

UNIVERSITY OF NORTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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(2) Position was vacant from July 1, 2011, through September 14, 2011.
(3) Faculty association president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

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

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

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

UNIVERSITY OF NORTH FLORIDA
TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets	14
Statement of Cash Flows	15
Notes to Financial Statements	17
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	48
Notes to Required Supplementary Information	49
OTHER SUPPLEMENTARY INFORMATION	
Schedules of Receipts and Expenditures of City of Jacksonville Grant Funds – Budget and Actual.....	50
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	
Internal Control Over Financial Reporting	53
Compliance and Other Matters	54
FINDINGS AND RECOMMENDATIONS	55
PRIOR AUDIT FOLLOW-UP	56
EXHIBIT A MANAGEMENT'S RESPONSE	57

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

We noted a certain matter involving the University's internal control over financial reporting and its operation that we consider to be a significant deficiency, as summarized below. However, this significant deficiency is not considered to be a material weakness.

SIGNIFICANT DEFICIENCY

Finding No. 1: The University needed to improve its financial reporting process to ensure its financial statement transactions are properly reported.

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; however, we noted a certain additional matter as summarized below.

ADDITIONAL MATTER

Finding No. 2: The University provided a line of credit to one of its direct-support organizations without specific legal authority.

Audit Objectives and Scope

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

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective action for the finding included in our report No. 2012-105.

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, 2012. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



DAVID W. MARTIN, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of North Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Florida and of its aggregate discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Respectfully submitted,



David W. Martin, CPA
March 14, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2012, 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.

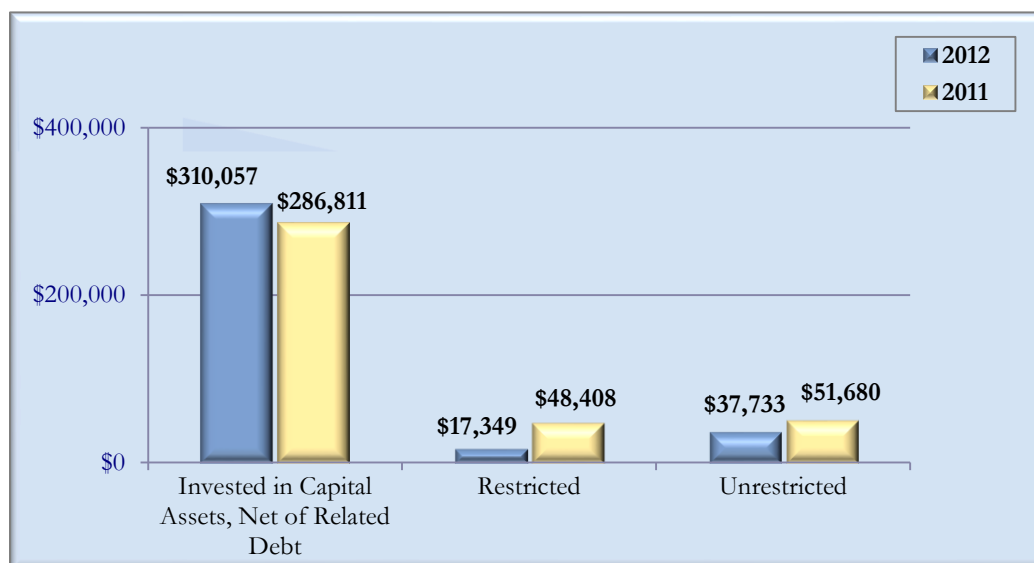
FINANCIAL HIGHLIGHTS

The University's assets totaled \$566.2 million at June 30, 2012. This balance reflects an \$11.4 million, or 2 percent, decrease as compared to the 2010-11 fiscal year, resulting primarily from a decline in amounts due from State for Public Education Capital Outlay (PECO) receivables. While assets declined, liabilities increased by \$10.4 million, or 5.4 percent, totaling \$201.1 million at June 30, 2012, as compared to \$190.7 million at June 30, 2011, including a \$3.3 million increase in current liabilities and a \$7 million increase in noncurrent liabilities. As a result, the University's net assets decreased by \$21.8 million, resulting in a year-end balance of \$365.1 million.

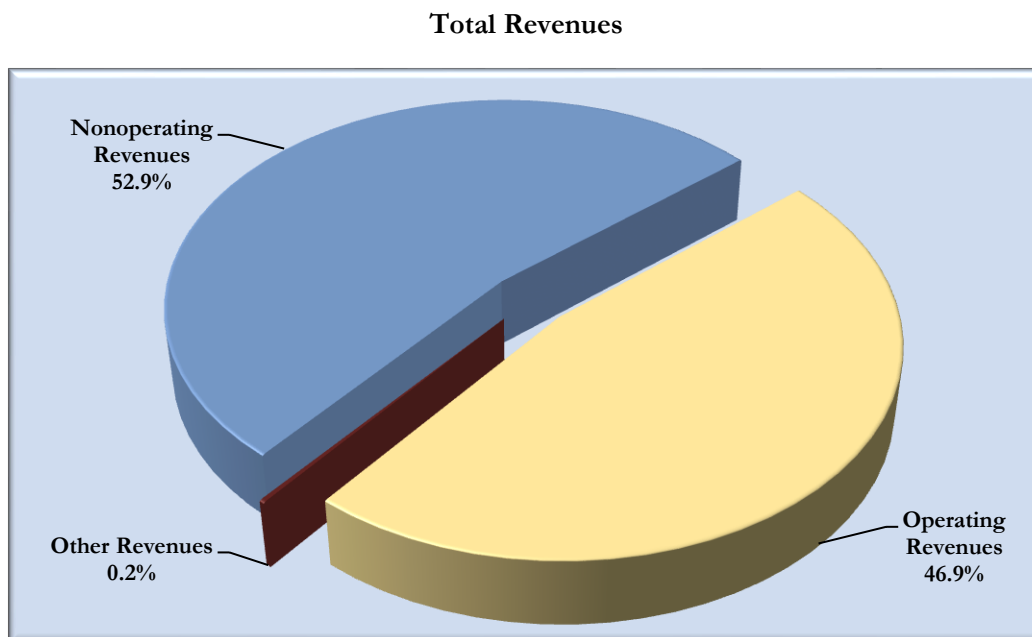
The University's operating revenues totaled \$103 million for the 2011-12 fiscal year, representing an 11 percent increase over the 2010-11 fiscal year due mainly to increases in student tuition and fees. Operating expenses totaled \$223.1 million for the 2011-12 fiscal year, representing a decrease of 0.7 percent from the 2010-11 fiscal year, mainly due to a reduction in expenses for services and supplies.

Net assets represent the residual interest in the University's assets after deducting liabilities. The University's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

**Net Assets
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2011-12 fiscal year:



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:

- University of North Florida Foundation, Inc. (Foundation)
- The University of North Florida Training and Services Institute, Inc. (TSI)
- Museum of Contemporary Art Jacksonville, Inc. (MOCA)
- University of North Florida Financing Corporation (Financing Corporation)

The component units are legally separate, not-for-profit corporations. The Foundation, the TSI, and MOCA are reported as discretely presented component units. The Financing Corporation is included within the University reporting entity as a blended component unit because it was formed to facilitate the financing and acquisition of University capital assets and provides services exclusively for the University.

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

THE STATEMENT OF NET ASSETS

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

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

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

	2012	2011
Assets		
Current Assets	\$ 83,710	\$ 113,344
Capital Assets, Net	458,279	425,951
Other Noncurrent Assets	24,206	38,299
Total Assets	566,195	577,594
Liabilities		
Current Liabilities	22,501	19,159
Noncurrent Liabilities	178,555	171,536
Total Liabilities	201,056	190,695
Net Assets		
Invested in Capital Assets, Net of Related Debt	310,057	286,811
Restricted	17,349	48,408
Unrestricted	37,733	51,680
Total Net Assets	\$ 365,139	\$ 386,899

The University's financial position, as a whole, declined during the fiscal year ended June 30, 2012, with a decrease in net assets of \$21.8 million, or 5.6 percent, from the 2010-11 fiscal year.

The University's total assets decreased by \$11.4 million. Capital assets, net of accumulated depreciation increased by \$32.3 million and other noncurrent assets decreased by \$14.1 million, primarily due to investments liquidated to fund the Student Wellness Center project during the 2011-12 fiscal year. Current assets decreased \$29.6 million, mainly from decreases in due from State of \$27.8 million.

The University's total liabilities increased \$10.4 million, which consisted of \$3.3 million in current liabilities and \$7.1 million in noncurrent liabilities. The increase in current liabilities was primarily in construction contracts payable of \$2.1 million; noncurrent liabilities increases were primarily for increases in other postemployment benefits payable of \$5.5 million and in deferred revenue of \$5 million on funds provided under contract for the dining facility construction, offset by decreases in bonds and capital improvement debt payable of \$2.5 million.

