

UNIVERSITY OF FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2010



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Notes: (1) Position vacant from January 7, 2010,
to April 18, 2010.
(2) Student body president.
(3) Faculty Senate chair.

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

The audit was coordinated by Philip B. Ciano, 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 Florida and its officers with administrative and stewardship responsibilities for University operations had:

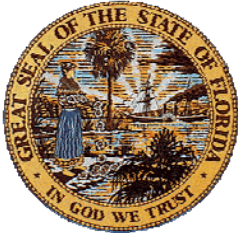
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- 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.



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

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of 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 changed its reporting of the liability for Capital Improvement (Housing and Parking) Revenue Bonds from bonds payable to capital improvement debt payable during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

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

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of 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 48 and 49 be presented to supplement the basic financial statements. Such information, although not a required part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
February 11, 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 of Florida (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 \$2.9 billion at June 30, 2010. This balance reflects a \$129.7 million, or 4.7 percent, increase from the 2008-09 fiscal year due to the State assuming the liability for the State University System Bonds and the receipt of stimulus funds of the American Recovery and Reinvestment Act (ARRA). Investments increased by \$109 million and the completion of construction projects increased capital assets by \$102 million. The amount due from the State continued to decrease because several large construction projects have been completely funded. While assets grew, liabilities grew \$7 million to \$588.3 million, or 1.2 percent. Compensated absences payable grew \$8.9 million and other postemployment benefits payable grew by \$23.2 million while capital improvement debt payable (formerly bonds and revenue certificates payable) decreased \$50.2 million, with \$42.7 million of that amount the result of a revision in the method of reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds (see notes 2 and 3). As a result, the University's net assets increased by \$122.7 million, or 5.6 percent, reaching a year-end balance of \$2.3 billion.

The University's operating revenues totaled \$1.4 billion for the 2009-10 fiscal year, representing a 3.8 percent increase over the 2008-09 fiscal year. Major components of operating revenues are student tuition and fees and grants and contracts. Student tuition and fees, net of scholarship allowances, increased \$16.4 million, or 7.2 percent, because of tuition and fee increases. Federal grants and contracts revenue increased by \$47.9 million, or 14.3 percent, due to additional grant money from ARRA funds.

Operating expenses totaled \$2.2 billion for the 2009-10 fiscal year, representing an increase of 4.5 percent over the 2008-09 fiscal year. The two largest categories contributing to this increase were compensation and employee benefits, reflecting increased compensated absences and other postemployment benefits, and services and supplies.

Net nonoperating revenues and expenses in the 2009-10 fiscal year increased \$69.2 million because of recovering investment values and increased investment income, as well as increased Federal and State student financial aid.

The University had significant construction activity during the year. Completed construction projects included: (1) Pathogen Research Facility (capitalizable costs of \$52.9 million), (2) Veterinary Medicine Education and Clinical Research Center (capitalizable costs of \$57.6 million), (3) Southwest Parking Garage Complex (capitalizable costs of \$20.3 million), and (4) East Campus Office Building (capitalizable costs of \$14.6 million). Construction continues on several major projects, including four that, when finished, will be capitalized at over \$41 million: (1) Southwest Recreational Center Expansion, (2) East Campus Data Center, (3) Chemistry Biology Building, and (4) Lake Nona Research Facility.

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:

- **Direct-Support Organizations** – These are separate, not-for-profit corporations organized and operated exclusively to assist the University in achieving excellence by providing supplemental resources from private gifts, bequests, and valuable education support services.
- **Health Science Center Affiliates** – These are the several corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center, including the Faculty Practice Plans.
- **Shands Hospital and Others** – This includes Shands Teaching Hospital and Clinics, Inc., a not-for-profit corporation that is contractually obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the Health Science Center at the University of Florida.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in notes 1, 5, 8, 11, 14, and 21 to the financial statements. This MD&A focuses on the University, excluding the component units. MD&A information regarding the component units is included in their separately issued audit reports, if reporting under GASB standards. Component units reporting under Financial Standards Accounting Board (FASB) standards do not include an MD&A in their audit reports.

The financial statements characterize revenues and expenses as either operating or nonoperating. The principal component of operating revenues is grants and contracts (\$1 billion). Compensation and employee benefits (\$1.5 billion) represent the primary component of operating expenses. A significant portion of the University's anticipated, recurring resources is considered nonoperating as defined by GASB Statement No. 35. The principal component of nonoperating revenues for the fiscal year ended June 30, 2010, is State appropriations for operations (\$593.1 million). Recurring nonoperating expenses consist primarily of interest expense on capital related debt, totaling \$6.5 million for the fiscal year ended June 30, 2010.

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. Net assets, the difference between total assets and total liabilities, is one indicator of the University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition. The following summarizes the University's assets, liabilities, and net assets at June 30:

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

	2010	2009
Assets		
Current Assets	\$ 1,159.5	\$ 1,135.9
Capital Assets, Net	1,605.6	1,503.5
Other Noncurrent Assets	120.3	116.3
Total Assets	2,885.4	2,755.7
Liabilities		
Current Liabilities	197.3	175.1
Noncurrent Liabilities	391.0	406.2
Total Liabilities	588.3	581.3
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,510.3	1,384.2
Restricted	662.4	680.3
Unrestricted	124.4	109.9
Total Net Assets	\$ 2,297.1	\$ 2,174.4

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 adjustment to beginning net assets reflects change in reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds (see note 3). It was determined that these are not debt of the University. 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 Millions)

	2009-10	2008-09
Operating Revenues	\$ 1,445.1	\$ 1,391.7
Operating Expenses	(2,216.3)	(2,121.4)
Operating Loss	(771.2)	(729.7)
Net Nonoperating Revenues	793.1	723.9
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	21.9	(5.8)
Other Revenues, Expenses, Gains, or Losses	58.1	96.2
Net Increase In Net Assets	80.0	90.4
Net Assets, Beginning of Year	2,174.4	2,095.4
Adjustments to Beginning Net Assets (1)	42.7	(11.4)
Net Assets, Beginning of Year, as Restated	2,217.1	2,084.0
Net Assets, End of Year	\$ 2,297.1	\$ 2,174.4

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

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value. The following summarizes the operating revenues by source that were used to fund operating activities during the 2009-10 and 2008-09 fiscal years:

Operating Revenues (In Millions)		
	2009-10	2008-09
Grants and Contracts	\$ 1,006.2	\$ 974.2
Student Tuition and Fees, Net of Scholarship Allowances	245.4	229.0
Sales and Services of Auxiliary Enterprises	148.2	140.2
Sales and Services of Educational Departments	42.6	47.2
Other	2.7	1.1
Total Operating Revenues	\$ 1,445.1	\$ 1,391.7

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 the 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 for each method of classification for the 2009-10 and 2008-09 fiscal years:

Operating Expenses (In Millions)					
Natural Classification	2009-10	2008-09	Functional Classification	2009-10	2008-09
Compensation and Employee Benefits	\$ 1,514.5	\$ 1,456.9	Instruction	\$ 624.9	\$ 563.4
Services and Supplies	390.4	352.4	Research	518.0	466.6
Depreciation	116.3	120.5	Public Service	352.0	405.2
Scholarships, Fellow ships, and Waivers, Net (1)	97.3	98.5	Academic Support	147.1	125.3
Utilities and Communications	73.9	71.5	Auxiliary Operations	135.7	125.5
Self-Insured Claims and Expenses	23.9	21.6	Depreciation	116.3	120.5
			Operation and Maintenance of Plant	113.0	106.1
Total Operating Expenses	\$ 2,216.3	\$ 2,121.4	Institutional Support	96.7	106.9
			Scholarships, Fellow ships, and Waivers, Net (1)	75.5	73.7
			Student Services	37.1	28.2
			Total Operating Expenses	\$ 2,216.3	\$ 2,121.4

Note: (1) Net of Scholarship Allowances of \$137.8 million in the 2009-10 fiscal year and \$115 million in the 2008-09 fiscal year.

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. Investment income was much higher because

of the market recovery and the combination of more investments and higher yields. The following summarizes the University's nonoperating revenues and expenses for the 2009-10 and 2008-09 fiscal years:

Nonoperating Revenues (Expenses)
(In Millions)

	2009-10	2008-09
State Appropriations	\$ 552.2	\$ 621.0
State Appropriations - ARRA Funds	40.9	0.0
Federal and State Student Financial Aid	142.2	124.0
Investment Income	26.9	14.8
Increase (Decrease) in Fair Value of Investments	40.7	(20.7)
Investment Expenses	(1.5)	0.0
Gain (Loss) on Disposal of Capital Assets	2.2	(3.5)
Interest on Capital Asset-Related Debt	(6.5)	(6.6)
Other Nonoperating Expenses	(4.0)	(5.1)
Net Nonoperating Revenues	\$ 793.1	\$ 723.9

Other Revenues, Expenses, Gains, or Losses

This category is composed of capital appropriations and capital grants, contracts, donations, and student fees. During the year, capital appropriations declined because the State decreased funding for new buildings. 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 Millions)

	2009-10	2008-09
Capital Appropriations	\$ 38.0	\$ 83.7
Capital Grants, Contracts, Donations, and Fees	20.1	12.5
Total	\$ 58.1	\$ 96.2

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 and related financing activities include activities of the capital funds and related long-term debt. Cash flows from investing activities show the net source and use of cash related to purchases and sales of investments and income earned on those investments. Cash flows from noncapital financing activities include those activities not covered in the other sections.

