **Total Accumulated Depreciation** | 154,394,119.58 | 17,320,810.69 | 1,795,621.61 | 169,919,308.66 |
| **Total Depreciable Capital Assets, Net** | $ 211,601,509.08 | $ 156,163,501.29 | $ 169,104.85 | $ 367,595,905.52 |

Combined capital assets activity for the University's discretely presented component units for the fiscal year ended June 30, 2010, is shown below:

| Description | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Nondepreciable Capital Assets: | | | | |
| Land | $ | $ 3,307,556 | $ | $ 3,307,556 |
| **Total Nondepreciable Capital Assets** | $ | $ 3,307,556 | $ | $ 3,307,556 |
| Depreciable Capital Assets: | | | | |
| Buildings | $ | $14,100,634 | $ | $14,100,634 |
| Leasehold Improvements | 5,951,106 | | | 5,951,106 |
| Furniture and Equipment | 520,467 | | | 520,467 |
| **Total Depreciable Capital Assets** | 6,471,573 | 14,100,634 | | 20,572,207 |
| Less, Accumulated Depreciation: | | | | |
| Buildings | | 94,004 | | 94,004 |
| Leasehold Improvements | 1,769,793 | 302,412 | | 2,072,205 |
| Furniture and Equipment | 467,638 | 22,283 | | 489,921 |
| **Total Accumulated Depreciation** | 2,237,431 | 418,699 | | 2,656,130 |
| **Total Depreciable Capital Assets, Net** | $ 4,234,142 | $13,681,935 | $ | $17,916,077 |

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## 8. TEMPORARY CASH OVERDRAFT

The University maintained an account with a local bank to process general operating expenses and payroll transactions. Funds in excess of current need, including float, were invested. As a result, the University's records showed a temporary cash overdraft for the amount of outstanding checks not presented as of June 30, 2010. This did not, however, represent an overdraft in the University's depository account.

## 9. DEFERRED REVENUE

Deferred revenue consists primarily of housing rentals, student tuition and fees, and auxiliary contract commissions collected or contracted prior to fiscal year-end and related to subsequent accounting periods. As of June 30, 2010, the University reported the following amounts as deferred revenue:

| Description | Amount |
|---|---|
| Student Housing Rentals | $ 6,884,970.84 |
| Other Student Fees | 393,328.54 |
| Auxiliary Commissions | 133,454.67 |
| Other | 9,905.60 |
| **Total Deferred Revenue** | $ 7,421,659.65 |

## 10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include bonds payable, installment purchases payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Bonds Payable (1) | $ 153,082,739.57 | $ | $ 12,357,240.61 | $ 140,725,498.96 | $ 1,900,000.00 |
| Installment Purchase Payable | 800,791.00 | | 239,552.78 | 561,238.22 | 245,573.59 |
| Compensated Absences Payable | 10,857,704.91 | 1,317,540.37 | 719,814.04 | 11,455,431.24 | 801,880.18 |
| Other Postemployment Benefits Payable | 1,878,000.00 | 3,644,000.00 | 518,000.00 | 5,004,000.00 | |
| **Total Long-Term Liabilities** | $ 166,619,235.48 | $ 4,961,540.37 | $ 13,834,607.43 | $ 157,746,168.42 | $ 2,947,453.77 |

Note: (1) The University recorded an adjustment to beginning net assets to recognize a change in reporting Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds totaling $10,345,177.39, which was net of deferred charges of $44,822.54. See Note 2.

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**Bonds Payable**. The University had the following bonds payable outstanding at June 30, 2010:

| Bond Type and Series | Amount of Original Debt | Amount Outstanding | Interest Rates (Percent) | Maturity Date To |
|---|---|---|---|---|
| Capital Improvement Revenue Bonds: | | | | |
| Student Union Project, Series 2007 | $ 21,235,000.00 | $ 20,875,000.00 | 4.00 - 5.00 | 2037 |
| Housing Project, Series 2007 | 111,185,000.00 | 107,815,000.00 | 4.00 - 5.00 | 2037 |
| Parking System, Series 1998, Remarketed | 9,600,000.00 | 8,600,000.00 | (1) | 2028 |
| **Total Capital Improvement Revenue Bonds** | 142,020,000.00 | 137,290,000.00 | | |
| Add: Unamortized Bond Premiums | | 3,435,498.96 | | |
| **Total** | $142,020,000.00 | $140,725,498.96 | | |

Note: (1) The Parking System, Series 1998, Remarketed Bonds have a variable interest rate, which was 0.25 percent as of June 30, 2010.