In summary, the University's net assets of \$365.1 million at June 30, 2012, included \$310.1 million invested in capital assets, net of related debt, \$17.3 million in restricted net assets, and \$37.7 million in unrestricted net assets. Capital assets, net of related debt increased and restricted net assets decreased, mainly from the completion of the Science and Humanities Building, and construction in progress mainly related to the Student Wellness Center and the Student Dining Facility (Osprey Café). Unrestricted net assets decreased as a result of a deferred revenue increase of \$5.5 million (current and noncurrent), the \$5.5 million increase in other postemployment benefits payable, and a \$5.6 million decrease of American Recovery and Reinvestment Act (ARRA) funding that terminated as of June 30, 2011.

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

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

The following summarizes the University's activity for the 2011-12 and 2010-11 fiscal years:

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

	2011-12	2010-11
Operating Revenues	\$ 103,036	\$ 92,786
Less, Operating Expenses	223,067	224,664
Operating Loss	(120,031)	(131,878)
Net Nonoperating Revenues	97,745	120,985
Loss Before Other Revenues, Expenses, Gains, or Losses	(22,286)	(10,893)
Other Revenues, Expenses, Gains, or Losses	526	21,789
Net Increase (Decrease) In Net Assets	(21,760)	10,896
Net Assets, Beginning of Year	386,899	376,003
Net Assets, End of Year	<u>\$ 365,139</u>	<u>\$ 386,899</u>

Operating Revenues

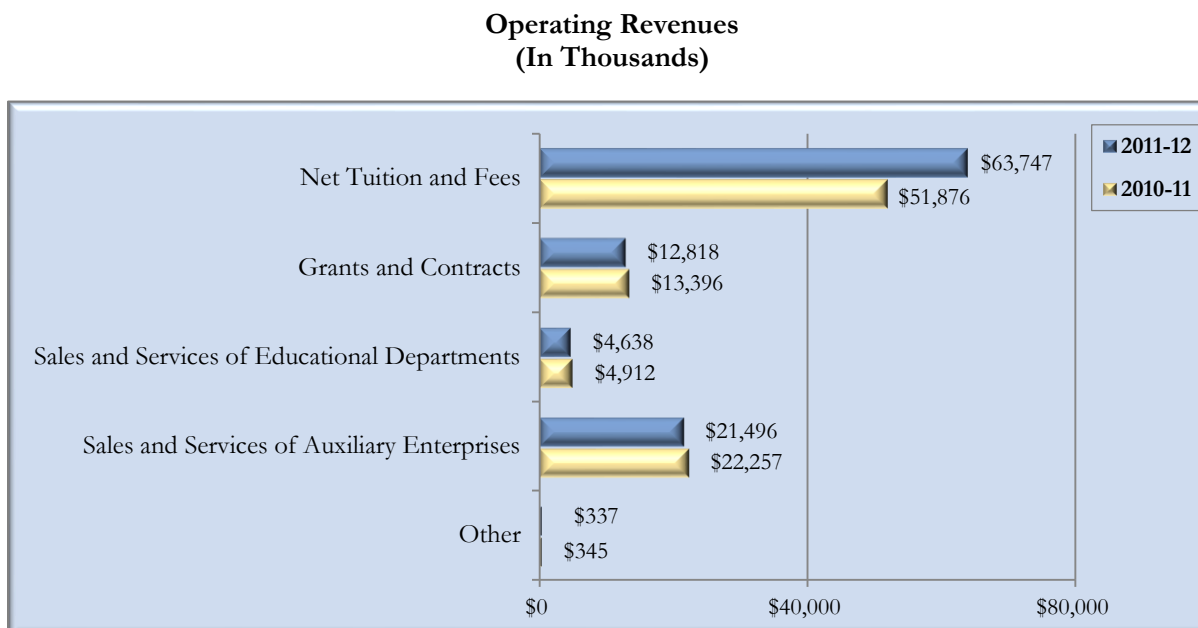
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2011-12 and 2010-11 fiscal years:

**Operating Revenues
(In Thousands)**

	2011-12	2010-11
Net Tuition and Fees	\$ 63,747	\$ 51,876
Grants and Contracts	12,818	13,396
Sales and Services of Educational Departments	4,638	4,912
Sales and Services of Auxiliary Enterprises	21,496	22,257
Other	337	345
Total Operating Revenues	<u>\$ 103,036</u>	<u>\$ 92,786</u>

The following chart presents the University's operating revenues for the 2011-12 and 2010-11 fiscal years:



The University's operating revenues increased by \$10.3 million primarily as a result of an \$11.9 million increase in tuition and fees, net of scholarship allowances, due to increased rates and was offset by minor decreases in grant and contract revenues of \$0.6 million and in sales and services of \$1 million.

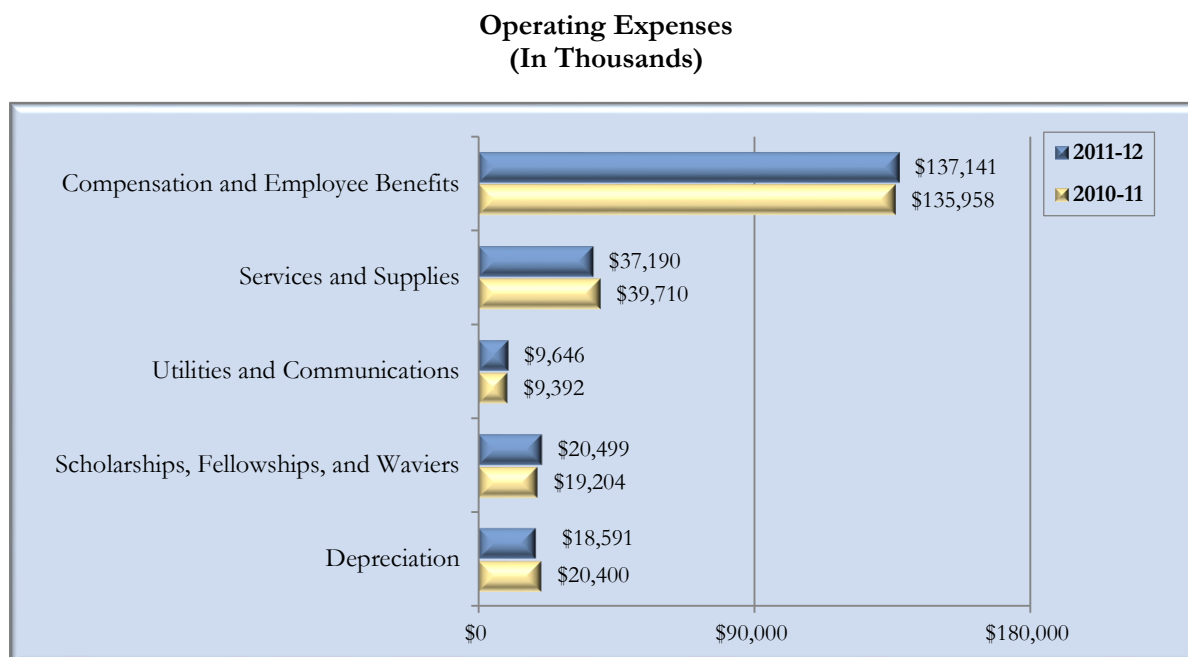
Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2011-12 and 2010-11 fiscal years:

Operating Expenses For the Fiscal Years (In Thousands)			
	<u>2011-12</u>		<u>2010-11</u>
Compensation and Employee Benefits	\$ 137,141	\$	135,958
Services and Supplies	37,190		39,710
Utilities and Communications	9,646		9,392
Scholarships, Fellowships, and Waivers	20,499		19,204
Depreciation	18,591		20,400
Total Operating Expenses	<u>\$ 223,067</u>	\$	<u>224,664</u>

The following chart presents the University's operating expenses for the 2011-12 and 2010-11 fiscal years:



The University's overall operating expenses decreased by \$1.6 million or 0.7 percent. However, compensation and employee benefits increased due to an increase in fringe benefits costs, including other postemployment benefits, and scholarships, fellowships, and waivers increased due to an increase in tuition; this was offset by a decrease in expenses for services and supplies due to cost savings measures implemented and a decrease in depreciation due to a change in the capitalization threshold.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
State Noncapital Appropriations	\$ 71,160	\$ 76,896
Federal and State Student Financial Aid	35,111	37,233
State Appropriated American Recovery and Reinvestment Act Funds		5,602
Investment Income	3,013	3,316
Other Nonoperating Revenues	6,818	6,226
Loss on Disposal of Capital Assets	(640)	(251)
Interest on Capital Asset-Related Debt	(6,809)	(6,637)
Other Nonoperating Expenses	(10,908)	(1,400)
Net Nonoperating Revenues	<u>\$ 97,745</u>	<u>\$ 120,985</u>

Net nonoperating revenue decreased by \$23.2 million or 19.2 percent. State noncapital appropriations declined by \$5.7 million; Federal and State student financial aid declined by \$2.1 million; and as of June 30, 2011, ARRA funding ended, resulting in a decline of \$5.6 million. In addition, other nonoperating expenses increased by \$9.5 million, of which \$6.5 million was due to the change in the capitalization threshold for furniture and equipment, and loss on disposal of capital assets increased by \$0.4 million.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
State Capital Appropriations	\$ 451	\$ 21,789
Capital Grants, Contracts, Donations, and Fees	75	
Total	<u>\$ 526</u>	<u>\$ 21,789</u>

State capital appropriations decreased by \$21.3 million, or 98 percent, due to decreases in Public Education Capital Outlay appropriations.