Major sources of funds came from State appropriations (\$553.5 million), ARRA funds (\$40.9 million), net student tuition and fees (\$245 million), grants and contracts (\$1,015.6 million), Federal and State student financial aid (\$142.2 million), and sales and services of auxiliary enterprises (\$141.1 million). Major uses of funds were for payments to employees (\$1,477 million), payments to suppliers for goods and services (\$456.7 million), and purchase or construction of capital assets (\$206.627 million). The following summarizes cash flows for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Cash Provided (Used) by:		
Operating Activities	\$ (601.0)	\$ (578.2)
Noncapital Financing Activities	731.0	717.4
Capital and Related Financing Activities	(84.5)	(67.0)
Investing Activities	(45.3)	(74.6)
Net Increase (Decrease) in Cash and Cash Equivalents	0.2	(2.4)
Cash and Cash Equivalents, Beginning of Year	0.7	3.1
Cash and Cash Equivalents, End of Year	\$ 0.9	\$ 0.7

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

CAPITAL ASSETS

At June 30, 2010, the University had approximately \$3.1 billion in capital assets, less accumulated depreciation of \$1.5 billion, for net capital assets of \$1.6 billion. Depreciation charges for the current fiscal year totaled \$116.3 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

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

	2010	2009
Land	\$ 10.8	\$ 10.9
Construction in Progress	85.4	110.6
Buildings	1,157.6	1,037.4
Infrastructure and Other Improvements	36.1	36.5
Furniture and Equipment	242.8	235.8
Library Resources	57.8	57.7
Property Under Capital Lease	6.7	6.9
Computer Software	2.4	2.7
Other Capital Assets	6.0	5.0
Capital Assets, Net	\$ 1,605.6	\$ 1,503.5

Additional information about the University's capital assets is presented in note 10 to the financial statements.

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2010, were incurred on the following continuing projects: Southwest Recreational Center Expansion (\$9.4 million), Levin College of Law School Advocacy Center (\$5.1 million), Harn Museum Asian Art Wing (\$3.3 million), and Corry Village Utilities Infrastructure Improvements (\$3.1 million). The University's major capital commitments at June 30, 2010, are as follows:

**Major Capital Commitments
(In Millions)**

	Amount (In Millions)
Total Commitment	\$ 176.1
Completed to Date	<u>85.4</u>
Balance Committed	<u>\$ 90.7</u>

Additional information about the University’s capital commitments is presented in note 17 to the financial statements.

DEBT ADMINISTRATION

At June 30, 2010, the University had \$85.2 million in capital improvement debt, capital leases, and installment purchase agreements, representing a decrease of \$52.1 million, or 38 percent, from the prior fiscal year. The following table summarizes the outstanding capital asset related debt by type of debt at June 30:

**Capital Asset Related Debt
(In Millions)**

	2010	2009
Capital Improvement Debt (1)	\$ 79.2	\$ 129.4
Capital Leases	3.4	3.5
Installment Purchase Agreements	<u>2.6</u>	<u>4.4</u>
Total	<u>\$ 85.2</u>	<u>\$ 137.3</u>

Note: (1) Bonds Payable reported at June 30, 2009, have been restated to reflect an adjustment to beginning net assets to recognize a change in reporting Bonds Payable for State University System Capital Improvement Trust Fund Revenue Bonds. The University also reclassified the remaining Bonds Payable to Capital Improvement Debt Payable to report as collateralized debt. See notes 2, 3, and 14 to the financial statements.

Additional information about the University’s long-term debt is presented in note 14 to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

While ARRA is having a positive effect on both the State and the University, the State’s recovery is slow. State Appropriations (without ARRA) have declined \$68.7 million from the 2008-09 fiscal year to the 2009-10 fiscal year and the University may be facing another decrease. The nonrecurring ARRA funds offset the 2009-10 fiscal year reduction by adding \$40.9 million. For the 2010-11 fiscal year, ARRA should add \$31.9 million. Even though enrollment is stable, the increasing percentage of graduate students will add tuition above and beyond the tuition increases allowed by the State.

The University continues to look for ways to conserve resources and cut costs as well as to encourage entrepreneurial efforts in both departments and auxiliaries. Our emphasis on increasing the number of internet courses is an example of departmental efforts to expand services and contain costs. Total Federal grants and contracts awards provide a positive outlook by their having increased to \$487.5 million in the 2009-10 fiscal year from last fiscal year’s \$336.5 million. By enhancing revenue streams and examining costs, the University will excel in research and education.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Michael V. McKee, Assistant Vice President and University Controller, Post Office Box 113200, Gainesville, Florida 32611.

BASIC FINANCIAL STATEMENTS

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

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Clinics	
ASSETS					
Current Assets:					
Cash and Cash Equivalents (Note 4)	\$ 855	\$ 19,187	\$ 66,006	\$ 86,074	\$ 172,122
Investments (Note 5)	917,327	182,472	3,512	238,286	1,341,597
Accounts Receivable, Net (Note 6)	116,460	120,555	69,323	184,578	490,916
Loans and Notes Receivable, Net (Note 6)	4,084	297			4,381
Due from State (Note 7)	101,027				101,027
Due from Component Units/University (Note 8)	10,735	7,790	4,072	8,414	31,011
Inventories (Note 9)	5,089	873		20,648	26,610
Other Current Assets	3,888	6,249	2,450	75,297	87,884
Total Current Assets	1,159,465	337,423	145,363	613,297	2,255,548
Noncurrent Assets:					
Restricted Cash and Cash Equivalents (Note 4)	14	223	1,500		1,737
Restricted Investments (Note 5)	81,735	1,383,620	30,294	184,499	1,680,148
Loans and Notes Receivable, Net (Note 6)	37,685	319			38,004
Depreciable Capital Assets, Net (Note 10)	1,505,577	169,210	28,709	821,322	2,524,818
Nondepreciable Capital Assets (Note 10)	100,018	58,929	935	82,337	242,219
Other Noncurrent Assets	914	2,213	10,336	42,125	55,588
Total Noncurrent Assets	1,725,943	1,614,514	71,774	1,130,283	4,542,514
TOTAL ASSETS	\$ 2,885,408	\$ 1,951,937	\$ 217,137	\$ 1,743,580	\$ 6,798,062
LIABILITIES					
Current Liabilities:					
Accounts Payable	\$ 61,138	\$ 10,289	\$ 15,656	\$ 268,873	\$ 355,956
Salaries and Wages Payable	44,036	11,629	1,345	126	57,136
Due to Component Units/University (Note 8)	26,146	28,559	5,532	3,327	63,564
Deferred Revenue (Note 12)	27,353	81,714		65	109,132
Deposits Held in Custody	5,247	643	41		5,931
Other Current Liabilities (Note 13)	41	17,778	2,915	4,608	25,342
Long-Term Liabilities - Current Portion: (Note 14)					
Capital Improvement Debt Payable	4,550	3,870	1,043	23,376	32,839
Installment Purchase Agreements Payable	1,259				1,259
Capital Leases Payable	107		31	1,627	1,765
Compensated Absences Payable	9,885	170			10,055
Liability for Self-Insured Claims	17,509				17,509
Total Current Liabilities	197,271	154,652	26,563	302,002	680,488

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

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Clinics	
LIABILITIES (Continued)					
Noncurrent Liabilities: <i>(Note 14)</i>					
Capital Improvement Debt Payable	\$ 74,614	\$ 111,845	\$ 14,533	\$ 582,436	\$ 783,428
Installment Purchase Agreements Payable	1,295				1,295
Capital Leases Payable	3,310			3,080	6,390
Compensated Absences Payable	159,750	4,239	6,917		170,906
Other Postemployment Benefits Payable	42,869			4,489	47,358
Liability for Self-Insured Claims	89,481				89,481
Other Noncurrent Liabilities	19,721	42,637		361,702	424,060
Total Noncurrent Liabilities	391,040	158,721	21,450	951,707	1,522,918
TOTAL LIABILITIES	588,311	313,373	48,013	1,253,709	2,203,406
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,510,283	97,847	15,033	292,856	1,916,019
Restricted for Nonexpendable:					
Endowment		1,037,726		196	1,037,922
Restricted for Expendable:					
Endowment		153,431			153,431
Loans	35,027				35,027
Capital Projects	127,441				127,441
Debt Service	4,684				4,684
Other	495,250	270,071	1,500	7,372	774,193
Unrestricted	124,412	79,489	152,591	189,447	545,939
TOTAL NET ASSETS	2,297,097	1,638,564	169,124	489,871	4,594,656
TOTAL LIABILITIES AND NET ASSETS	\$ 2,885,408	\$ 1,951,937	\$ 217,137	\$ 1,743,580	\$ 6,798,062

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

UNIVERSITY OF 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
(In Thousands)