During the 2006-07 fiscal year, Student Union Project and Student Housing Project bonds were issued by the University of North Florida Financing Corporation, Inc. (Financing Corporation). These bonds were issued to: (1) finance the acquisition, construction, and equipping of a student union and housing facilities; (2) acquire existing housing facilities from the University of North Florida Foundation, Inc. (Foundation), and refund the existing debt on housing facilities; (3) purchase reserve products (bond insurance); (4) pay capitalized interest; and (5) pay the costs of issuance of the Series 2007 bonds.

As a condition of the financing arrangements, the University entered into Ground Sublease and Operating Lease Agreements, dated June 1, 2007, with the Financing Corporation. Under the Ground Sublease Agreements, the University leases the land and facilities to the Financing Corporation in exchange for prepaid rent of approximately $90.5 million (the net proceeds of the bonds available for construction). The land covered by the Ground Sublease Agreements, together with the improvements thereon, was leased back to the University to manage and operate under the separate Operating Lease Agreements. The Operating Lease Agreements require that the University pay all debt payments, including principal, interest, fees, and charges over the lease term in accordance with the related bond documents (base rent), and all other operating costs of the premises (additional rent). The agreements terminate on November 1, 2037, or the date on which the bonds are fully paid or cancelled. Net revenues from the student residence facilities are pledged to pay the Student Housing project rents, and a portion of the University's activity and service fees revenues are pledged to pay the Student Union project rents.

Pursuant to applicable bond covenants, during the 2007-08 fiscal year, the University elected to fund the reserve requirement for the Capital Improvement Revenue Bonds, Series 2007, Housing and Student Union Projects, after the firm that issued the reserve products (bond insurance) had its credit rating downgraded by Standard & Poor's and Moody's below A. The $9,613,000 provided by the University, along with interest

earnings, is reported as noncurrent restricted investments and net assets restricted for debt service on the University's statement of net assets.

On September 4, 2007, the Parking Bonds originally issued by the Foundation, along with the related operating ground leases, were assigned to and subsequently remarketed by the Financing Corporation. Parking System bonds are collateralized by the revenue stream from the University parking system. The interest rate is a variable rate not to exceed 12 percent and was 0.25 percent at June 30, 2010. Interest payments are made monthly and principal is payable annually through May 1, 2028.

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

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 1,900,000.00 | $ 6,365,718.75 | $ 8,265,718.75 |
| 2012 | 1,985,000.00 | 6,301,612.50 | 8,286,612.50 |
| 2013 | 2,440,000.00 | 6,219,962.50 | 8,659,962.50 |
| 2014 | 2,940,000.00 | 6,108,637.50 | 9,048,637.50 |
| 2015 | 3,590,000.00 | 5,970,959.38 | 9,560,959.38 |
| 2016-2020 | 22,790,000.00 | 27,073,178.17 | 49,863,178.17 |
| 2021-2025 | 28,505,000.00 | 21,327,375.00 | 49,832,375.00 |
| 2026-2030 | 27,005,000.00 | 14,766,125.00 | 41,771,125.00 |
| 2031-2035 | 26,980,000.00 | 8,213,500.00 | 35,193,500.00 |
| 2036-2038 | 19,155,000.00 | 1,468,375.00 | 20,623,375.00 |
| **Subtotal** | 137,290,000.00 | 103,815,443.80 | 241,105,443.80 |
| Add: Bond Premiums | 3,435,498.96 | | 3,435,498.96 |
| **Total** | $140,725,498.96 | $103,815,443.80 | $244,540,942.76 |

**Installment Purchase Payable**. During the 2008-09 fiscal year, the University entered into an installment purchase agreement for the purchase of equipment reported at $982,672.68. The stated interest rate is 2.49 percent. Future minimum payments remaining under installment purchase agreement and the present value of the minimum payments as of June 30, 2010, are as follows:

| Fiscal Year Ending June 30 | Amount |
|---|---|
| 2011 | $ 257,267.24 |
| 2012 | 257,267.24 |
| 2013 | 64,316.81 |
| **Total Minimum Payments** | 578,851.29 |
| Less, Amount Representing Interest | 17,613.07 |
| **Present Value of Minimum Payments** | $ 561,238.22 |

**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 $11,455,431.24. The current portion of the compensated absences liability of $801,880.18 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 (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

*Plan Description.* Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent, multiple-employer, defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employees' 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, 156 retirees received postemployment healthcare benefits. The University provided required contributions of $518,000 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 $923,000.