THE STATEMENT OF CASH FLOWS

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

The following summarizes cash flows for the 2011-12 and 2010-11 fiscal years:

Condensed Statement of Cash Flows (In Thousands)		
	<u>2011-12</u>	<u>2010-11</u>
Cash Provided (Used) by:		
Operating Activities	\$ (97,618)	\$ (108,159)
Noncapital Financing Activities	107,895	113,156
Capital and Related Financing Activities	(30,966)	(1,007)
Investing Activities	<u>20,589</u>	<u>(12,554)</u>
Net Decrease in Cash and Cash Equivalents	(100)	(8,564)
Cash and Cash Equivalents, Beginning of Year	<u>1,290</u>	<u>9,854</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,190</u>	<u>\$ 1,290</u>

Major sources of funds came from State noncapital appropriations (\$71.2 million), Federal direct student loan program receipts (\$60.5 million), State capital appropriations (\$28.8 million), net student tuition and fees (\$63.7 million), grants and contracts (\$12.7 million), and sales and services of auxiliary enterprises (\$21.5 million). Major uses of funds were for payments made to and on behalf of employees (\$132.1 million), Federal direct student loan program disbursements (\$60.5 million), payments to suppliers (\$47 million), and payments to and on behalf of students for scholarships (\$20.5 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the University had \$649 million in capital assets, less accumulated depreciation of \$190.7 million, for net capital assets of \$458.3 million. Depreciation charges for the current fiscal year totaled \$18.6 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30 (In Thousands)

	2012	2011
Land	\$ 12,863	\$ 12,863
Construction in Progress	47,389	37,015
Buildings	356,775	328,303
Infrastructure and Other Improvements	24,197	23,262
Leasehold Improvements	138	
Furniture and Equipment	7,797	14,757
Library Resources	7,330	7,551
Computer Software	1,790	2,098
Other Capital Assets		102
Capital Assets, Net	\$ 458,279	\$ 425,951

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2012, were incurred on the Osprey Café and the Student Wellness Center projects. Capital commitments include \$6 million for the Osprey Café; \$1.8 million for the Student Wellness Center; \$0.8 million for the Disability Resource Center; \$0.3 million for Infrastructure projects, and \$0.7 million for other projects. The University's major capital commitments at June 30, 2012, are as follows:

	Amount (In Thousands)
Total Committed	\$ 56,949
Completed to Date	47,389
Balance Committed	\$ 9,560

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

DEBT ADMINISTRATION

As of June 30, 2012, the University had \$151.9 million in outstanding capital improvement debt payable, bonds payable, and installment purchase payable, representing a decrease of \$2.8 million, or 1.8 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30		
(In Thousands)		
	<u>2012</u>	<u>2011</u>
Capital Improvement Debt Payable	\$ 15,276	\$ 15,685
Bonds Payable	136,586	138,698
Installment Purchase Payable	<u>64</u>	<u>316</u>
Total	<u>\$ 151,926</u>	<u>\$ 154,699</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The budget that the Florida Legislature adopted for the 2012-13 fiscal year provided a 1.2 percent decrease in the Education and General Budget allocation for State universities. Due to the economic condition of the State of Florida, funding priorities for higher education focused on efforts to maintain a stable funding environment, rather than an incremental salary program or enrollment growth. The University expects a \$9.3 million increase in revenue from student tuition and fees because of a 13 percent increase in student tuition and fees.

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 the Vice President for Administration and Finance, University of North Florida, 1 UNF Drive, Building 53, Jacksonville, Florida 32224-2648.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF NORTH FLORIDA A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2012

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,119,090.01	\$ 599,426.00
Investments	73,038,181.84	
Accounts Receivable, Net	6,487,905.00	311,807.00
Loans and Notes Receivable from Component Units	211,214.00	
Pledges Receivable, Net		1,224,297.00
Due from State	2,451,633.98	
Inventories	228,328.67	62,751.00
Other Current Assets	174,242.91	89,517.00
Total Current Assets	83,710,596.41	2,287,798.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	71,302.93	8,018,014.00
Restricted Investments	21,939,172.51	77,261,947.00
Loans and Notes Receivable from Component Units	500,000.00	
Loans and Notes Receivable, Net		4,361,987.00
Pledges Receivable, Net		2,055,081.00
Depreciable Capital Assets, Net	398,027,107.87	16,165,193.00
Nondepreciable Capital Assets	60,251,918.25	3,307,556.00
Deferred Bond Issuance Costs, Net	1,695,377.00	
Other Noncurrent Assets		328,556.00
Total Noncurrent Assets	482,484,878.56	111,498,334.00
TOTAL ASSETS	\$ 566,195,474.97	\$ 113,786,132.00
LIABILITIES		
Current Liabilities:		
Temporary Cash Overdraft	\$ 1,283,329.66	\$
Accounts Payable	3,590,453.12	641,927.00
Construction Contracts Payable	7,332,699.74	
Salaries and Wages Payable	1,364,929.32	
Deposits Payable	4,419,581.28	
Deferred Revenue	600,723.64	269,802.00
Other Current Liabilities	26,920.00	386,443.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	2,440,000.00	
Capital Improvement Debt Payable	410,000.00	
Loans and Notes Payable		1,481,581.00
Loans and Notes Payable to University		211,214.00
Installment Purchase Payable	63,918.92	
Compensated Absences Payable	968,720.25	110,553.00
Total Current Liabilities	22,501,275.93	3,101,520.00

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 134,146,017.60	\$
Capital Improvement Debt Payable	14,865,595.52	
Loans and Notes Payable		15,318,858.00
Loans and Notes Payable to University		500,000.00
Compensated Absences Payable	11,140,282.75	245,402.00
Other Postemployment Benefits Payable	13,453,000.00	
Deferred Revenue	4,950,000.00	
Other Noncurrent Liabilities		17,230.00
Total Noncurrent Liabilities	<u>178,554,895.87</u>	<u>16,081,490.00</u>
TOTAL LIABILITIES	<u>201,056,171.80</u>	<u>19,183,010.00</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	310,057,042.48	3,420,071.00
Restricted for Nonexpendable:		
Endowment		75,526,635.00
Other		289,741.00
Restricted for Expendable:		
Debt Service	9,786,110.00	
Capital Projects	3,000,392.25	
Other	4,562,205.15	15,212,257.00
Unrestricted	<u>37,733,553.29</u>	<u>154,418.00</u>
TOTAL NET ASSETS	<u>365,139,303.17</u>	<u>94,603,122.00</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 566,195,474.97</u>	<u>\$ 113,786,132.00</u>