	University	Component Units			Total Reporting Entity
		Direct Support Organizations	Health Science Center Affiliates	Shands Hospital and Clinics	
REVENUES					
Operating Revenues:					
Student Tuition and Fees, Net of Scholarship Allowances of \$137,835	\$ 245,369	\$	\$	\$	\$ 245,369
Federal Grants and Contracts	381,729				381,729
State and Local Grants and Contracts	53,016				53,016
Nongovernmental Grants and Contracts	571,481				571,481
Sales and Services of Auxiliary Enterprises (Note 15)	148,194				148,194
Sales and Services of Educational Departments	42,602				42,602
Sales and Services of Component Units		111,958			111,958
Hospital Revenues			489,215	1,527,029	2,016,244
Gifts and Donations - Component Units		92,099	2,788	5,217	100,104
Royalties and Licensing Fees - Component Units		28,317		1,282	29,599
Interest on Loans and Notes Receivable	1,958				1,958
Other Operating Revenues	709	8,410	1,785	159,004	169,908
Total Operating Revenues	1,445,058	240,784	493,788	1,692,532	3,872,162
EXPENSES					
Operating Expenses:					
Compensation and Employee Benefits	1,514,455				1,514,455
Services and Supplies	390,442				390,442
Utilities and Communications	73,879				73,879
Scholarships, Fellowships, and Waivers, Net	97,324				97,324
Depreciation	116,264	8,237	5,606	76,242	206,349
Self-Insured Claims and Expenses	23,957				23,957
Other Component Unit Operating Expenses		261,412	183,452	1,501,261	1,946,125
Total Operating Expenses (Note 20)	2,216,321	269,649	189,058	1,577,503	4,252,531
Operating Income (Loss)	(771,263)	(28,865)	304,730	115,029	(380,369)
NONOPERATING REVENUES (EXPENSES)					
State Appropriations	552,200				552,200
Federal and State Student Financial Aid	142,184				142,184
State Appropriated American Recovery and Reinvestment Act Funds	40,916				40,916
Investment Income	26,924	32,256	1,376	20,445	81,001
Increase in the Fair Value of Investments	40,745	94,915	25	10,137	145,822
Investment Expenses	(1,476)				(1,476)
Gain (Loss) on Disposal of Capital Assets	2,152	25	(53)		2,124
Interest on Capital Asset-Related Debt	(6,502)	(4,226)	(136)		(10,864)
Other Nonoperating Expenses	(3,986)	(8,324)	(355,272)	(191,351)	(558,933)
Net Nonoperating Revenues (Expenses)	793,157	114,646	(354,060)	(160,769)	392,974
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	21,894	85,781	(49,330)	(45,740)	12,605
Capital Appropriations	37,969				37,969
Capital Grants, Contracts, Donations, and Student Fees	20,172				20,172
Additions to Permanent Endowments		32,168			32,168
Other Revenues (Expenses)		5,812	68,005	(33,698)	40,119
Increase (Decrease) in Net Assets	80,035	123,761	18,675	(79,438)	143,033
Net Assets, Beginning of Year	2,174,361	1,514,835	150,449	569,309	4,408,954
Adjustment to Beginning Net Assets (Note 3)	42,701	(32)			42,669
Net Assets, Beginning of Year, as Restated	2,217,062	1,514,803	150,449	569,309	4,451,623
Net Assets, End of Year	\$ 2,297,097	\$ 1,638,564	\$ 169,124	\$ 489,871	\$ 4,594,656

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

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

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 245,014
Grants and Contracts	1,015,618
Sales and Services of Auxiliary Enterprises	141,071
Sales and Services of Educational Departments	42,692
Repayment of Loans and Notes Receivable	6,798
Interest on Loans Receivable	860
Other Operating Receipts	964
Payments to Employees	(1,477,042)
Payments to Suppliers for Goods and Services	(456,700)
Payments to Students for Scholarships and Fellowships	(97,324)
Net Loans Issued to Students	(6,143)
Payments on Self-Insured Claims and Expenses	(16,809)
	(601,001)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	553,477
Federal and State Student Financial Aid	142,184
State Appropriated American Recovery and Reinvestment Act Funds	40,916
Direct Loan Program Receipts	212,328
Direct Loan Program Disbursements	(212,289)
Operating Subsidies and Transfers	31
Net Change in Funds Held for Others	(1,452)
Other Nonoperating Receipts	2,352
Other Nonoperating Disbursements	(6,582)
	730,965
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	84,588
Capital Grants, Contracts, Donations, and Student Fees	48,007
Proceeds from Sale of Capital Assets	6,312
Purchase or Construction of Capital Assets	(206,627)
Principal Paid on Capital Debt and Leases	(10,277)
Interest Paid on Capital Debt and Leases	(6,502)
	(84,499)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	1,277,984
Purchase of Investments	(1,348,323)
Investment Income	25,057
	(45,282)
Net Increase in Cash and Cash Equivalents	183
Cash and Cash Equivalents, Beginning of Year	686
	869
Cash and Cash Equivalents, End of Year	\$ 869

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

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (771,263)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	116,264
Change in Assets and Liabilities:	
Receivables, Net	2,466
Due From State and Component Units	2,701
Inventories	298
Other Assets	(3,302)
Accounts Payable	10,624
Salaries and Wages Payable	5,316
Due to State and Component Units	134
Deferred Revenue	(3,501)
Deposits Held in Custody	17
Compensated Absences Payable	8,876
Other Postemployment Benefits Payable	23,221
Liability for Self-Insured Claims	7,148
NET CASH USED BY OPERATING ACTIVITIES	\$ (601,001)
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Unrealized gains on investments are recognized as income on the statement of revenues, expenses, and changes in net assets, but are not considered a source of cash for the statement of cash flows.	\$ 40,745

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

UNIVERSITY OF 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 of Florida 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 activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of the criteria for determining component units, the University of Florida Self-Insurance Program (the Program), combined with the University of Florida Healthcare Education Insurance Company (HEIC), are included within the University reporting entity as a blended component unit. The Program was created by the Florida Board of Governors, pursuant to Section 1004.24, Florida Statutes. The HEIC was created on September 1, 1994, as a self-insurance mechanism created pursuant to Section 1004.24, Florida Statutes. Although legally separate from the University of Florida, the Program's and the HEIC's sole purpose is to assist in providing liability protection for the University and its affiliated individuals and entities, and are therefore reported as if they are part of the University. (See note 18 for more details.)

Discretely Presented Component Units. Based on the application of the criteria for determining component units, certain affiliated organizations are included within the University's reporting entity as discretely presented component units. The University further categorizes its component units as Direct-Support Organizations, Health Science Center Affiliates, and Shands Teaching Hospital and Others. 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

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

reports, is available by contacting the Office of University Relations. Condensed financial statements for the University's discretely presented component units are shown in note 21.

Direct-Support Organizations. The University's direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, are considered component units of the University of Florida and therefore the latest audited financial statements of these organizations are included in the financial statements of the University by discrete presentation. 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 Florida Foundation, Inc. - Solicits, collects, manages, and directs contributions to the various academic departments and programs of the University, and assists the University in fund raising, public relations, and maintenance of alumni records.
- University of Florida Research Foundation, Inc. - Promotes, encourages, and assists research activities of the University through income derived from or related to the development and commercialization of intellectual properties, which include inventions, discoveries, processes, and work products.
- The University Athletic Association, Inc. - Conducts various inter-collegiate athletic programs for and on behalf of the University.
- Gator Boosters, Inc. - Supports athletic activities at the University.
- The University of Florida Law Center Association, Inc. - Supports the College of Law.
- Florida Foundation Seed Producers, Inc. - Supplies Florida farmers and producers with crop seed and nursery stock. This organization stocks foundation seed of the best-known varieties acceptable to Florida climate and soils in adequate quantities and at reasonable prices.
- Florida 4-H Club Foundation, Inc. - Promotes the educational objectives of the Florida Cooperative Extension Service.
- Southwest Florida Research and Education Foundation, Inc. - Provides research and educational support to the University of Florida Southwest Florida Research and Education Center.
- Citrus Research and Education Foundation, Inc. - Expedites citrus production, propagates new plant materials, collects and analyzes environmental impact research data, and provides research and education support to the University of Florida Citrus Research and Education Center at Lake Alfred.
- Citrus Research and Development Foundation, Inc. - Was formed to advance disease and production research and product development activities to ensure the survival and competitiveness of Florida's citrus growers through innovation.

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

- University of Florida Leadership and Education Foundation, Inc. - Was formed to further agriculture and natural resource education and related activities, promote agriculture and natural resources leadership, and make contributions to and confer benefits upon the University.
- Treasure Coast Agricultural Research Foundation, Inc. - Supports, encourages, and fosters research, education, and extension at the Institute of Food and Agricultural Sciences of the University on issues related to the citrus industry within the Indian River region.
- University of Florida Alumni Association, Inc. - Supports activities of the alumni of the University of Florida.
- University of Florida Investment Corporation - Promotes the educational purposes of the University of Florida by providing investment research, advice, counsel, and management to and for the University Board of Trustees and affiliated organizations of the University.
- UF Historic St. Augustine, Inc. – Ensures the long-term preservation and interpretation of State-owned historic properties in St. Augustine. (Since this direct-support organization was formed June 28, 2010, and has no financial transactions, it is not presented.)

Health Science Center Affiliates. Several corporations closely affiliated with the University of Florida J. Hillis Miller Health Science Center (JHMHC) are considered to be component units of the University of Florida. These corporations are as follows:

- Florida Clinical Practice Association, Inc.
- University of Florida Jacksonville Physicians, Inc.
- Faculty Associates, Inc.
- Florida Health Professions Association, Inc.
- University of Florida College of Nursing Faculty Practice Association, Inc.
- University of Florida College of Pharmacy Faculty Practice Association, Inc.
- Florida Veterinary Medicine Faculty Association, Inc.
- University of Florida Jacksonville Healthcare, Inc.
- Faculty Clinic, Inc.