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

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| Description | Amount |
|---|---|
| Normal Cost (Service Cost for One Year) | $ 2,240,000 |
| Amortization of Unfunded Actuarial Accrued Liability | 1,252,000 |
| Interest on Normal Cost and Amortization | 140,000 |
| **Annual Required Contribution** | 3,632,000 |
| Interest on Net OPEB Obligation | 75,000 |
| Adjustment to Annual Required Contribution | (63,000) |
| **Annual OPEB Cost (Expense)** | 3,644,000 |
| Contribution Toward the OPEB Cost | (518,000) |
| **Increase in Net OPEB Obligation** | 3,126,000 |
| Net OPEB Obligation, Beginning of Year | 1,878,000 |
| **Net OPEB Obligation, End of Year** | $ 5,004,000 |

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 | 1,537,000 | 36.6% | 974,000 |
| 2008-09 | 1,443,000 | 42.1% | 1,878,000 |
| 2009-10 | 3,644,000 | 14.2% | 5,004,000 |

*Funded Status and Funding Progress.* As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $37,548,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $37,548,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was $82,862,861 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 45.3 percent.

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

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types

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

The University's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the University's 2009-10 fiscal year annual required contribution. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for retirees is 10.32 and 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 7 percent in the third year grading identically to 5.1 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 27 years.

**Loans and Notes Payable – Component Units**. On May 20, 2010, TSI purchased a building and approximately 7.71 acres of land adjacent to the University for $17,408,190. TSI executed three loan and note agreements totaling $17,279,294 on May 20, 2010, through its financing corporation, the TSI Investments Corporation. A summary of the long-term debt activity associated with the purchase is shown in the following table:

| Description | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Bank Note Payable in Monthly Installments of Principal and Interest at 8.3 Percent | $ | $ 12,514,143 | $ 44,417 | $ 12,469,726 | $ 593,998 |
| Promissory Note Payable in Monthly Installments of Principal and at 4.7 Percent | | 1,750,000 | 25,930 | 1,724,070 | 319,197 |
| Loan Payable to Foundation Payable in Full or in Part Prior to Maturity on May 20, 2021, at 4.5 Percent (1) | | 3,015,151 | | 3,015,151 | |
| **Total** | $ | $ 17,279,294 | $ 70,347 | $ 17,208,947 | $ 913,195 |

Note: (1) Pursuant to a Memorandum of Understanding (MOU) entered into between TSI, TSI Investments Corporation, and University of North Florida Foundation, Inc., total loan funding to the TSI Investment Corporation from the Foundation will not exceed $4.8 million and TSI will be restricted from making any additional loans or otherwise pledging, collateralizing, or encumbering the property purchased or funding any capital projects as long as any portion of the loan remains unpaid.

Total future scheduled debt principal payments on the bank note and promissory note payable are as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

| Fiscal Year Ending June 30 | Principal |
|---|---|
| 2011 | $ 913,195 |
| 2012 | 1,029,909 |
| 2013 | 1,157,599 |
| 2014 | 1,297,237 |
| 2015 | 1,417,083 |
| 2016-2020 | 8,378,773 |
| **Total** | $ 14,193,796 |

Loans and notes payable at June 30, 2010, for MOCA are as follows:

| Description | Current | Noncurrent |
|---|---|---|
| Bank Line of Credit ($375,982) with Interest Payable Monthly at 1 Month LIBOR Plus 3.5 Percent, Maturity of October 11, 2010. Loan Collateralized by Eligible Pledges Receivable. | $353,982 | $ |
| Revolving Loan ($500,000) from University, Noninterest Bearing and Payable on Demand. No Payments are Expected to be Made in the Next Year. | | 320,000 |
| Revolving Loan ($500,000) from a Member of the Museum Board of Trustees, Noninterest Bearing and Payable on Demand. No Payments are Expected to be Made in the Next Year. | | 423,779 |
| **Total** | $353,982 | $743,779 |

## 11. RETIREMENT PROGRAMS

**Florida Retirement System**. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. FRS is a single retirement system 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

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: **(WP 12 – 32, 34)**

| Class | 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 |
| Deferred Retirement Option Program - Applicable to Members from All of the Above Classes | 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 in which reemployed.

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled $3,333,883.18, $3,407,247.42, and $3,455,594.26, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 193 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled $637,923.81.

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 773 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled $4,719,321.47 and employee contributions totaled $1,980,248.39.