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$29,398,407.61 (\$1,706,370.22 Pledged for the Student Union Revenue Bonds and \$1,183,329.32 Pledged for the Student Wellness Center Revenue Bonds)	\$ 63,747,287.04	\$
Federal Grants and Contracts	8,965,092.70	
State and Local Grants and Contracts	1,009,590.81	
Nongovernmental Grants and Contracts	2,843,195.58	
Sales and Services of Educational Departments	4,638,061.63	
Sales and Services of Auxiliary Enterprises (\$16,817,827.95 Pledged for Housing Facility Revenue Bonds and \$3,106,651.10 Pledged for the Parking System Revenue Bonds)	21,495,737.68	
Other Operating Revenues	<u>337,117.90</u>	<u>13,724,745.00</u>
Total Operating Revenues	<u>103,036,083.34</u>	<u>13,724,745.00</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	137,141,240.90	688,392.00
Services and Supplies	37,189,519.68	15,284,842.00
Utilities and Communications	9,646,494.75	
Scholarships, Fellowships, and Waivers	20,499,066.98	
Depreciation	<u>18,591,224.14</u>	<u>874,263.00</u>
Total Operating Expenses	<u>223,067,546.45</u>	<u>16,847,497.00</u>
Operating Loss	<u>(120,031,463.11)</u>	<u>(3,122,752.00)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	71,159,846.00	
Federal and State Student Financial Aid	35,111,412.72	
Investment Income (Loss)	3,013,314.49	(1,127,317.00)
Other Nonoperating Revenues	6,817,706.95	
Loss on Disposal of Capital Assets	(639,966.42)	
Interest on Capital Asset-Related Debt	(6,808,608.12)	(1,246,995.00)
Other Nonoperating Expenses	<u>(10,908,098.49)</u>	<u>(24,770.00)</u>
Net Nonoperating Revenues (Expenses)	<u>97,745,607.13</u>	<u>(2,399,082.00)</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(22,285,855.98)	(5,521,834.00)
State Capital Appropriations	451,444.80	
Capital Grants, Contracts, Donations, and Fees	75,000.00	
Additions to Permanent Endowments	<u></u>	<u>2,216,392.00</u>
Decrease in Net Assets	(21,759,411.18)	(3,305,442.00)
Net Assets, Beginning of Year	<u>386,898,714.35</u>	<u>97,908,564.00</u>
Net Assets, End of Year	<u>\$ 365,139,303.17</u>	<u>\$ 94,603,122.00</u>

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 61,906,746.89
Grants and Contracts	12,676,545.75
Sales and Services of Educational Departments	4,638,061.63
Sales and Services of Auxiliary Enterprises	21,492,188.54
Payments to Employees	(132,067,667.96)
Payments to Suppliers for Goods and Services	(46,959,649.91)
Payments to Students for Scholarships and Fellowships	(20,499,066.98)
Other Operating Receipts	<u>1,194,764.57</u>
Net Cash Used by Operating Activities	<u>(97,618,077.47)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	71,159,846.00
Federal and State Student Financial Aid	35,111,412.72
Federal Direct Loan Program Receipts	60,452,689.00
Federal Direct Loan Program Disbursements	(60,473,307.00)
Net Change in Funds Held for Others	502,364.31
Other Nonoperating Receipts	<u>1,141,904.72</u>
Net Cash Provided by Noncapital Financing Activities	<u>107,894,909.75</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	28,783,351.94
Capital Grants, Contracts, Donations, and Fees	75,000.00
Proceeds from Sale of Capital Assets	4,625.00
Other Receipts for Capital Projects	5,233,421.48
Purchase or Construction of Capital Assets	(55,617,449.92)
Principal Paid on Capital Debt	(2,636,745.71)
Interest Paid on Capital Debt	<u>(6,808,608.12)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(30,966,405.33)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	225,230,862.93
Purchase of Investments	(207,325,178.51)
Investment Income	<u>2,683,912.87</u>
Net Cash Provided by Investing Activities	<u>20,589,597.29</u>
Net Decrease in Cash and Cash Equivalents	(99,975.76)
Cash and Cash Equivalents, Beginning of Year	<u>1,290,368.70</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,190,392.94</u></u>

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012

	<u>University</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (120,031,463.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	18,591,224.14
Change in Assets and Liabilities:	
Receivables, Net	(945,428.44)
Inventories	(24,075.39)
Loans and Notes Receivable	211,214.00
Other Assets	(52,743.34)
Accounts Payable	(46,816.75)
Salaries and Wages Payable	(8,483.22)
Deposits Payable	(303,022.22)
Compensated Absences Payable	(466,943.84)
Deferred Revenue	(90,539.30)
Other Postemployment Benefits Payable	5,549,000.00
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (97,618,077.47)</u></u>

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

Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 329,401.62
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (639,966.42)
Expenses from the change in the capitalization threshold for tangible personal property were recognized on the statement of revenues, expenses, and changes in net assets as other nonoperating expenses, but are not cash transactions for the statement of cash flows.	\$ (6,480,235.73)

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

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

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

➤ 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 blended and discretely presented component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow GASB standards of accounting and financial reporting.

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

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

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

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

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand, cash in demand accounts, and money market funds. 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. The University and its blended component, the Financing Corporation, hold \$1,171,266 in money market funds which are permissible under the University's investment policy and were rated AAAm/Aaa-mf by Standard & Poor's and Moody's, respectively. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

Capital Assets. University capital assets consist of land; construction in progress; buildings; infrastructure and other improvements; furniture and equipment; library resources; leasehold improvements; and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*, effective July 1, 2011, revising the capitalization threshold for tangible personal property. The revision was intended to achieve administrative efficiencies and cost savings by increasing the capitalization threshold of tangible personal property from \$1,000 to \$5,000. Previously capitalized tangible personal property costing between \$1,000 and \$5,000 and related accumulated depreciation was written off during the 2011-12 fiscal year. The adjustment column in the capital assets note disclosure shows the change by category resulting from the increase in the threshold.

The change in this threshold resulted in a \$6,480,235.73 other nonoperating expense in the statement of revenues, expenses, and changes in net assets. This nonrecurring, noncash item is also reported in the supplemental disclosure of noncash capital and related financing and investing activities section of the statement of cash flows.

The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 5 to 40 years
- Infrastructure and Other Improvements – 5 to 20 years
- Furniture and Equipment:
 - Equipment (Nonoffice) – 5 to 15 years

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

- Computer Equipment – 2 to 10 years
- Moveable Equipment – 3 to 20 years
- Library Resources – 5 to 10 years
- Leasehold Improvements – 15 years
- Computer Software and Other Capital Assets – 5 to 15 years

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

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

- Buildings – 25 years
- Leasehold Improvements – 5 to 20 years
- Furniture and Equipment – 3 to 10 years

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

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

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; 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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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, 2012, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 5,225,783.80
SBA Fund B Surplus Funds Trust Fund	<u>1,938,541.81</u>
Total External Investment Pools	<u>7,164,325.61</u>
United States Government Obligations	17,115,353.04
Federal Agency Obligations	34,326,842.05
Bonds and Notes	<u>36,370,833.65</u>
Total Other Investments	<u>87,813,028.74</u>
Total University Investments	<u><u>\$94,977,354.35</u></u>

External Investment Pools

The University reported investments at fair value totaling \$5,225,783.80 at June 30, 2012, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

State Board of Administration Fund B Surplus Funds Trust Fund

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

At June 30, 2012, the University reported investments at fair value of \$1,938,541.81 in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.83481105 at June 30, 2012. The weighted-average life (WAL) of Fund B at June 30, 2012, was 5.73 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2012. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Other Investments

In addition to external investment pools, the University's investments (which include those of its blended component unit, the Financing Corporation) consisted of various debt securities totaling \$87,813,028.74 at June 30, 2012. The following risks apply to those University investments:

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The University's investment policy generally requires that the investment portfolio be maintained with short-term maturities to provide sufficient liquidity to pay obligations as they come due, based on anticipated cash-flow requirements, and includes certain restrictions on specific investment durations up to a maximum of five years. The Financing Corporation does not have a written investment policy, although the bond documents provide that funds may be invested in authorized investments provided that the investments mature or are redeemable at not less than par on or before the date the funds are estimated to be needed. Investments maturities at June 30, 2012, were as follows:

Investment Type	Investment Maturities (In Years)		
	Fair Value	Less Than 1	1 - 5
United States Government Obligations	\$ 17,115,353.04	\$ 2,171,958.32	\$ 14,943,394.72
Federal Agency Obligations	34,326,842.05	3,085,632.14	31,241,209.91
Bonds and Notes	36,370,833.65	2,555,894.14	33,814,939.51
Total	\$ 87,813,028.74	\$ 7,813,484.60	\$ 79,999,544.14

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, 2012, the University had \$17,115,353.04 of these investments. The University's investment policy requires that the portfolio provide specific types of investments that may be purchased, including credit quality guidelines, where applicable, and maintain a total average quality rating of "AA" or higher. The Financing Corporation is authorized to invest in obligations permitted by law. At June 30, 2012, the University and the Financing Corporation had Federal agency obligations and bonds and notes with quality ratings by nationally recognized rating agencies, as follows:

Investment Type	Fair Value	Credit Quality Rating (1)		
		AAA to AA+/Aaa	AA/Aa	A
Federal Agency Obligations	\$ 34,326,842.05	\$ 34,326,842.05	\$	\$
Bonds and Notes	36,370,833.65	2,434,263.49	10,489,941.46	23,446,628.70
Total	\$ 70,697,675.70	\$ 36,761,105.54	\$ 10,489,941.46	\$ 23,446,628.70

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

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

Discretely Presented Component Units Investments

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

The University of North Florida Foundation, Inc. (Foundation), reported investments totaling \$76,039,612. The Foundation's investment policy states equity securities will be broadly diversified (e.g., country, economic sector, industry, etc.) to minimize the impact during sudden and severe market downturns, as equity markets have historically displayed a high degree of such correlation during these periods. The role of hedge funds and private equity is to reduce the overall volatility of the equity fund performance. Fixed-income securities will be diversified among different sectors of the fixed-income market. The principal purpose of the fixed-income fund will be to reduce risk by reducing the overall volatility of the investment returns and to serve as a partial hedge against periods of prolonged economic contraction. The fixed-income objective is to preserve principal during periods of deflation, provide a source of current income, and reduce overall portfolio volatility. These portfolios are primarily domestically focused, but do include exposure to international and emerging markets' debt as well. Decisions as to individual security selection, security size and quality, etc., will be left to broad manager discretion.