The first seven corporations listed are Faculty Practice Plans, as provided for in Board of Governors' Regulation 9.017. The Faculty Practice Plans provide educationally-oriented clinical practice settings and opportunities through which faculty members provide health, medical, and dental care to patients as an integral part of their academic activities and their employment as faculty. Because these faculty practice activities generate income, the colleges are authorized to regulate fees generated from faculty practice and maintain Faculty Practice Plans for the orderly collection and distribution of fees. These organizations provide significant support for the clinical instruction function of the JHMHC.

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

University of Florida Jacksonville Healthcare, Inc., a Health Services Support Organization as provided for in Board of Governors' Regulation 9.011, engages in strategic alliances and partnerships with nonacademic entities, effecting managed care contracting and provider network development for the JHMHC. Faculty Clinic, Inc., was originally organized to operate a multi-specialty clinic. However, effective January 1, 1995, Faculty Clinic, Inc., was restructured to operate as a facilities management company.

Shands Teaching Hospital and Others

- Shands Teaching Hospital and Clinics, Inc. (Shands), was incorporated October 15, 1979, as a not-for-profit corporation. Shands, a major tertiary care teaching institution, is a leading referral center in the State of Florida and the southeast United States and facilitates medical education programs at the University.

Shands entered into a contractual agreement, as of July 1, 1980, as subsequently restated and amended, with the Florida State Board of Education to provide for the use of hospital facilities at the JHMHC through December 31, 2030, with renewal provisions. The contractual agreement also provides for the transfer to Shands of all other assets and liabilities arising from the operation of the hospital facilities prior to July 1, 1980. At termination of the contractual agreement, the net assets of Shands revert to the State Board of Education. Legal title to all buildings and improvements transferred to Shands remains with the State of Florida during the term of the contractual agreement. The contractual agreement provides for a 12-month grace period for any event of default, other than the bankruptcy of Shands. In addition, the contractual agreement limits the right of the State Board of Education to terminate the contractual agreement solely to the circumstance in which Shands declares bankruptcy and, in such event, requires net revenues derived from the operation of the hospital facilities to continue to be applied to the payment of Shands' debts.

Under the terms of the contractual agreement, Shands is obligated to manage, operate, maintain, and insure the hospital facilities in support of the programs of the JHMHC and further agrees to contract with the State Board of Education for the provision of these programs. By operation of law, the University of Florida Board of Trustees has become the successor-in-interest to the State Board of Education.

- University Village Apartments, Inc. (the Corporation), was established in 1969 for the purpose of providing housing for low- and moderate-income families, especially those affiliated with the University of Florida. Capital was contributed at inception by the University of Florida Foundation, Inc., but no capital stock was issued because the Corporation does not operate for the benefit of any special interest. The Corporation provides housing under Section 221(d)(3) of the National Housing Act. The facility consists of 28 two-story buildings and is regulated by the United States Department of Housing and Urban Development as to rent charges and operating methods. The Corporation's major program is its Section 221 insured loan, which is in the repayment phase. Legal title to the property is held by the Corporation.

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

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

elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

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. Some follow GASB standards of accounting and financial reporting and some, such as the University of Florida Foundation, Inc., and Shands Teaching Hospital and Clinics, Inc., follow FASB standards of accounting and financial reporting for not-for-profit organizations.

The University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, has elected to apply only those FASB pronouncements issued on or 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.

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

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 discounts and allowances. Tuition scholarship discounts and 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 discounts and allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

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

Capital Assets. University capital assets consist of land, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital lease, works of art and historical treasures, 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 \$250,000 for new buildings. For building improvements, the threshold is \$250,000 or less if the amount expended is at least 25 percent of the cost basis of the building. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years, depending on construction
- Infrastructure and Other Improvements – 12 to 50 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Lease – 40 years
- Computer Software – 3 to 7 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of capital improvement debt payable, installment purchase agreements payable, and capital leases payable; compensated absences payable; other postemployment benefits payable; liability for self-insured claims; and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized discounts and deferred losses on refundings. The University amortizes debt discounts over the

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

life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as other noncurrent assets, and are amortized over the life of the debt using the straight-line method.

2. REPORTING CHANGES

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

3. ADJUSTMENTS TO BEGINNING NET ASSETS

The University's beginning net assets were increased by \$42,701,358 to record a change in reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years, the liability for these bonds was reported on the University's statement of net assets. It has subsequently been determined that these bonds are not debt of the University. Although proceeds from the bonds were provided to the University for capital projects, the University is not responsible for the repayment of the bonds and revenue certificates. Repayment is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all universities and remitted in total to the Florida Department of Education.

The beginning net assets of the Florida Foundation Seed Producers, Inc., a component unit, were decreased by \$32,006 to reflect a payable for royalties due to the University of Florida Research Foundation, Inc.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and cash in interest earning 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.

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

5. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. 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; 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:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 778,232,130
State Board of Administration Debt Service Accounts	205,697
United States Government and Federally-Guaranteed Obligations	18,964,539
Repurchase Agreements	16,858,625
Stocks	517
Certificates of Deposit	750,000
Investment Agreements	78,317,994
Mutual Funds:	
Equities	26,459,972
Bonds	79,272,898
Total University Investments	\$ 999,062,372

Investments of the University’s component units (see note 1) at June 30, 2010, are reported at fair value, as follows:

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<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 275,571,985
State Board of Administration Local Government	
Surplus Funds Trust Fund	495,427
United States Government and Federally-Guaranteed	
Obligations	5,835,793
Federal Agency Obligations	479,595
Bonds and Notes	30,514,841
Investment Agreements	1,506,727,829
Real Estate Agreements	10,193,724
Stocks	4,438,359
Certificates of Deposit	6,430,561
Money Market Funds	78,705,647
Mutual Funds:	
Equities	41,642,742
Bonds	61,645,806
Total Component Units Investments	\$ 2,022,682,309

External Investment Pools

The University and its discretely presented component units (see note 1) reported investments at fair value totaling \$778,232,130 and \$275,571,985, respectively, at June 30, 2010, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of Af by Standard & Poor's and had an effective duration of 1.81 years at June 30, 2010. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

At June 30, 2010, the University's component units reported investments at fair value totaling \$495,427 in the SBA Local Government Surplus Funds Trust Fund Investment Pool, which effective July 1, 2009, is known as Florida PRIME investment pool, administered by the SBA pursuant to Section 218.405, Florida Statutes. The investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, at June 30, 2010, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The Florida PRIME investment pool carried a credit rating of AAAM by Standard & Poor's and had a weighted-average days to maturity (WAM) of 46 days as of June 30, 2010. A portfolio's WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the Florida PRIME investment pool to interest rate changes. The investments in the Florida PRIME investment pool are reported at fair value, which is amortized cost.

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State Board of Administration Debt Service Accounts

The University reported investments at fair value totaling \$205,697 at June 30, 2010, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk and credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Other Investments

In addition to external investment pools, the University and its discretely presented component units invested in various debt and equity securities, money market funds, mutual funds, and certificates of deposit. For the University, the majority of the other investments are those reported by the University of Florida Self-Insurance Program combined with the University of Florida Healthcare Education Insurance Company, a blended component unit (see note 1), plus amounts invested by the University of Florida Investment Corporation for the University of Florida. For the University's discretely presented component units, other investments are those reported primarily by the University of Florida Foundation, Inc., University of Florida Research Foundation, Inc., The University Athletic Association, Inc., Florida Clinical Practice Association, Inc., and Shands Teaching Hospital and Clinics, Inc. The following risks apply to the University's and its discretely presented component units' investments other than external investment pools:

- *Interest Rate Risk:* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Pursuant to Section 218.415(16), Florida Statutes, the University's investments in securities must provide sufficient liquidity to pay obligations as they come due. Per the Statement of Investment Guidelines and Objectives of the University of Florida Healthcare Education Insurance Company, the weighted-average duration of the fixed income portfolio shall at all times be less than five years. Investments of the University and its component units (excluding those reporting under FASB standards) in debt securities and bond mutual funds, and their future maturities at June 30, 2010, are as follows:

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University Debt Investments Maturities

Types of Investments	Fair Value	Investments Maturities (In Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
United States Government and Federally-Guaranteed Obligations	\$ 18,964,539	\$ 5,825,360	\$ 13,139,179	\$	\$
Bond Mutual Funds	79,272,898		79,272,898		
Total University	\$ 98,237,437	\$ 5,825,360	\$ 92,412,077	\$	\$

Component Units Debt Investments Maturities

Types of Investments	Fair Value	Investments Maturities (In Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
United States Government and Federally-Guaranteed Obligations	\$ 2,849,376	\$	\$	\$ 2,849,376	\$
Federal Agency Obligations	479,595	423,582	6,551		49,462
Bonds and Notes	29,178,964	1,521,008	22,294,464	1,403,827	3,959,665
Bond Mutual Funds	6,286,127	1,319,471	4,966,656		
Total Component Units	\$ 38,794,062	\$ 3,264,061	\$ 27,267,671	\$ 4,253,203	\$ 4,009,127

- *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 and its component units (excluding those reporting under FASB standards) had bonds and notes, money market funds, and bond mutual funds, with quality ratings by nationally recognized rating agencies (i.e., Moody's), as follows:

University Debt Investments Quality Ratings

Types of Investments	Fair Value	AAA/Aaa	AA/Aa	A/Ba	Less Than A/Ba or Not Rated
Bond Mutual Funds	\$ 79,272,898	\$ 2,782,180	\$ 24,595,013	\$ 9,123,101	\$ 42,772,604 (1)

Component Units Debt Investments Quality Ratings

Types of Investments	Fair Value	AAA/Aaa	AA/Aa	A/Ba	Less Than A/Ba or Not Rated
Federal Agency Obligations	\$ 479,595	\$ 39,127	\$ 423,582	\$	\$ 16,886
Bonds and Notes	29,178,964	25,916,037	635,267	2,543,267	84,393
Money Market Funds	314,746			314,746	
Bond Mutual Funds	6,286,127		1,319,471		4,966,656 (1)
Total Component Units	\$ 36,259,432	\$ 25,955,164	\$ 2,378,320	\$ 2,858,013	\$ 5,067,935

Note: (1) These investments were not rated.