## 12. CONSTRUCTION COMMITMENTS

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

| Project Description | Total Committed | Completed to Date | Balance Committed |
|---|---|---|---|
| Science and Humanities Building | $29,585,435.00 | $ 1,634,695.64 | $27,950,739.36 |
| UNF Hall Renovations | 11,000,000.00 | 5,695,713.14 | 5,304,286.86 |
| Infrastructure Projects | 8,479,763.97 | 4,616,263.32 | 3,863,500.65 |
| Founders Hall | 5,000,000.00 | 4,624,215.48 | 375,784.52 |
| Multi-Purpose Classrooms | 4,500,000.00 | 4,160,891.65 | 339,108.35 |
| Campus Recreation | 4,500,000.00 | 591,924.95 | 3,908,075.05 |
| **Total Major Projects** | 63,065,198.97 | 21,323,704.18 | 41,741,494.79 |
| Other Projects | 4,711,223.57 | 3,137,061.26 | 1,574,162.31 |
| **Total** | $67,776,422.54 | $24,460,765.44 | $43,315,657.10 |

## 13. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2009-10 fiscal year, for property losses, the State retained the first $2 million of losses for each occurrence with an annual aggregate retention of $40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual

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

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

## 14. 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:

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JUNE 30, 2010

| Functional Classification | Amount |
|---|---|
| Instruction | $ 67,426,074.61 |
| Research | 7,677,658.06 |
| Public Services | 3,239,340.73 |
| Academic Support | 14,880,968.17 |
| Student Services | 18,536,984.25 |
| Institutional Support | 21,729,380.56 |
| Operation and Maintenance of Plant | 16,167,817.47 |
| Scholarships and Fellowships | 18,703,500.30 |
| Depreciation | 17,320,810.69 |
| Auxiliary Enterprises (Net) | 24,889,989.73 |
| **Total Operating Expenses** | $ 210,572,524.57 |

## 15. 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 Parking System, Housing System, and Student Union represents identifiable activities for which revenue bonds are outstanding:

**Condensed Statement of Net Assets**

| | Parking System | Housing System | Student Union |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | $ 9,088,970.76 | $ 13,093,899.23 | $ 223,102.55 |
| Capital Assets, Net | 11,382,713.71 | 111,138,972.26 | 49,274,987.07 |
| Other Noncurrent Assets | 66,702.00 | 9,804,484.00 | 1,710,825.28 |
| **Total Assets** | 20,538,386.47 | 134,037,355.49 | 51,208,914.90 |
| **Liabilities** | | | |
| Current Liabilities | 437,086.96 | 8,845,280.22 | 395,431.30 |
| Noncurrent Liabilities | 8,224,744.42 | 109,942,442.96 | 20,830,817.00 |
| **Total Liabilities** | 8,661,831.38 | 118,787,723.18 | 21,226,248.30 |
| **Net Assets** | | | |
| Invested in Capital Assets, Net of Related Debt | 2,849,415.71 | 1,465,828.15 | 28,311,859.75 |
| Restricted for Debt Service | | 8,557,946.21 | 1,468,135.60 |
| Unrestricted | 9,027,139.38 | 5,225,857.95 | 202,671.25 |
| **Total Net Assets** | $ 11,876,555.09 | $ 15,249,632.31 | $ 29,982,666.60 |

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

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

| | Parking System | Housing System | Student Union |
|---|---|---|---|
| Operating Revenues | $ 4,182,281.59 | $ 15,494,420.35 | $ 1,742,403.18 |
| Depreciation Expense | (1,029,833.76) | (1,743,080.14) | (727,531.76) |
| Other Operating Expenses | (1,255,941.16) | (7,433,641.15) | (505,208.77) |
| **Operating Income** | 1,896,506.67 | 6,317,699.06 | 509,662.65 |
| Nonoperating Revenues (Expenses): | | | |
| Nonoperating Revenue | 374,595.14 | 922,246.93 | 402,216.49 |
| Interest Expense | (20,926.15) | (1,471,416.04) | (374,890.72) |
| Other Nonoperating Expense | (480,100.84) | (54,871.53) | (2,596,336.94) |
| **Net Nonoperating Expenses** | (126,431.85) | (604,040.64) | (2,569,011.17) |
| **Increase (Decrease) in Net Assets** | 1,770,074.82 | 5,713,658.42 | (2,059,348.52) |
| Net Assets, Beginning of Year | 10,106,480.27 | 9,535,973.89 | 32,042,015.12 |
| **Net Assets, End of Year** | $ 11,876,555.09 | $ 15,249,632.31 | $ 29,982,666.60 |