As of June 30, 2012, the Foundation had approximately 87 percent (\$65,783,044) of its total portfolio invested in hedge funds and private equity funds. The fund's investments are subject to various risk factors including market, credit, custodial credit risk, and currency risk, which are discussed in the following paragraphs. Additional information is contained in the Foundation's audit reports for the years ended June 30, 2012, and June 30, 2011, and may be obtained from the Director, University of North Florida TSI/Foundation Accounting, UNF Hall, Suite 2900, 1 UNF Drive, Jacksonville, Florida 32224-2648.

The University of North Florida Training and Services Institute, Inc. (TSI), reported investments totaling \$570,520. The TSI's investment policy requires equity securities to be limited to investments in publicly traded securities on a major stock exchange or NASDAQ, with no more than 7 percent of the market value of an investment manager's equity portfolio invested in the shares of a single corporate issuer, and no more than 5 percent of the market value of the total equity portfolio invested in shares of companies that have been publicly traded for less than one year. For fixed-income securities, the investment policy provides that securities be rated

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

“A” or higher by Moody’s Investor Services or Standard & Poor’s rating services; no more than 10 percent of the market value of the total fixed-income portfolio be invested in the securities of any single corporate issuer; no more than 20 percent of the market value of the total fixed-income portfolio be invested in Collateralized Mortgage Obligations (CMOs) and are restricted to those issues that are currently paying interest, receiving principal pay-downs, and do not contain leverage; and no more than 25 percent of the total fixed-income portfolio be invested in securities issued by foreign governments or corporations. There is no limit on investments in securities issued directly by the United States Government or any agency or instrumentality thereof. The TSI’s investment policy prohibits investments in interest only or principal only CMOs, interest rate swaps, precious metals, limited partnerships of any kind, real estate, venture capital, futures contracts, or options contracts in individually managed portfolios. Trading on margin and short selling are also prohibited. The TSI does not have a formal policy on limiting the duration of mid- and long-term investments.

The Museum of Contemporary Art Jacksonville, Inc. (MOCA), reported investments totaling \$651,815. MOCA’s investments consist of money market funds, fixed-income mutual funds, and equity mutual funds.

On January 28, 1991, MOCA entered into a trust agreement with the State of Florida, Department of State, creating a \$600,000 fine arts endowment matching fund program. In managing the investments of the fine arts endowment fund, MOCA must comply with an established investment plan specified by the State of Florida, Department of State, which requires the preservation of the \$600,000 program fund. MOCA may expend funds generated from the endowment program fund only for operating costs incurred while engaged in programs directly related to fine arts activities. The balance of the endowment at June 30, 2012, was \$637,851, which is included in MOCA’s investment total reported above.

The estimated fair value of the Foundation, TSI, and MOCA investments was based on valuations provided by external investment managers at June 30, 2012, and consisted of the following:

<u>Investment Type</u>	<u>Amount</u>
United States Government Bonds and Federal Agency Securities	\$ 2,737,146
Fixed-Income Mutual Funds	875,800
Equity Mutual Funds	1,345,561
Hedge Funds	41,969,124
Private Equity Funds	23,813,920
Corporate Bonds	6,395,501
Real Estate Funds	33,411
Domestic Stocks	49,220
Money Market Funds	42,264
Total Foundation, TSI, and MOCA Investments	\$ 77,261,947

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

of investments and investment maturities so as to minimize the impact of downturns in the market. Investments of these component units by investment type and their future maturities at June 30, 2012, are as follows:

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10
University of North Florida Foundation, Inc.				
United States Government and Federal Agency Securities	\$ 2,737,146	\$ 51,506	\$2,685,640	\$
Corporate Bonds	6,395,501	518,407	5,877,094	
Fixed-Income Mutual Funds	222,274			222,274
Total	\$ 9,354,921	\$ 569,913	\$ 8,562,734	\$ 222,274
The University of North Florida Training and Services Institute, Inc.				
Fixed-Income Mutual Funds	\$ 230,839	\$	\$	\$ 230,839
Museum of Contemporary Art Jacksonville, Inc.				
Fixed Income Mutual Funds	\$ 422,687	\$	\$ 81,440	\$ 341,247

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation and MOCA have no formal investment policies on credit risk. The TSI's investment policy provides that fixed-income securities shall be rated "A" or higher by Moody's Investor Service or Standard & Poor's rating services. At June 30, 2012, the credit quality ratings of the component units' investments are as follows:

Investment Type	Fair Value	Credit Quality Rating (1)			
		AAA	AA	A	Unrated
United States Government and Federal Agency Securities	\$ 2,737,146	\$ 81,252		\$2,655,894	\$
Fixed-Income Mutual Funds	875,800		230,839		644,961
Equity Mutual Funds	1,345,561				1,345,561 (2)
Hedge Funds	41,969,124				41,969,124 (2)
Private Equity Funds	23,813,920				23,813,920 (2)
Corporate Bonds	6,395,501	1,421,213	2,888,332	2,085,956	
Real Estate Funds	33,411				33,411
Money Market Funds	42,264				42,264
Domestic Stock	49,220				49,220
Total Foundation, TSI, and MOCA Investments	\$ 77,261,947	\$1,502,465	\$3,119,171	\$4,741,850	\$67,898,461

Notes: (1) The credit quality ratings are from Standard & Poor's.

(2) Disclosure of credit quality risk is not required for these investment types.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investment securities that are held by someone other than the University or its component units and are not registered in the University's or its component units' name. The Foundation, the TSI, and MOCA have no formal investment policy on custodial credit risk.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The TSI's investment policy limits its investments in fixed-income securities of foreign issuers to 25 percent of its fixed-income portfolio. The TSI does not have a formal investment policy that addresses foreign currency risk for other types of investments. The Foundation and MOCA do not have formal investment policies that address foreign currency risk.

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, student housing rentals, other amounts comprised of sales and services provided to students and third parties, and student fee deferments. As of June 30, 2012, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 4,761,165.78
Contracts and Grants	847,408.78
Student Housing Rentals	762,359.08
Other	<u>116,971.36</u>
Total Accounts Receivable, Net	<u><u>\$ 6,487,905.00</u></u>

Allowance for Doubtful Receivables. Allowances for doubtful accounts are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable are reported net of allowances of \$117,910 at June 30, 2012.

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

Loans and Notes Receivable from Component Units. At June 30, 2012, the University had loans and notes receivable from the University of North Florida Foundation, Inc. (Foundation), and the Museum of Contemporary Art Jacksonville, Inc. (MOCA), as shown below:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Foundation - Alumni Hall	\$ 411,214	\$	\$ 200,000	\$ 211,214	\$ 211,214
MOCA - Line of Credit	500,000			500,000	
Loans and Notes Receivable from Component Units	\$ 911,214	\$	\$ 200,000	\$ 711,214	\$ 211,214

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

Component Units' Pledges Receivable, Net. The Foundation and MOCA account for their pledges in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB Statement No. 33 establishes reporting standards for nonexchange transactions, which in the case of the Foundation and MOCA are restricted pledges and pledges, respectively, to be contributed in the future. Pledges receivable are reported at estimated net realizable value, and reported in current and long-term portions, net of appropriate allowances and present value discounts of \$388,436 for the Foundation and \$987 for MOCA.

4. DUE FROM STATE

This amount consists of \$2,451,633.98 of Public Education Capital Outlay and Capital Improvement Fee Trust Fund allocations due from the State to the University for construction of University facilities.