- *Custodial Credit Risk:* Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the University and are not registered in the University's name. The University has no formal policy on custodial credit risk.

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The component units manage their custodial credit risk based on various investment policies, which may be obtained separately from the component units.

- *Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of the University’s investments in a single issuer. The University has no formal policy on concentration of credit risk. The component units manage their concentration of credit risk based on various investment policies, which may be obtained separately from the component units.

6. RECEIVABLES

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

Description	Amount
Grants and Contracts	\$ 75,724,290
Sales and Services of Auxiliary Enterprises	30,583,127
Student Tuition and Fees	4,826,389
Interest	3,631,590
Sales and Services of Educational Departments	1,694,664
Total Accounts Receivable	\$ 116,460,060

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

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based on management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable for student tuition and fees, various sales and services provided to students and third parties, and interest are reported net of allowances of \$8,479,269, which is 17 percent of total related accounts receivable at June 30, 2010. Loans and notes receivable are reported net of an allowance of \$3,429,718, which is 8 percent of total related loans and notes receivable.

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

7. DUE FROM STATE

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

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8. DUE FROM AND TO COMPONENT UNITS/UNIVERSITY

The University's financial statements are reported for the fiscal year ended June 30, 2010. The University's component units' financial statements are reported as of the most recent fiscal year for which an audit report is available. Some component units have a fiscal year other than June 30. Additionally, component units' due from and due to amounts include receivables and payables between the various component unit columns. Accordingly, amounts reported by the University as due from and to component units on the statement of net assets do not agree with amounts reported by the component units as due from and to the University.

9. 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.

10. 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	\$ 10,850,447	\$	\$ 86,586	\$ 10,763,861
Construction in Progress	110,633,975		25,220,901	85,413,074
Works of Art and Historical Treasures	3,717,456	134,116	10,715	3,840,857
Total Nondepreciable Capital Assets	\$ 125,201,878	\$ 134,116	\$25,318,202	\$ 100,017,792
Depreciable Capital Assets:				
Buildings	\$ 1,739,078,947	\$ 171,805,448	\$ 1,029,794	\$ 1,909,854,601
Infrastructure and Other Improvements	85,387,610	2,441,723		87,829,333
Furniture and Equipment	632,721,777	71,232,408	43,543,201	660,410,984
Library Resources	273,046,074	12,373,620	2,641,520	282,778,174
Property Under Capital Lease	9,815,002			9,815,002
Works of Art and Historical Treasures	782,335	29,518	6,733	805,120
Computer Software	34,212,789	1,071,039	471,401	34,812,427
Other Capital Assets	2,580,907	1,035,475	1,056,896	2,559,486
Total Depreciable Capital Assets	2,777,625,441	259,989,231	48,749,545	2,988,865,127
Less, Accumulated Depreciation:				
Buildings	701,685,084	51,135,222	587,947	752,232,359
Infrastructure and Other Improvements	48,937,423	2,751,462		51,688,885
Furniture and Equipment	396,896,379	48,361,903	27,696,496	417,561,786
Library Resources	215,308,675	12,299,337	2,641,520	224,966,492
Property Under Capital Lease	2,882,073	245,375		3,127,448
Works of Art and Historical Treasures	360,476	46,020	5,479	401,017
Computer Software	31,540,489	1,116,394	285,511	32,371,372
Other Capital Assets	1,670,001	308,534	1,039,853	938,682
Total Accumulated Depreciation	1,399,280,600	116,264,247	32,256,806	1,483,288,041
Total Depreciable Capital Assets, Net	\$ 1,378,344,841	\$ 143,724,984	\$ 16,492,739	\$ 1,505,577,086

11. MUSEUM AND ART COLLECTIONS

The Florida Museum of Natural History, which is part of the University, maintains a depository of biological, geological, archaeological, and ethnographical materials. The museum's collections contain more than 28 million specimens more than half of which are catalogued, either individually or in lots. While many of the collections are undoubtedly quite valuable and irreplaceable, the University has not placed a dollar value on these items and, accordingly, the financial statements do not include these assets.

The Samuel P. Harn Museum of Art, which is also part of the University, maintains a collection of approximately 7,000 works of art. Donations of artwork to the museum are recorded by the University of Florida Foundation, Inc. (Foundation), and are included with reported permanent collections as further explained in note 11 of the Foundation's audited financial statements for the fiscal year ended June 30, 2010. Purchases of artwork by the museum are included with the University's reported nondepreciable capital assets as presented in note 10.

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12. DEFERRED REVENUE

Deferred revenue includes amounts received prior to the end of the fiscal year, but related to subsequent accounting periods. As of June 30, 2010, the University reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Grants and Contracts	\$ 17,961,420
Sales and Services of Auxiliary Enterprises	5,929,920
Capital Appropriations	3,461,621
Total Deferred Revenue	<u><u>\$ 27,352,961</u></u>

13. OTHER CURRENT LIABILITIES

The University maintained accounts 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 accounts.

14. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2010, include capital improvement debt payable, installment purchase agreements payable, capital leases payable, compensated absences payable, other postemployment benefits payable, liability for self-insured claims, and other noncurrent liabilities. The reduction in capital improvement debt payable includes the \$42,701,358 revision due to the change in the method of reporting bonds and revenue certificate payable (see notes 2 and 3). Long-term liability activity for the fiscal year ended June 30, 2010, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital Asset Related Debt:					
Capital Improvement Debt Payable	\$ 129,375,138	\$	\$ 50,211,027	\$ 79,164,111	\$ 4,550,000
Installment Purchase Agreements Payable	4,440,650	779,933	2,666,973	2,553,610	1,258,620
Capital Leases Payable	3,517,439		100,292	3,417,147	106,761
Total Capital Asset Related Debt	137,333,227	779,933	52,978,292	85,134,868	5,915,381
Other Long-Term Liabilities:					
Compensated Absences Payable	160,758,358	587,416,740	578,540,104	169,634,994	9,884,559
Other Postemployment Benefits Payable	19,648,000	31,555,000	8,334,000	42,869,000	
Liability for Self-Insured Claims	99,842,064	23,956,862	16,808,808	106,990,118	17,508,509
Other Noncurrent Liabilities	20,069,670		348,736	19,720,934	
Total Long-Term Liabilities	<u><u>\$ 437,651,319</u></u>	<u><u>\$ 643,708,535</u></u>	<u><u>\$ 657,009,940</u></u>	<u><u>\$ 424,349,914</u></u>	<u><u>\$ 33,308,449</u></u>

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

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Debt Type and Series	Amount of Original Issue	Amount Outstanding		Interest Rates (Percent)	Maturity Date To
		Principal	Interest		
Student Housing Debt:					
1959F Housing	\$ 1,500,000	\$ 60,000	\$ 900	3.000	2011
1984 Housing	3,500,000	690,000	52,500	3.000	2014
1998 Housing	26,155,000	17,630,000	7,404,284	4.500 - 5.000	2028
2005A Housing	37,610,000	34,410,000	18,622,525	4.000 - 5.125	2030
Total Student Housing Debt	68,765,000	52,790,000	26,080,209		
Parking Garage Debt:					
1993 Parking Garage	19,545,000	3,015,000	310,625	5.000	2014
1998 Parking Garage	10,000,000	5,735,000	1,291,168	4.250 - 4.750	2019
2007A Parking Garage	20,770,000	19,330,000	8,024,385	3.400 - 4.375	2028
Total Parking Garage Debt	50,315,000	28,080,000	9,626,178		
Less, Unamortized Discounts		(526,614)			
Less, Unamortized Refunding Losses		(1,179,275)			
Total	\$ 119,080,000	\$ 79,164,111	\$ 35,706,387		

Student housing and parking garage capital improvement debt was issued to construct student housing facilities and parking garages. The outstanding debt, which includes both term and serial bonds, are secured by a pledge of a portion of housing rental revenues and parking fees.