**Condensed Statement of Cash Flows**

| | Parking System | Housing System | Student Union |
|---|---|---|---|
| Net Cash Provided (Used) by: | | | |
| Operating Activities | $ 2,499,017.49 | $ 8,399,522.29 | $ 1,550,158.26 |
| Noncapital Financing Activities | (50,815.40) | (6,057,937.86) | (146,837.27) |
| Capital and Related Financing Activities | (571,069.03) | (16,646,007.08) | (2,691,259.27) |
| Investing Activities | 373,584.50 | 12,161,415.65 | 1,390,259.01 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 2,250,717.56 | (2,143,007.00) | 102,320.73 |
| Cash and Cash Equivalents, Beginning of Year | 6,296,016.65 | 8,504,713.16 | |
| **Cash and Cash Equivalents, End of Year** | $ 8,546,734.21 | $ 6,361,706.16 | $ 102,320.73 |

## 16. COMPONENT UNITS

The University has four component units as discussed in note 1. Three component units, the University of North Florida Foundation, Inc., The University of North Florida Training and Service Institute, Inc., and the Museum of Contemporary Art Jacksonville, Inc., comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The financial position and the results of operations of the University of North Florida Financing Corporation are blended with the University. The following financial information is from the most recently available audited financial statements for the discretely presented component units:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

| | Direct-Support Organizations | | | Total |
|---|---|---|---|---|
| | University of North Florida Foundation, Inc. 6/30/2010 | The University of North Florida Training and Service Institute, Inc. 6/30/2010 | Museum of Contemporary Art Jacksonville, Inc. 6/30/2010 | |
| **Condensed Statement of Net Assets** | | | | |
| Assets: | | | | |
| Current Assets | $ 2,121,416 | $ 677,969 | $ 157,345 | $ 2,956,730 |
| Capital Assets, Net | | 17,314,186 | 3,909,447 | 21,223,633 |
| Other Noncurrent Assets | 83,551,367 | 2,085,443 | 697,880 | 86,334,690 |
| **Total Assets** | 85,672,783 | 20,077,598 | 4,764,672 | 110,515,053 |
| Liabilities: | | | | |
| Current Liabilities | 571,521 | 1,386,637 | 472,203 | 2,430,361 |
| Noncurrent Liabilities | 713,311 | 16,544,478 | 831,761 | 18,089,550 |
| **Total Liabilities** | 1,284,832 | 17,931,115 | 1,303,964 | 20,519,911 |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | | 105,239 | 3,909,447 | 4,014,686 |
| Restricted | 83,876,698 | 1,000,000 | 693,833 | 85,570,531 |
| Unrestricted | 511,253 | 1,041,244 | (1,142,572) | 409,925 |
| **Total Net Assets** | $ 84,387,951 | $ 2,146,483 | $ 3,460,708 | $ 89,995,142 |
| **Condensed Statement of Revenues, Expenses, and Changes in Net Assets** | | | | |
| Operating Revenues | $ 4,408,836 | $ 6,702,798 | $ 1,276,771 | $ 12,388,405 |
| Operating Expenses | (8,858,930) | (7,062,845) | (2,144,292) | (18,066,067) |
| **Operating Income (Loss)** | (4,450,094) | (360,047) | (867,521) | (5,677,662) |
| Net Nonoperating Revenues (Expenses) | 6,262,156 | (1,020,385) | 14,976 | 5,256,747 |
| Additions to Permanent Endowments | 1,841,825 | | 271,394 | 2,113,219 |
| **Increase (Decrease) in Net Assets** | 3,653,887 | (1,380,432) | (581,151) | 1,692,304 |
| **Net Assets, Beginning of Year** | 80,734,064 | 3,526,915 | 4,041,859 | 88,302,838 |
| **Net Assets, End of Year** | $ 84,387,951 | $ 2,146,483 | $ 3,460,708 | $ 89,995,142 |

## 17. SUBSEQUENT EVENTS

On December 9, 2010, the State Board of Administration, Division of Bond Finance, issued $15,635,000 of University of North Florida Mandatory Student Fee Revenue Bonds ($13,060,000, Series 2010B Build America Bonds and $2,575,000, Series 2010A Tax-Exempt Bonds) to finance the construction of a Student Wellness Center on campus and to pay costs of issuance. The Bonds will be secured by revenues generated through a mandatory student health fee charged to students and any investment earnings on those funds. Interest is payable on May 1 and November 1, commencing May 1, 2011. Interest rates on the Series 2010B Bonds range from 4 to 7.5 percent, and on the Series 2010A Bonds from 2 to 3 percent.