5. INVENTORIES

Inventories have been categorized into the following two types:

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 12,863,268.61	\$	\$	\$	\$ 12,863,268.61
Construction in Progress	37,014,663.81		54,746,443.07	44,372,457.24	47,388,649.64
Total Nondepreciable Capital Assets	\$ 49,877,932.42	\$	\$54,746,443.07	\$44,372,457.24	\$ 60,251,918.25
Depreciable Capital Assets:					
Buildings	\$437,283,599.18	\$	\$41,339,435.90	\$ 1,228,712.96	\$477,394,322.12
Infrastructure and Other Improvements	37,131,209.07		2,890,475.80		40,021,684.87
Furniture and Equipment	43,125,205.38	(20,779,289.26)	1,454,945.57	768,380.36	23,032,481.33
Library Resources	38,010,987.80		1,532,263.73		39,543,251.53
Leasehold Improvements			142,545.54		142,545.54
Computer Software	8,289,803.42		305,973.04		8,595,776.46
Other Capital Assets	109,215.10	(109,215.10)			
Total Depreciable Capital Assets	563,950,019.95	(20,888,504.36)	47,665,639.58	1,997,093.32	588,730,061.85
Less, Accumulated Depreciation:					
Buildings	108,980,369.55		12,289,202.36	650,871.86	120,618,700.05
Infrastructure and Other Improvements	13,869,106.60		1,955,802.46		15,824,909.06
Furniture and Equipment	28,368,675.89	(14,401,186.62)	1,974,383.49	706,255.04	15,235,617.72
Library Resources	30,460,111.18		1,753,298.88		32,213,410.06
Leasehold Improvements			4,751.52		4,751.52
Computer Software	6,191,780.14		613,785.43		6,805,565.57
Other Capital Assets	7,082.01	(7,082.01)			
Total Accumulated Depreciation	187,877,125.37	(14,408,268.63)	18,591,224.14	1,357,126.90	190,702,953.98
Total Depreciable Capital Assets, Net	\$376,072,894.58	\$ (6,480,235.73)	\$29,074,415.44	\$ 639,966.42	\$398,027,107.87

Note: (1) The adjustments to capital assets are the result of a change in the capitalization threshold for tangible personal property from \$1,000 to \$5,000, effective July 1, 2011. See note No. 1 - Summary of Significant Accounting Policies.

Combined capital assets activity for the University's discretely presented component units for the fiscal year ended June 30, 2012, is shown below:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 3,307,556	\$	\$	\$ 3,307,556
Total Nondepreciable Capital Assets	\$ 3,307,556	\$	\$	\$ 3,307,556
Depreciable Capital Assets:				
Buildings	\$ 14,100,634	\$	\$	\$ 14,100,634
Leasehold Improvements	5,951,106			5,951,106
Furniture and Equipment	520,467	1,138.00		521,605
Total Depreciable Capital Assets	20,572,207	1,138.00		20,573,345
Less, Accumulated Depreciation:				
Buildings	658,029	564,025		1,222,054
Leasehold Improvements	2,375,223	300,884		2,676,107
Furniture and Equipment	500,637	9,354		509,991
Total Accumulated Depreciation	3,533,889	874,263		4,408,152
Total Depreciable Capital Assets, Net	\$ 17,038,318	\$ 873,125	\$	\$ 16,165,193

7. TEMPORARY CASH OVERDRAFT

The University maintained an account with a local bank to process general operating expenses and payroll transactions. Funds in excess of current need, including float, were invested. As a result, the University's records showed a temporary cash overdraft for the amount of outstanding checks not presented as of June 30, 2012. This did not, however, represent an overdraft in the University's depository account.

8. DEFERRED REVENUE

Deferred revenue includes funds received prior to fiscal year-end for which the earnings process will be completed in subsequent accounting periods. As of June 30, 2012, the University reported deferred revenue of \$5,550,723.64, of which \$5,500,000 pertains to funding received under the terms of an agreement with the University's contracted food service provider towards construction of a new dining facility. The agreement provides that as long as the food service provider enjoys full access to and use of the dining facility through June 30, 2022, the University can amortize the funds and recognize revenue over the next ten years effective July 1, 2012. However, the unamortized portion of these funds are repayable by the University to the food service provider if the agreement is not renewed or is terminated prior to June 30, 2022.

9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2012, include bonds payable, capital improvement debt payable, installment purchase payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 138,698,258.28	\$	\$ 2,112,240.68	\$ 136,586,017.60	\$ 2,440,000.00
Capital Improvement Debt Payable	15,684,963.72		409,368.20	15,275,595.52	410,000.00
Installment Purchase Payable	315,664.63		251,745.71	63,918.92	63,918.92
Compensated Absences Payable	12,575,946.84	689,339.84	1,156,283.68	12,109,003.00	968,720.25
Other Postemployment Benefits Payable	7,904,000.00	6,268,000.00	719,000.00	13,453,000.00	
Total Long-Term Liabilities	\$ 175,178,833.47	\$ 6,957,339.84	\$ 4,648,638.27	\$ 177,487,535.04	\$ 3,882,639.17

Bonds Payable. The University had the following bonds payable outstanding at June 30, 2012:

Bond Type and Series	Amount of Original Debt	Amount Outstanding	Interest Rates (Percent)	Maturity Date To
Capital Improvement Revenue Bonds:				
Student Union Project, Series 2007	\$ 21,235,000.00	\$ 20,110,000.00	4.00 - 5.00	2038
Housing Project, Series 2007	111,185,000.00	105,495,000.00	4.00 - 5.00	2038
Parking System, Series 1998, Remarketed	9,600,000.00	7,800,000.00	(1)	2028
Total Capital Improvement Revenue Bonds	142,020,000.00	133,405,000.00		
Add: Unamortized Bond Premiums		3,181,017.60		
Total	\$ 142,020,000.00	\$ 136,586,017.60		

Note: (1) The Parking System, Series 1998, Remarketed Bonds have a variable interest rate, which was 0.185484 percent as of June 30, 2012.

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

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

rents, and a portion of the University's activity and service fees revenues are pledged to pay the Student Union project rents.

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

On September 4, 2007, the Parking Bonds originally issued by the Foundation, along with the related operating ground leases, were assigned to and subsequently remarketed by the Financing Corporation. Parking System bonds are collateralized by the revenue stream from the University parking system. The interest rate is a variable rate not to exceed 12 percent and was 0.185484 percent at June 30, 2012. Interest payments are made monthly and principal is payable annually through May 1, 2028.

Annual requirements to amortize all bonds payable outstanding as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 2,440,000.00	\$ 6,214,930.25	\$ 8,654,930.25
2014	2,940,000.00	6,103,863.32	9,043,863.32
2015	3,590,000.00	5,966,443.26	9,556,443.26
2016	4,170,000.00	5,800,475.22	9,970,475.22
2017	4,355,000.00	5,615,535.30	9,970,535.30
2018-2022	24,895,000.00	24,942,087.05	49,837,087.05
2023-2027	28,795,000.00	18,693,923.40	47,488,923.40
2028-2032	26,570,000.00	12,160,927.42	38,730,927.42
2033-2037	28,945,000.00	5,438,625.00	34,383,625.00
2038	6,705,000.00	167,625.00	6,872,625.00
Subtotal	133,405,000.00	91,104,435.22	224,509,435.22
Add: Unamortized Bond Premiums	<u>3,181,017.60</u>		<u>3,181,017.60</u>
Total	<u>\$ 136,586,017.60</u>	<u>\$ 91,104,435.22</u>	<u>\$ 227,690,452.82</u>

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2012:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Debt:				
2010A - Student Wellness Center	\$ 2,575,000.00	\$ 2,215,595.52	3.00	2017
2010B - Student Wellness Center	13,060,000.00	13,060,000.00	4.00 - 7.50	2036
Total Capital Improvement Debt	\$ 15,635,000.00	\$ 15,275,595.52		

Note: (1) Amount outstanding includes unamortized premium.

On December 30, 2010, the Board of Governors, issued \$15,635,000 of University of North Florida Mandatory Student Fee Revenue Bonds (\$13,060,000, Series 2010B Build America Bonds and \$2,575,000, Series 2010A Tax-Exempt Bonds) to finance the construction of a Student Wellness Center on campus and to pay costs of issuance.

The interest on the Series 2010A Tax-Exempt Bonds, with a rate of 3 percent and a maturity date of November 1, 2016, is excluded from gross income of the holders for purposes of Federal income taxation. The interest on the Series 2010B Taxable Build America Bonds, with rates ranging from 4 percent to 7.5 percent and a maturity date of November 1, 2035, is not excluded from gross income of the holders for purposes of Federal income taxation.