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,550,000	\$ 3,689,662	\$ 8,239,662
2012	4,680,000	3,491,927	8,171,927
2013	4,890,000	3,285,152	8,175,152
2014	5,110,000	3,067,414	8,177,414
2015	4,335,000	2,851,844	7,186,844
2016-2020	22,925,000	11,169,732	34,094,732
2021-2025	18,860,000	6,226,328	25,086,328
2026-2030	15,520,000	1,924,328	17,444,328
Subtotal	80,870,000	35,706,387	116,576,387
Less, Unamortized Discounts	(526,614)		(526,614)
Less, Unamortized Refunding Losses	(1,179,275)		(1,179,275)
Total	\$ 79,164,111	\$ 35,706,387	\$ 114,870,498

Installment Purchases Payable. The University has entered into several installment purchase agreements for the purchase of equipment reported at \$7,400,476. The stated interest rates ranged from 1.62 percent to 12.42 percent. Future minimum payments remaining under installment purchase agreements and the present value of the minimum payments as of June 30, 2010, are as follows:

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Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 1,258,620	\$ 71,262	\$ 1,329,882
2012	733,362	30,878	764,240
2013	396,962	10,841	407,803
2014	153,155	1,465	154,620
2015	11,511	77	11,588
Total	\$ 2,553,610	\$ 114,523	\$ 2,668,133

Capital Leases Payable. On June 8, 1994, the former Board of Regents, on behalf of the University of Florida, entered into a lease agreement with the University of Florida Foundation, Inc. (the Foundation), a direct-support organization (component unit) of the University. Under the terms of the agreement, the University agreed to lease from the Foundation a 607-space parking garage (the garage) located near the Health Science Center Administrative Offices for a period of thirty years beginning July 1, 1994. Lease payments of \$100,000 annually are due each July 1. The garage was simultaneously acquired by the Foundation from Shands Teaching Hospital and Clinics, Inc. (Shands), also a component unit, and financed by the Foundation through the issuance of a promissory note secured by a nonrecourse mortgage containing payment terms similar to those in the lease agreement between the Foundation and the University. Lease payments from the University to the Foundation and from the Foundation to Shands were based on an original construction cost of \$3 million and no interest. For reporting purposes, the lease is considered a capital lease under Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*. The initial obligation was discounted at an imputed interest rate of 6.45 percent and was recorded at \$1,382,470. The asset, which is included in reported property under capital lease, was recorded at cost to Shands of \$3 million.

On March 1, 2000, the University, acting for and on behalf of the former Board of Regents, entered into a lease agreement with Shands. Under the terms of the agreement, the University agreed to lease from Shands an 800-space parking garage located near the Health Science Center Administrative Offices for a period of thirty years beginning March 1, 2000. Annual lease payments of \$227,167 are due each May 1, beginning May 1, 2001. Lease payment amounts were based on an original construction cost of \$6,815,002 and no interest. For reporting purposes, the lease is considered a capital lease under FASB Statement No. 13, *Accounting for Leases*. The initial obligation was discounted at an imputed interest rate of 6.45 percent and was recorded at \$2,981,939. The asset, which is included in reported property under capital lease, was recorded at cost to Shands of \$6,815,002.

A summary of pertinent information related to the two capital leases is as follows:

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	Interest Rate (Percent)	Original Balance	Outstanding Balance at 6-30-10
Shands 607-Space Parking Garage	6.45	\$ 1,382,470	\$ 904,137
Shands 800-Space Parking Garage	6.45	2,981,939	2,513,010
Total		\$ 4,364,409	\$ 3,417,147

Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2010, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2011	\$ 106,761	\$ 220,406	\$ 327,167
2012	113,647	213,520	327,167
2013	120,977	206,190	327,167
2014	128,780	198,387	327,167
2015	137,086	190,080	327,166
2016-2020	830,035	805,799	1,635,834
2021-2025	1,034,553	501,280	1,535,833
2026-2030	945,308	190,526	1,135,834
Total	\$ 3,417,147	\$ 2,526,188	\$ 5,943,335

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 \$169,634,994. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years’ total compensated absences liability.

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

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

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for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 2,513 retirees received postemployment healthcare benefits. The University provided required contributions of \$8,334,000 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 \$13,459,000.

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

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 15,026,000
Amortization of Unfunded Actuarial Accrued Liability	15,189,000
Interest on Normal Cost and Amortization	<u>1,209,000</u>
Annual Required Contribution	31,424,000
Interest on Net OPEB Obligation	786,000
Adjustment to Annual Required Contribution	<u>(655,000)</u>
Annual OPEB Cost (Expense)	31,555,000
Contribution Toward the OPEB Cost	<u>(8,334,000)</u>
Increase in Net OPEB Obligation	23,221,000
Net OPEB Obligation, Beginning of Year	<u>19,648,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 42,869,000</u></u>

The University’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	17,490,000	41.9%	10,155,000
2008-09	16,208,000	41.4%	19,648,000
2009-10	31,555,000	26.4%	42,869,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$455,677,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$455,677,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$948,374,584 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 48 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 were 10.32 percent, and 8.84 percent for the first two years, respectively, for all retirees in the PPO (preferred provider organization) Plan and 10 percent for the first two years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and the HMO healthcare trend rates are both 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

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level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 27 years.

Other Noncurrent Liabilities. The University participates in the Federal Perkins Loan Program. Under this program, the University receives Federal capital contributions which must be returned to the Federal Government if the program has excess cash or the University ceases to participate in the program. Federal capital contributions held by the University totaled \$19,720,934 at June 30, 2010.

15. INTERDEPARTMENTAL AUXILIARY SALES

Interdepartmental sales between auxiliary service departments and other institutional departments have been eliminated from expenses and revenues for reporting purposes. The interdepartmental transactions eliminated in the financial statement preparation totaled \$105,747,124 for the fiscal year ended June 30, 2010.

16. 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:

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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 \$33,574,700, \$34,080,768, and \$33,580,957, 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 1,418 University participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$5,036,439.

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

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

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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 5,265 University participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$46,726,083 and employee contributions totaled \$20,204,733.

Institute of Food and Agricultural Sciences Supplemental Retirement. In 1984, the Florida Legislature enacted the Institute of Food and Agricultural Sciences Supplemental Retirement Act to provide a supplement to the monthly retirement benefit being paid under the Federal Civil Service Retirement System to retirees of the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida. The supplement is designated for IFAS cooperative extension employees employed before July 1, 1983, who are not entitled to benefits from either a State-supported retirement system or social security based on their service with IFAS. It was intended to compensate these IFAS employees for the difference between their Civil Service benefit and the benefits an FRS member receives, which include a social security benefit. No additional persons can become eligible for this supplement.

There were 47 University participants during the 2009-10 fiscal year. Required employer contributions made to the program totaled \$726,667. Employees do not contribute to this program.

Other Retirement Programs. Some University employees participate in the Florida Teachers' Retirement System and the United States Civil Service Retirement System. Two employees were covered by the Florida Teachers' Retirement System during the 2009-10 fiscal year. Employer contributions totaled \$26,637 and employee contributions totaled \$14,668. Fifty-six employees were covered by the United States Civil Service Retirement System during the 2009-10 fiscal year. Employer contributions totaled \$315,746, and employee contributions totaled \$307,942.

17. CONSTRUCTION COMMITMENTS

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

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Project Description	Total Commitment	Completed to Date	Balance Committed
Cellulosic Ethanol Plant	\$ 20,000,000	\$ 1,887,922	\$ 18,112,078
Southwest Recreational Center Expansion	16,284,523	9,427,505	6,857,018
East Campus Data Center	12,000,000	161,264	11,838,736
Cory Village Utilities Infrastructure Improvements	8,416,286	3,064,709	5,351,577
Chemistry Biology Building	7,608,204	2,527,528	5,080,676
Campus Security Lighting	6,905,209	121,713	6,783,496
Lake Nona Research Facility	6,000,000	1,859,745	4,140,255
Levin College of Law School Advocacy Center	5,146,111	5,113,409	32,702
Harn Museum Asian Art Wing	4,980,750	3,257,620	1,723,130
McCarty Chiller Loop Retrofit	3,946,500	3,580,494	366,006
Biomedical Sciences Building	3,600,000	488,599	3,111,401
IFAS Professional Development Center	3,224,729	29,938	3,194,791
PK Yonge Developmental School Phase 1	2,000,000	1,532	1,998,468
Medical Sciences Building Autopsy Suite Renovation	1,746,976	21,263	1,725,713
SCADA (Steam Piping) - throughout campus	1,558,788	1,304,430	254,358
Reitz Union Food Court Renovation	1,539,074	1,068,364	470,710
Oil Switch Replacement	1,517,757	997,608	520,149
Florida Innovation Hub at UF	1,412,144	403,704	1,008,440
Aquatic Pathobiology Building Addition	1,267,086	1,109,756	157,330
Institute on Aging Research Building	1,247,000	177,153	1,069,847
Reitz Union Renovation	1,189,725	753,489	436,236
Dental Sciences Building Asbestos Abatement	1,127,113	20,708	1,106,405
2006-07 PK Yonge Maintenance, Repairs, and Renovations	1,123,669	68,019	1,055,650
2007-08 PK Yonge Maintenance, Repairs, and Renovations	1,114,248	711,862	402,386
2008-09 PK Yonge Maintenance, Repairs, and Renovations	1,079,613	1,116	1,078,497
Agricultural and Biological Engineering/Horticulture Sciences, Growth Chambers	1,113,394	1,113,082	312
Dental Building Renovation	1,064,151	561,072	503,079
Heating, Ventilation, Air Conditioning Upgrade on Fourth Floor of Yon Hall	1,054,000	1,036,087	17,913
Yon Hall Roof, Heating, Ventilation, and Air Conditioning, and Window	1,033,574	933,977	99,597
Communicore Lecture Hall Upgrade	1,027,844	8,166	1,019,678
Food Science Building Renovation - Phase I	1,019,000	974,388	44,612
Campus Security System Enhancement	1,003,529	14,963	988,566
Subtotal	123,350,997	42,801,185	80,549,812
Projects Under \$1,000,000	52,762,370	42,611,889	10,150,481
Total	\$ 176,113,367	\$ 85,413,074	\$ 90,700,293

18. RISK MANAGEMENT PROGRAMS

State Self-Insurance Programs. The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2009-10 fiscal year, for property losses, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for named wind and flood losses and

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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. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three fiscal years.