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (1) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 7/1/2007 | $ | $ 20,966,000 | $ 20,966,000 | 0% | $ 83,863,055 | 25.0% |
| 7/1/2009 | $ | $ 37,548,000 | $ 37,548,000 | 0% | $ 82,862,861 | 45.3% |

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

## UNIVERSITY OF NORTH FLORIDA
## OTHER REQUIRED SUPPLEMENTARY INFORMATION
## NOTE TO OTHER REQUIRED SUPPLEMENTARY INFORMATION

### 1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of $37,548,000 was significantly higher than the July 1, 2007, liability of $20,966,000. The primary factors that caused the change were: changes in the long-term trend model, changes in the rates of decrement and mortality, and the amortization factor.

# UNIVERSITY OF NORTH FLORIDA
# OTHER SUPPLEMENTARY INFORMATION
# SCHEDULES OF RECEIPTS AND EXPENDITURES OF CITY OF JACKSONVILLE GRANT FUNDS – BUDGET AND ACTUAL
# JUNE 30, 2010

## Jacksonville Commitment Program (2009-2014 Scholarship Program)
## Contract administered by Recreation and Community Services Department

### Receipts of City Funds

| | |
|---|---|
| Contract Amount (1) | $ 947,050.00 |
| Amount Received in 2008-09 Fiscal Year | (69,984.00) |
| Amount Received in 2009-10 Fiscal Year | (175,198.00) |
| Amount Remaining to be Distributed as of June 30, 2010 | $ 701,868.00 |

### Expenditures of City Funds

| Expenditure Category | Budget (1) | 2008-09 Fiscal Year Expenditures | 2009-10 Fiscal Year Expenditures (2) | Remaining Balance |
|---|---|---|---|---|
| **Scholarships** | | | | |
| Financial Aid Disbursements | $ 947,050.00 | $ 183,681.03 | $ 61,500.97 | $ 701,868.00 |

Notes: (1) Per City of Jacksonville Contract Number 9367 dated May 28, 2009, in the amount of $523,525 as revised by Amendment Number One dated May 14, 2010, increasing the contract amount by $423,525.

(2) 2009-10 fiscal year expenditures of $174,299 were reduced by $112,798.03 of expenditures reported in the prior fiscal year that were subsequently disallowed by the grantor.

# UNIVERSITY OF NORTH FLORIDA
# OTHER SUPPLEMENTARY INFORMATION
# SCHEDULES OF RECEIPTS AND EXPENDITURES OF CITY OF JACKSONVILLE GRANT FUNDS – BUDGET AND ACTUAL (CONTINUED)
# JUNE 30, 2010

**Small Business Development Center (2008-09 FY Grant)**
**Contract administered by Jacksonville Economic Development Commission**

## Receipts of City Funds

| | |
|---|---|
| Amount of Award (Per City of Jacksonville Budget) | $ 102,000.00 |
| Amount Received in 2008-09 Fiscal Year | (51,000.00) |
| Amount Received in 2009-10 Fiscal Year | (51,000.00) |
| Amount Remaining to be Distributed as of June 30, 2010 | $ |

## Expenditures of City Funds

| Expenditure Category | City of Jacksonville Grant Budget | University Grant Budget | 2008-09 Fiscal Year Expenditures | 2009-10 Fiscal Year Expenditures | Carryforward |
|---|---|---|---|---|---|
| **Compensation** | | | | | |
| Salaries and Wages: | | | | | |
| Administrative and Professional | $ 54,275.47 | $ 54,275.47 | $ 40,462.01 | $ 13,829.04 | $ (15.58) |
| Employee Benefits: | | | | | |
| Employer Contributions | | 21,787.48 | | | 21,787.48 |
| Fringe Chargeback Expense | | | 17,584.41 | 4,135.92 | (21,720.33) |
| Workers' Compensation | | 338.00 | 240.28 | 85.47 | 12.25 |
| Total Employee Benefits | 22,125.48 | 22,125.48 | 17,824.69 | 4,221.39 | 79.40 |
| **Supplies** | | | | | |
| Office Materials and Supplies | 250.00 | 250.00 | 184.90 | 8.15 | 56.95 |
| Postage | 250.00 | 101.22 | | | 101.22 |
| Printing: | | | | | |
| Off Campus Printing | | 8,095.05 | 6,348.10 | | 1,746.95 |
| Printing Recharges | | | 1,746.95 | 464.00 | (2,210.95) |
| Total Printing | 8,095.05 | 8,095.05 | 8,095.05 | 464.00 | (464.00) |
| Freight and Courier Service | | 30.00 | 15.00 | | 15.00 |
| **Travel** | | | | | |
| In State Travel: | | | | | |
| In State Travel | | 2,000.00 | 1,281.95 | 10.00 | 708.05 |
| ORSP In State Travel | | | | 501.00 | (501.00) |
| Total In State Travel | 2,000.00 | 2,000.00 | 1,281.95 | 511.00 | 207.05 |
| **Equipment** | | | | | |
| Desktops ($1,000 or more) | 2,000.00 | 2,118.78 | 2,118.78 | | |
| **Other** | | | | | |
| ORSP Facilities and Admin Costs (Indirect Cost) | | 13,004.00 | 10,179.83 | 2,854.77 | (30.60) |
| Cost Overrun Transfer | | | | (50.56) | 50.56 |
| Total Other | 13,004.00 | 13,004.00 | 10,179.83 | 2,804.21 | 19.96 |
| Total Expenditures | $ 102,000.00 | $ 102,000.00 | $ 80,162.21 | $ 21,837.79 | $ |