The University has pledged a portion of future Student Wellness Center fees to repay \$15,275,595.52 in capital improvement revenue bonds issued by the Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct the Student Wellness Center. The bonds are payable solely from Student Wellness Center fee assessments and are payable through November 1, 2035. The University has committed to appropriate each year from the Student Wellness Center fee assessment amounts sufficient to cover principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$29,664,520.52, and principal and interest paid for the current year totaled \$1,328,550. During the 2011-12 fiscal year, Student Wellness Center fee assessments totaled \$1,183,329.32, while the interest subsidies received for the bonds totaled \$251,505.93.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2012, are as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 410,000.00	\$ 918,400.00	\$ 1,328,400.00
2014	420,000.00	905,950.00	1,325,950.00
2015	435,000.00	893,125.00	1,328,125.00
2016	450,000.00	879,850.00	1,329,850.00
2017	460,000.00	866,200.00	1,326,200.00
2018-2022	2,530,000.00	4,014,900.00	6,544,900.00
2023-2027	3,035,000.00	3,235,068.75	6,270,068.75
2028-2032	3,765,000.00	2,099,056.25	5,864,056.25
2033-2036	3,730,000.00	576,375.00	4,306,375.00
Subtotal	15,235,000.00	14,388,925.00	29,623,925.00
Add: Unamortized Bond Premiums	40,595.52		40,595.52
Total	\$ 15,275,595.52	\$ 14,388,925.00	\$ 29,664,520.52

Installment Purchase Payable. During the 2008-09 fiscal year, the University entered into an installment purchase agreement for the purchase of equipment reported at \$982,672.68. The stated interest rate is 2.49 percent. Future minimum payments remaining under the installment purchase agreement and the present value of the minimum payments as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	<u>\$ 64,316.81</u>
Total Minimum Payments	64,316.81
Less, Amount Representing Interest	<u>397.89</u>
Present Value of Minimum Payments	<u>\$ 63,918.92</u>

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$12,109,003. The current portion of the compensated absences liability of \$968,720.25 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.

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

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

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 201 retirees received postemployment healthcare benefits. The University provided required contributions of \$719,000 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 \$1,158,000.

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 3,944,000
Amortization of Unfunded Actuarial Accrued Liability	2,043,000
Interest on Normal Cost and Amortization	<u>239,000</u>
Annual Required Contribution	6,226,000
Interest on Net OPEB Obligation	316,000
Adjustment to Annual Required Contribution	<u>(274,000)</u>
Annual OPEB Cost (Expense)	6,268,000
Contribution Toward the OPEB Cost	<u>(719,000)</u>
Increase in Net OPEB Obligation	5,549,000
Net OPEB Obligation, Beginning of Year	<u>7,904,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 13,453,000</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, 2012, and for the two preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009-10	\$ 3,644,000	14.2%	\$ 5,004,000
2010-11	3,459,000	16.2%	7,904,000
2011-12	6,268,000	11.5%	13,453,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$61,288,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$61,288,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$90,607,006 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 67.6 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.

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the University's 2011-12 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates were 7.24 percent, 8.38 percent, and 8.57 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.81 percent, 3.11 percent, and 8.42 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates are both 6.5 percent in the fourth year grading identically to 5 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bank Note Payable in Monthly Installments of Principal and Interest at 8.3 Percent	\$ 11,875,727	\$	\$ 695,370	\$ 11,180,357	\$ 807,000
Promissory Note Payable in Monthly Installments of Principal and Interest at 4.7 Percent	1,404,868		334,534	1,070,334	350,599
Loan Payable to Foundation Payable in Full or in Part Prior to Maturity on May 20, 2021, at 4.5 Percent (1)	3,408,571	393,416		3,801,987	
Total	\$ 16,689,166	\$ 393,416	\$ 1,029,904	\$ 16,052,678	\$ 1,157,599

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

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>
2013	\$ 1,157,599
2014	1,297,236
2015	1,417,083
2016	1,213,055
2017	1,375,802
2018-2021	<u>5,789,916</u>
Total	<u>\$ 12,250,691</u>

Loans and notes payable at June 30, 2012, for MOCA are as follows:

<u>Description</u>	<u>Current</u>	<u>Noncurrent</u>
Bank line of credit (\$375,982) with interest payable monthly at one month LIBOR plus 3.5 percent, maturity of May 1, 2013. Loan collateralized by eligible pledges receivable.	\$ 323,982	\$
Revolving loan (\$500,000) from University, noninterest bearing and payable on demand. Subordinated to line of credit from Regions Bank. No payments are expected to be made in the next year.		500,000
Revolving loan (\$423,779) from a member of the Museum Board of Trustees, noninterest bearing and payable on demand. Subordinated to line of credit from Regions Bank. No payments are expected to be made in the next year.		<u>423,779</u>
Total	<u>\$ 323,982</u>	<u>\$ 923,779</u>

10. 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 the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The 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 Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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 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.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee 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 the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.

(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 including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$3,455,594.26, \$4,068,719.24, and \$2,699,768.82, respectively, which were equal to the required contributions for each fiscal year.

There were 250 University participants in the Investment Plan during the 2011-12 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled \$730,221.60, which was equal to the required contribution for the 2011-12 fiscal year.

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.

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, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 839 University participants during the 2011-12 fiscal year. The University's contributions to the Program totaled \$3,821,624.72 and employee contributions totaled \$2,862,645.61 for the 2011-12 fiscal year.

11. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2012, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Osprey Café	\$19,677,470.38	\$13,717,133.33	\$5,960,337.05
Student Wellness Center	20,132,815.79	18,357,677.61	1,775,138.18
Disability Resource Center	4,500,000.00	3,710,319.45	789,680.55
Infrastructure Projects	3,787,625.91	3,446,878.21	340,747.70
Subtotal	48,097,912.08	39,232,008.60	8,865,903.48
Other Projects	8,851,175.15	8,156,641.04	694,534.11
Total	<u>\$56,949,087.23</u>	<u>\$47,388,649.64</u>	<u>\$9,560,437.59</u>

12. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2011-12 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$61 million for named windstorm and flood losses through February 14, 2012, and decreased to \$50 million starting February 15, 2012. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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.

13. 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	\$ 70,985,500.98
Research	7,574,896.91
Public Services	4,784,651.31
Academic Support	20,048,555.05
Student Services	18,499,231.38
Institutional Support	19,684,309.55
Operation and Maintenance of Plant	16,384,981.59
Scholarships, Fellowships, and Waivers	20,499,066.98
Depreciation	18,591,224.14
Auxiliary Enterprises	<u>26,015,128.56</u>
Total Operating Expenses	<u>\$ 223,067,546.45</u>

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

14. SEGMENT INFORMATION

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

Condensed Statement of Net Assets

	Parking System	Housing System	Student Union	Student Wellness Center
Assets				
Current Assets	\$ 12,068,244.69	\$ 5,014,617.50	\$ 585,982.53	\$ 1,565,521.33
Capital Assets, Net	9,640,806.96	105,922,708.37	46,060,959.88	18,620,407.36
Other Noncurrent Assets	59,220.70	9,566,594.92	1,605,856.94	2,701,548.65
Total Assets	21,768,272.35	120,503,920.79	48,252,799.35	22,887,477.34
Liabilities				
Current Liabilities	460,638.67	2,186,807.23	437,324.10	2,829,485.52
Noncurrent Liabilities	7,430,987.99	106,735,371.95	20,006,311.55	14,865,595.52
Total Liabilities	7,891,626.66	108,922,179.18	20,443,635.65	17,695,081.04
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,900,027.66	(1,292,795.52)	25,644,648.33	3,344,811.84
Restricted for Debt Service		8,412,392.76	1,411,060.28	930,031.50
Unrestricted	11,976,618.03	4,462,144.37	753,455.09	917,552.96
Total Net Assets	\$ 13,876,645.69	\$ 11,581,741.61	\$ 27,809,163.70	\$ 5,192,396.30

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

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

	Parking System	Housing System	Student Union	Student Wellness Center
Operating Revenues	\$ 3,106,651.10	\$ 16,817,827.95	\$ 1,706,370.22	\$ 1,183,329.32
Depreciation Expense	(1,080,607.90)	(3,702,119.71)	(1,262,432.99)	(3,912.34)
Other Operating Expenses	(802,808.42)	(8,315,502.73)	(698,942.90)	(904,431.53)
Operating Income (Loss)	<u>1,223,234.78</u>	<u>4,800,205.51</u>	<u>(255,005.67)</u>	<u>274,985.45</u>
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	339,003.54	605,861.13	767,433.68	251,505.93
Interest Expense	(15,858.14)	(5,229,886.34)	(979,198.55)	(731,824.80)
Other Nonoperating Expense	(538,095.90)	(1,334,846.86)	(877,822.44)	
Net Nonoperating Expenses	<u>(214,950.50)</u>	<u>(5,958,872.07)</u>	<u>(1,089,587.31)</u>	<u>(480,318.87)</u>
Increase (Decrease) in Net Assets	<u>1,008,284.28</u>	<u>(1,158,666.56)</u>	<u>(1,344,592.98)</u>	<u>(205,333.42)</u>
Net Assets, Beginning of Year	12,868,361.41	12,740,408.17	29,153,756.68	5,514,358.03
Adjustments to Beginning Net Assets				(116,628.31)
Net Assets, Beginning of Year, as Restated	<u>12,868,361.41</u>	<u>12,740,408.17</u>	<u>29,153,756.68</u>	<u>5,397,729.72</u>
Net Assets, End of Year	<u>\$ 13,876,645.69</u>	<u>\$ 11,581,741.61</u>	<u>\$ 27,809,163.70</u>	<u>\$ 5,192,396.30</u>