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

University Self-Insurance Programs. The University of Florida Self-Insurance Program (Program) was reestablished by the Florida Board of Governors effective July 1, 2006, by amending Board of Governors' Regulation 10.001, merging the then JHMHC Self-Insurance Program and the prior University of Florida JHMHC/Jacksonville Self-Insurance Program. The Program provides general and professional liability protection for the University on behalf of the six health colleges of the JHMHC, which also includes the Student Health Service Auxiliary, the Veterinary Medicine Teaching Hospital, and the University of Florida Proton Therapy Institute. Hospital professional liability protection, including patient general liability, is provided to Shands Teaching Hospital and Clinics, Inc.; Shands Jacksonville Medical Center, Inc.; and other statutorily permitted entities, which voluntarily participate in the Program. The University is protected for losses, which are subject to Section 768.28, Florida Statutes, including legislative claims bills, that in combination with the waiver of immunity limits described in Section 768.28, Florida Statutes, do not exceed \$1 million per claim. The Program provides \$2 million per-claim protection for the participants which are not subject to the provisions of Section 768.28, Florida Statutes. The per-claim limit of liability protection for the participants does not exceed \$2 million per claim in the event more than one protected entity is involved in the same claim or action.

Pursuant to Board of Governors' Regulation 10.001(2), the University of Florida Self-Insurance Program Council has created the University of Florida Healthcare Education Insurance Company (HEIC), a captive insurance company which is wholly owned by the Board of Governors and domiciled in the State of

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Vermont. HEIC is managed by a Board of Directors created by the Board of Governors. HEIC provides coverage for claims that are in excess of the protections afforded by the Program, at limits of \$4 million per-legislative claims bill coverage for insured participants subject to Section 768.28, Florida Statutes, and \$3 million per claim for voluntary settlements entered into by the Program Council and insured participants that are not subject to Section 768.28, Florida Statutes. HEIC provides additional limits of liability coverage of \$50 million per claim and in the aggregate, which is in excess of the coverages described above. The excess insurance is paid to claimants on a first-come, first-serve basis.

Claims settlement and adjustment expenses are accrued as expenses and liabilities of the Program and HEIC, for the estimated settlement value of claims that is reported as a liability for self-insured claims. The estimated settlement value of claims was determined based on the judgment and experience of management and the Program Council through a case-by-case review. Estimated losses from incurred but unreported incidents are also accrued based upon the findings of casualty actuaries.

The amount of liability for self-insured claims accrued for the Program at June 30, 2010, was \$106,990,118, for compensatory losses and allocated expenses. The liability for self-insured claims was accrued at an undiscounted present value.

The aggregate amount of claims liabilities for which annuity contracts have been purchased in the claimants' names, resulting in the removal of the related liabilities from the statement of net assets, totals \$2 million for the Program at June 30, 2010. These annuities have been assigned to third parties, and all claimants have fully and completely released the Program participants from all actual and contingent liability.

Changes in the balances of claims liabilities for the Program and HEIC during the 2008-09 and 2009-10 fiscal years are as follows:

Fiscal Year	Claims Liabilities Beginning of Year	Current Claims/ Changes in Estimates	Claim Payments	Claims Liabilities End of Year
2008-09	\$ 95,111,000	\$ 20,692,009	\$ (15,960,945)	\$ 99,842,064
2009-10	99,842,064	23,956,862	(16,808,808)	106,990,118

19. LITIGATION AND CONTINGENCIES

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University's legal counsel and management, should not materially affect the University's financial position.

The United States Department of Health and Human Services, Office of Inspector General is auditing and reviewing the University's practices relating to Federal awards finances and accounting; at this early time in the process, University management is unable to make a determination of the outcome or estimate costs that the University may incur as a result of this audit.

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20. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 624,914
Research	517,994
Public Services	352,000
Academic Support	147,127
Student Services	37,080
Institutional Support	96,663
Operation and Maintenance of Plant	113,042
Scholarships, Fellowships, and Waivers, Net	75,522
Auxiliary Enterprises	135,715
Depreciation	<u>116,264</u>
Total Operating Expenses	<u><u>\$ 2,216,321</u></u>

21. COMPONENT UNITS

The University has 26 component units (one of which had no transactions and is not presented) as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. Summary financial information from the most recently available audited financial statements for these component units is presented on the following pages:

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Direct-Support Organizations (In Thousands)

	University of Florida Foundation, Inc. 6-30-10	University of Florida Research Foundation, Inc. 6-30-10	The University Athletic Association, Inc. 6-30-10	Gator Boosters, Inc. 6-30-10	The University of Florida Law Center Association, Inc. 6-30-10	Florida Foundation Seed Producers, Inc. 6-30-10	Florida 4-H Club Foundation, Inc. 3-31-10	Southwest Florida Research and Education Foundation, Inc. 6-30-10	Citrus Research and Education Foundation, Inc. 6-30-10	Citrus Research and Development Foundation, Inc. 6-30-10	University of Florida Leadership and Education Foundation, Inc. 12-31-09	Treasure Coast Agricultural Research Foundation, Inc. 6-30-10	University of Florida Alumni Association, Inc. 6-30-10	University of Florida Investment Corporation 6-30-10	Total Direct Support Organizations
Condensed Statement of Net Assets															
Assets:															
Due from Component Units/University	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Other Current Assets	108,326	146,801	57,966	2,467	4,483	1,675	4,853	1,287	50	32	2,343	1,416	457	1,226	7,790
Capital Assets, Net	57,910		168,941	23		966		96		766			1	139	228,139
Other Noncurrent Assets	1,344,279	567	39,452	460	8		861		63					748	1,386,375
Total Assets	1,510,515	147,368	266,730	5,854	6,166	5,819	2,148	146	861	2,343	1,416	458		2,113	1,951,937
Liabilities:															
Due to Component Units/University	11,175	10,840	60	4,346			2,138								28,559
Other Current Liabilities	28,639	26,950	65,858	299	181	41	86		41	2,236	820			942	126,093
Noncurrent Liabilities	33,943	31,000	92,772	196										810	158,721
Total Liabilities	73,757	68,790	158,690	4,841	181	2,179	86		41	2,236	820			1,752	313,373
Net Assets:															
Invested in Capital Assets, Net of Related Debt	10,895		85,662	24		967		96	63					139	97,847
Restricted-Nonexpendable Endowment	1,034,975			459	2,042		250								1,037,726
Restricted-Endowment	153,431														153,431
Restricted-Other	265,673		205		2,935		1,258								270,071
Unrestricted	(28,216)	78,578	22,173	530	1,008	2,673	554	50	757	107	596	457		222	79,489
Total Net Assets	\$ 1,436,758	\$ 78,578	\$ 108,040	\$ 1,013	\$ 5,985	\$ 3,640	\$ 2,062	\$ 146	\$ 820	\$ 107	\$ 596	\$ 458		\$ 361	\$ 1,638,564
Condensed Statement of Revenues, Expenses, and Changes in Net Assets															
Operating Revenues	\$ 91,981	\$ 32,321	\$ 64,969	\$ 41,259	\$ 1,028	\$ 1,545	\$ 1,862	\$ 43	\$ 461	\$ 694	\$ 2,569	\$ 1	\$ 2,051	\$	\$ 240,784
Operating Expenses	(121,997)	(33,159)	(95,927)	(2,610)	(1,064)	(1,484)	(1,900)	(47)	(520)	(600)	(2,826)	(3)	(5,294)	(2,218)	(269,649)
Operating Income (Loss)	(30,016)	(638)	(30,958)	38,649	(36)	61	(38)	(4)	(59)	94	(257)	(2)	(3,243)	(2,218)	(28,865)
Nonoperating Revenues (Expenses):															
Investment Income	26,598	2,543	1,411	1,032	382	9	260		3	13	3	2			32,256
Net Increase in the Fair Value of Investments	81,348	8,450	5,117												94,915
Addition to Permanent Endowments	32,163			15											32,168
Other	(1,118)	571	(7,326)		(21)	25	(2,328)				(2,327)				(12,525)
Transfers from/(to) Component Units	(3,071)		43,036	(39,715)	160								3,243	2,159	5,812
Change in Net Assets	105,893	10,726	11,280	(19)	485	95	(2,106)	(4)	(56)	107	(2,581)			(59)	123,761
Net Assets, Beginning of Year	1,330,865	67,852	96,760	1,032	5,500	3,577	4,168	150	876		3,177	458		420	1,514,835
Adjustments to Beginning Net Assets (1)						(32)									(32)
Net Assets, End of Year	\$ 1,436,758	\$ 78,578	\$ 108,040	\$ 1,013	\$ 5,985	\$ 3,640	\$ 2,062	\$ 146	\$ 820	\$ 107	\$ 596	\$ 458		\$ 361	\$ 1,638,564

Note: (1) The beginning net assets of the Florida Foundation Seed Producers, Inc. were decreased by \$32,006 to reflect a payable for royalties due to the University of Florida Research Foundation, Inc.