# UNIVERSITY OF NORTH FLORIDA
# OTHER SUPPLEMENTARY INFORMATION
# SCHEDULES OF RECEIPTS AND EXPENDITURES OF CITY OF JACKSONVILLE GRANT FUNDS – BUDGET AND ACTUAL (CONTINUED)
# JUNE 30, 2010

### Small Business Development Center (2009-10 FY Grant)
### Contract administered by Jacksonville Economic Development Commission

**Receipts of City Funds**

| | |
|---|---|
| Amount of Award (Per City of Jacksonville Budget) | $ 98,940.00 |
| Amount Received in 2009-10 Fiscal Year | (49,470.00) |
| Amount Remaining to be Distributed as of June 30, 2010 | $ 49,470.00 |

**Expenditures of City Funds**

| Expenditure Category | City of Jacksonville Grant Budget | University Grant Budget | 2009-10 Fiscal Year Expenditures | Carryforward |
|---|---|---|---|---|
| **Compensation** | | | | |
| Salaries and Wages: | | | | |
| Administrative and Professional | $ 56,360.00 | $ 56,360.00 | $ 40,464.34 | $ 15,895.66 |
| Employee Benefits: | | | | |
| Employer Contributions | | 17,641.00 | | 17,641.00 |
| Fringe Chargeback Expense | | | 12,254.09 | (12,254.09) |
| Workers' Compensation | | 338.00 | 242.79 | 95.21 |
| Total Employee Benefits | 17,979.00 | 17,979.00 | 12,496.88 | 5,482.12 |
| **Supplies** | | | | |
| Office Supplies: | | | | |
| Office Materials and Supplies | | | 19.28 | (19.28) |
| ORSP Office Materials and Supplies | | 289.00 | 178.58 | 110.42 |
| ORSP Educational Materials | | | 91.14 | (91.14) |
| Total Office Supplies | 289.00 | 289.00 | 289.00 | |
| Postage | 200.00 | 200.00 | 10.71 | 189.29 |
| Printing: | | | | |
| ORSP Printing Charges | | 3,507.00 | 2,524.35 | 982.65 |
| ORSP Off Campus Printing | | | 967.42 | (967.42) |
| Total Printing | 3,507.00 | 3,507.00 | 3,491.77 | 15.23 |
| **Travel** | | | | |
| In State Travel: | | | | |
| In State Travel | | | 15.13 | (15.13) |
| Meals - In State | | | 53.00 | (53.00) |
| Common Carrier - In State | | | 51.50 | (51.50) |
| ORSP In State Travel | | 2,700.00 | 1,556.81 | 1,143.19 |
| Total In State Travel | 2,700.00 | 2,700.00 | 1,676.44 | 1,023.56 |
| **Other** | | | | |
| Web Development | 5,000.00 | | | |
| ORSP Other Contractual Services | | 5,000.00 | | 5,000.00 |
| Facilities and Admin Costs (Indirect Cost) | 12,905.00 | 12,905.00 | 8,764.41 | 4,140.59 |
| Total Other | 17,905.00 | 17,905.00 | 8,764.41 | 9,140.59 |
| Total Expenditures | $ 98,940.00 | $ 98,940.00 | $ 67,193.55 | $ 31,746.45 |

# UNIVERSITY OF NORTH FLORIDA
# OTHER SUPPLEMENTARY INFORMATION
# SCHEDULES OF RECEIPTS AND EXPENDITURES OF CITY OF JACKSONVILLE GRANT FUNDS – BUDGET AND ACTUAL (CONTINUED)
# JUNE 30, 2010

**Jacksonville Commitment Program (2008-09 FY Grant)**
**Contract Administered by Jacksonville Sheriff's Office**

**Receipts of City Funds**

| | |
|---|---|
| Amount of Award (per Contract dated March 17, 2009) | $ 75,000.00 |
| Amount Received in 2008-09 Fiscal Year | (75,000.00) |
| Amount Received in 2009-10 Fiscal Year | |
| Amount Remaining to be Distributed as of June 30, 2010 | $ |

**Expenditures of City Funds**

| Expenditure Category | | City of Jacksonville Grant Budget (as amended) (1) | University Grant Budget (as amended) (1) | 2008-09 Fiscal Year Expenditures | 2009-10 Fiscal Year Expenditures | Carryforward |
|---|---|---|---|---|---|---|
| **Salaries** | | | | | | |
| Salaries and Wages: | | | | | | |
| Administrative and Professional | | $ | $ 49,694.00 | $ 11,647.53 | $ 17,413.05 | $ 20,633.42 |
| Part-time Employment | | | | | 12,924.00 | (12,924.00) |
| Total Salaries and Wages | | 49,694.00 | 49,694.00 | 11,647.53 | 30,337.05 | 7,709.42 |
| **Benefits** | | | | | | |
| Employee Benefits: | | | | | | |
| Employer Contributions | | | 15,008.00 | | | 15,008.00 |
| Social Security - Matching | | | | 1,080.97 | (394.34) | (686.63) |
| Medicare - Matching | | | | 252.81 | (92.22) | (160.59) |
| State Retirement - FRS | | | | 332.11 | (28.48) | (303.63) |
| ORP Temp Holding | | | | 1,598.50 | (703.34) | (895.16) |
| Health - Blue Cross Blue Shield | | | | 4,972.06 | (1,421.17) | (3,550.89) |
| Basic Life | | | | 40.43 | (12.27) | (28.16) |
| Fringe Chargeback Expense | | | | 3,560.76 | 5,230.01 | (8,790.77) |
| Fringe Chargeback Reversal | | | | (5,734.27) | 2,173.51 | 3,560.76 |
| Pretax FICA Savings Assessments | | | | 74.03 | (22.47) | (51.56) |
| Pretax Medicare Savings Assessments | | | | 17.36 | (5.27) | (12.09) |
| Fringe Chargeback Expense - OPS | | | | | 187.40 | (187.40) |
| Workers' Compensation | | | 298.00 | 68.05 | 182.02 | 47.93 |
| Total Employee Benefits | | 15,306.00 | 15,306.00 | 6,262.81 | 5,093.38 | 3,949.81 |
| **Supplies (unit cost - $500 or less)** | | | | | | |
| Lab Supplies | | | 2,000.00 | | | 2,000.00 |
| Postage | | | | | 0.78 | (0.78) |
| Total Supplies | | 2,000.00 | 2,000.00 | | 0.78 | 1,999.22 |
| **Travel (Local)** | | | | | | |
| In State Travel | | 1,000.00 | 1,000.00 | | | 1,000.00 |
| **Travel (out of town)** | | | | | | |
| Out of State Travel | (2) | 1,000.00 | 1,000.00 | | | 1,000.00 |
| **Equipment (unit cost - over $500)** | | | | | | |
| Computer (<$1,000) | | 500.00 | 500.00 | | | 500.00 |
| **Other Recurring Costs - Training** | | | | | | |
| Out of State Travel | (2) | 3,000.00 | 3,000.00 | | | 3,000.00 |
| **Other Recurring Costs - Miscellaneous** | | | | | | |
| Participant Incentives | | 2,500.00 | 2,500.00 | | | 2,500.00 |
| Total Expenditures | | $ 75,000.00 | $ 75,000.00 | $ 17,910.34 | $ 35,431.21 | $ 21,658.45 |

Notes: (1) The Jacksonville Sheriff's Office formally approved a budget amendment on June 24, 2010, and the affected budget categories were revised accordingly.

(2) These categories are reported in the University's budgetary accounts as a single line item of $4,000 for out of state travel.

# 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 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 the University of North Florida, 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, with which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Respectfully submitted,



David W. Martin, CPA
March 7, 2011