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	Health Science Center Affiliates (In Thousands)									
	Florida Clinical Practice Association, Inc. 6-30-10	University of Florida Jacksonville Physicians, Inc. 6-30-10	Faculty Associates, Inc. 6-30-10	Florida Health Professions Association, Inc. 6-30-10	University of Florida College of Nursing Faculty Practice Association, Inc. 6-30-10	University of Florida College of Pharmacy Faculty Practice Association, Inc. 6-30-10	Florida Veterinary Medicine Faculty Association, Inc. 6-30-10	University of Florida Jacksonville Healthcare, Inc. 6-30-10	Faculty Clinic, Inc. 6-30-10	Total Health Science Center Affiliates
Condensed Statement of Net Assets										
Assets:										
Due from Component Units/University	\$ 1,414	\$ 2,641	\$	\$	\$	\$	\$	\$ 17	\$	\$ 4,072
Other Current Assets	72,031	46,067	4,349	4,930	4,078	1,057	6,562	331	1,886	141,291
Capital Assets, Net	9,043	11,891			866			4,052	3,792	29,644
Other Noncurrent Assets	40,448	104							1,578	42,130
Total Assets	122,936	60,703	4,349	4,930	4,944	1,057	6,562	4,383	7,273	217,137
Liabilities:										
Due to Component Units/University		3,734						1,780	18	5,532
Other Current Liabilities	13,337	3,851	655	108		160	53	2,234	633	21,031
Noncurrent Liabilities		15,517		933					5,000	21,450
Total Liabilities	13,337	23,102	655	1,041		160	53	4,014	5,651	48,013
Net Assets:										
Invested in Capital Assets, Net of Related Debt	9,012	2,711			866			4,052	(1,608)	15,033
Restricted-Nonexpendable Endowment										
Restricted-Endowment										
Restricted-Other									1,500	1,500
Unrestricted	100,587	34,890	3,694	3,889	4,078	897	6,509	(3,683)	1,730	152,591
Total Net Assets	\$ 109,599	\$ 37,601	\$ 3,694	\$ 3,889	\$ 4,944	\$ 897	\$ 6,509	\$ 369	\$ 1,622	\$ 169,124
Condensed Statement of Revenues, Expenses, and Changes in Net Assets										
Operating Revenues	\$ 292,292	\$ 170,129	\$ 16,215	\$ 7,128	\$ 576	\$ 802	\$ 5,926	\$ 353	\$ 367	\$ 493,788
Operating Expenses	(80,973)	(83,625)	(216)	(24)	(48)	(753)	(331)	(21,831)	(1,257)	(189,058)
Operating Income (Loss)	211,319	86,504	15,999	7,104	528	49	5,595	(21,478)	(890)	304,730
Nonoperating Revenues (Expenses):										
Investment Income	1,315	32	11			3	7		8	1,376
Net Increase in the Fair Value of Investments						25				25
Addition to Permanent Endowments										
Other	(234,992)	(94,646)	(16,650)	(6,364)	2		(2,633)	(4)	(174)	(355,461)
Transfers from/(to) Component Units	32,345	13,602			(500)			21,482	1,076	68,005
Change in Net Assets	9,987	5,492	(640)	740	30	77	2,969	369	20	18,675
Net Assets, Beginning of Year	99,612	32,109	4,334	3,149	4,914	820	3,540	369	1,602	150,449
Adjustments to Beginning Net Assets (1)										
Net Assets, End of Year	\$ 109,599	\$ 37,601	\$ 3,694	\$ 3,889	\$ 4,944	\$ 897	\$ 6,509	\$ 369	\$ 1,622	\$ 169,124

Note: (1) The beginning net assets of the Florida Foundation Seed Producers, Inc. were decreased by \$32,006 to reflect a payable for royalties due to the University of Florida Research Foundation, Inc.

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

	Shands Teaching Hospital and Others (In Thousands)		
	Shands Teaching Hospital and Clinics, Inc. 6-30-10	University Village Apartments, Inc. 6-30-10	Total Shands Teaching Hospital and Others
Condensed Statement of Net Assets			
Assets:			
Due from Component Units/University	\$ 8,291	\$ 123	\$ 8,414
Other Current Assets	604,794	89	604,883
Capital Assets, Net	903,223	436	903,659
Other Noncurrent Assets	226,176	448	226,624
Total Assets	<u>1,742,484</u>	<u>1,096</u>	<u>1,743,580</u>
Liabilities:			
Due to Component Units/University	3,327		3,327
Other Current Liabilities	298,175	500	298,675
Noncurrent Liabilities	951,547	160	951,707
Total Liabilities	<u>1,253,049</u>	<u>660</u>	<u>1,253,709</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	292,704	152	292,856
Restricted-Nonexpendable Endowment	196		196
Restricted-Endowment			
Restricted-Other	7,372		7,372
Unrestricted	189,163	284	189,447
Total Net Assets	<u>\$ 489,435</u>	<u>\$ 436</u>	<u>\$ 489,871</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	\$ 1,691,123	\$ 1,409	\$ 1,692,532
Operating Expenses	(1,575,922)	(1,581)	(1,577,503)
Operating Income (Loss)	115,201	(172)	115,029
Nonoperating Revenues (Expenses):			
Investment Income	20,444	1	20,445
Net Increase in the Fair Value of Investments	10,137		10,137
Addition to Permanent Endowments			
Other	(191,341)	(10)	(191,351)
Transfers from/(to) Component Units	(33,698)		(33,698)
Change in Net Assets	(79,257)	(181)	(79,438)
Net Assets, Beginning of Year	568,692	617	569,309
Adjustments to Beginning Net Assets (1)			
Net Assets, End of Year	<u>\$ 489,435</u>	<u>\$ 436</u>	<u>\$ 489,871</u>

Note: (1) The beginning net assets of the Florida Foundation Seed Producers, Inc. were decreased by \$32,006 to reflect a payable for royalties due to the University of Florida Research Foundation, Inc.

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

22. 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. Transportation and Parking Services provides the University with safe and adequate parking facilities. Several parking garages have been constructed from the proceeds of revenue-backed debt instruments. The Department of Housing and Residence Education provides safe and affordable living space for students of the University of Florida. Capital improvement debt has been issued over the years to provide funding for the construction of facilities to house students of the University. A summary of the financial activity for these segments is presented in the following tables:

Condensed Statement of Net Assets

	Transportation and Parking Services	Department of Housing and Residence Education
	<u> </u>	<u> </u>
Assets		
Current Assets	\$ 6,828,224	\$ 24,876,279
Capital Assets, Net	45,392,180	72,259,803
Other Noncurrent Assets	<u>5,412,981</u>	<u>4,669,761</u>
Total Assets	<u>57,633,385</u>	<u>101,805,843</u>
Liabilities		
Current Liabilities	4,466,598	6,886,874
Noncurrent Liabilities	<u>29,152,535</u>	<u>50,249,883</u>
Total Liabilities	<u>33,619,133</u>	<u>57,136,757</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	14,557,043	21,369,088
Restricted	4,965,360	4,265,896
Unrestricted	<u>4,491,849</u>	<u>19,034,102</u>
Total Net Assets	<u>\$ 24,014,252</u>	<u>\$ 44,669,086</u>

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

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

	Transportation and Parking Services	Department of Housing and Residence Education
Operating Revenues (Expenses):		
Operating Revenues	\$ 20,646,226	\$ 44,108,967
Depreciation Expense	(1,652,993)	(3,819,627)
Other Operating Expenses	(13,961,600)	(29,782,531)
Operating Income	5,031,633	10,506,809
Nonoperating Revenues (Expenses):		
Capital Grants, Contracts, Donations, and Fees		992,540
Investment Income	773,060	1,051,337
Interest on Capital Asset-Related Debt	(1,451,804)	(2,653,515)
Other	(686,555)	305,427
Transfers	(661,101)	(2,292,021)
Net Nonoperating Expenses	(2,026,400)	(2,596,232)
Increase in Net Assets	3,005,233	7,910,577
Net Assets, Beginning of Year	21,009,019	36,758,509
Net Assets, End of Year	\$ 24,014,252	\$ 44,669,086

Condensed Statement of Cash Flows

	Transportation and Parking Services	Department of Housing and Residence Education
Net Cash Provided (Used) by:		
Operating Activities	\$ 6,954,420	\$ 13,390,663
Noncapital Financing Activities	(2,056,314)	(8,524,753)
Capital and Related Financing Activities	(5,430,732)	(4,936,160)
Investing Activities	528,900	2,214,817
Net Increase (Decrease) in Cash and Cash Equivalents	(3,726)	2,144,567
Cash and Cash Equivalents, Beginning of Year	3,726	22,072,275
Cash and Cash Equivalents, End of Year	\$ 0	\$ 24,216,842

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

(In Thousands)

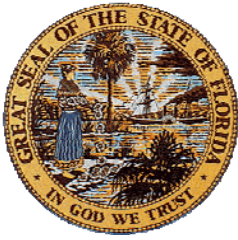
Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 269,126	\$ 269,126	0%	\$ 788,732	34%
7/1/2009	\$	\$ 455,677	\$ 455,677	0%	\$ 948,375	48%

Note: (1) July 1, 2007, was the first year the other postemployment benefits liability was accrued.

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2009, unfunded actuarial liability of \$455,677 thousand was significantly higher than the July 1, 2007, liability of \$269,126 thousand primarily as a result of changes in the methodology used by the actuary to calculate this liability. The most significant of these modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, changes in the rates of decrement and mortality, and the amortization factor.



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

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

We have audited the financial statements of the University of 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
February 11, 2011