Condensed Statement of Cash Flows

	Parking System	Housing System	Student Union	Student Wellness Services
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,895,022.61	\$ 6,966,442.20	\$ 1,235,645.83	\$ (426,705.65)
Noncapital Financing Activities	(503,606.90)	(3,279,316.31)	(91,631.98)	
Capital and Related Financing Activities	(428,452.74)	(6,431,971.25)	(1,360,210.04)	(13,548,218.58)
Investing Activities	338,248.89	261,873.21	408,430.33	220,108.37
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,301,211.86</u>	<u>(2,482,972.15)</u>	<u>192,234.14</u>	<u>(13,754,815.86)</u>
Cash and Cash Equivalents, Beginning of Year	10,531,946.69	6,739,042.57	276,777.40	14,657,704.00
Adjustments to Cash and Cash Equivalents, Beginning of Year	9,414.57			(56,989.85)
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>10,541,361.26</u>	<u>6,739,042.57</u>	<u>276,777.40</u>	<u>14,600,714.15</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,842,573.12</u>	<u>\$ 4,256,070.42</u>	<u>\$ 469,011.54</u>	<u>\$ 845,898.29</u>

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Segment Information – Component Unit. The following financial information for the UNF TSI Investments, LLC, represents identifiable activities for which long-term indebtedness is outstanding and with a revenue stream pledged in support of the debt:

Condensed Statement of Net Assets

	UNF TSI Investments, LLC
Assets	
Current Assets	\$ 51,554
Capital Assets, Net	16,186,136
Total Assets	<u>16,237,690</u>
Liabilities	
Current Liabilities	1,449,664
Noncurrent Liabilities	14,895,079
Total Liabilities	<u>16,344,743</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	<u>(107,053)</u>
Total Net Assets	<u><u>\$ (107,053)</u></u>

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

	UNF TSI Investments, LLC
Operating Revenues	\$ 1,709,437
Depreciation Expense	(564,025)
Other Operating Expenses	(315,335)
Operating Income	<u>830,077</u>
Nonoperating Expenses:	
Interest Expense	(1,233,689)
Net Nonoperating Expenses	<u>(1,233,689)</u>
Decrease in Net Assets	(403,612)
Net Assets, Beginning of Year	<u>296,559</u>
Net Assets, End of Year	<u><u>\$ (107,053)</u></u>

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012**

Condensed Statement of Cash Flows

	UNF TSI Investments, LLC
Net Cash Provided (Used) by:	
Noncapital Financing Activities	\$ 222,123
Capital and Related Financing Activities	<u>(222,123)</u>
Net Increase in Cash and Cash Equivalents	
Cash and Cash Equivalents, Beginning of Year	
Cash and Cash Equivalents, End of Year	<u><u>\$</u></u>

UNF TSI Investments, LLC, records revenue for payments made by the tenant under an operating lease with an expiration date in 2020, and future minimum rents as of June 30, 2012, totaled \$15,713,615.

15. COMPONENT UNITS

The University has four component units as discussed in note 1. Three component units, the University of North Florida Foundation, Inc., the University of North Florida Training and Services Institute, Inc. (which includes segment information for UNF TSI Investments, LLC – See Note 14 above), and the Museum of Contemporary Art Jacksonville, Inc., comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The financial position and the results of operations of the University of North Florida Financing Corporation are blended with the University. The following financial information for the fiscal year ended June 30, 2012, is from the most recently available audited financial statements for the component units:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

	Direct-Support Organizations			Total
	University of North Florida Foundation, Inc.	The University of North Florida Training and Services Institute, Inc.	Museum of Contemporary Art Jacksonville, Inc.	
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 1,696,148	\$ 534,283	\$ 57,367	\$ 2,287,798
Capital Assets, Net		16,186,136	3,286,613	19,472,749
Other Noncurrent Assets	90,128,813	1,130,520	766,252	92,025,585
Total Assets	91,824,961	17,850,939	4,110,232	113,786,132
Liabilities:				
Current Liabilities	670,095	1,975,292	456,133	3,101,520
Noncurrent Liabilities	17,230	15,140,481	923,779	16,081,490
Total Liabilities	687,325	17,115,773	1,379,912	19,183,010
Net Assets:				
Invested in Capital Assets, Net of Related Debt		133,458	3,286,613	3,420,071
Restricted	90,293,640		734,993	91,028,633
Unrestricted	843,996	601,708	(1,291,286)	154,418
Total Net Assets	\$ 91,137,636	\$ 735,166	\$ 2,730,320	\$ 94,603,122
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	\$ 5,531,712	\$ 6,477,078	\$ 1,715,955	\$ 13,724,745
Operating Expenses	(9,164,484)	(5,746,756)	(1,936,257)	(16,847,497)
Operating Income (Loss)	(3,632,772)	730,322	(220,302)	(3,122,752)
Net Nonoperating Expenses	(1,137,046)	(1,255,378)	(6,658)	(2,399,082)
Additions to Permanent Endowments	2,216,392			2,216,392
Decrease in Net Assets	(2,553,426)	(525,056)	(226,960)	(3,305,442)
Net Assets, Beginning of Year	93,691,062	1,260,222	2,957,280	97,908,564
Net Assets, End of Year	\$ 91,137,636	\$ 735,166	\$ 2,730,320	\$ 94,603,122

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 20,966,000	\$ 20,966,000	0%	\$ 83,863,055	25.0%
7/1/2009		37,548,000	37,548,000	0%	82,862,861	45.3%
7/1/2011		61,288,000	61,288,000	0%	90,607,006	67.6%

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

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

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$61,288,000 was significantly higher than the July 1, 2009, liability of \$37,548,000 as a result of changes in the methodology used by the actuary to calculate this liability. The most significant modifications were due to changes in the long-term trend model, an increase in the coverage election assumption, and the passage of the Patient Protection and Affordable Care Act.

**UNIVERSITY OF NORTH FLORIDA
OTHER SUPPLEMENTARY INFORMATION
SCHEDULES OF RECEIPTS AND EXPENDITURES OF
CITY OF JACKSONVILLE GRANT FUNDS –
BUDGET AND ACTUAL
JUNE 30, 2012**

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

Receipts of City Funds

Contract Amount (1)	\$ 1,276,750.00
Amount Received in 2008-09 Fiscal Year	(69,984.00)
Amount Received in 2009-10 Fiscal Year	(175,198.00)
Amount Received in 2010-11 Fiscal Year	(160,834.00)
Amount Received in 2011-12 Fiscal Year (2)	(523,788.00)
Amount Remaining to be Distributed as of June 30, 2012	<u>\$ 346,946.00</u>

Expenditures of City Funds

Expenditure Category	Budget (1)	2008-09 Fiscal Year Expenditures	2009-10 Fiscal Year Expenditures (3)	2010-11 Fiscal Year Expenditures	2011-12 Fiscal Year Expenditures	Remaining Balance
Scholarships						
Financial Aid Disbursements	<u>\$ 1,276,750.00</u>	<u>\$ 183,681.03</u>	<u>\$ 61,500.97</u>	<u>\$ 160,834.00</u>	<u>\$ 523,788.00</u>	<u>\$ 346,946.00</u>

- Notes: (1) Per City of Jacksonville Contract Number 9367 dated May 28, 2009, in the amount of \$523,525 as revised by Amendment Number One dated May 14, 2010, increasing the contract amount by \$423,525 and revised by Amendment Number Two dated September 30, 2011, increasing the contract amount by \$329,700.
- (2) Revenues reported per the General Ledger as of June 30, 2012, totaled \$677,365. This amount was overstated by \$153,577, because receivables were debited and revenue credited prior to the fiscal year end in anticipation of receiving these funds after June 30. However, the funds were received and recorded as revenue again on June 29, 2012, instead of as a reduction to accounts receivable. Therefore, both the receivables and revenue balances were subsequently reduced in August by the \$153,577 through fund balance adjustments.
- (3) 2009-10 fiscal year expenditures of \$174,299 were reduced by \$112,798.03, which represented amounts reported in the prior fiscal year that were subsequently disallowed by the grantor.

**UNIVERSITY OF NORTH FLORIDA
OTHER SUPPLEMENTARY INFORMATION
SCHEDULES OF RECEIPTS AND EXPENDITURES OF
CITY OF JACKSONVILLE GRANT FUNDS –
BUDGET AND ACTUAL (CONTINUED)
JUNE 30, 2012**

**Small Business Development Center (2010-11 FY Grant)
Contract administered by Jacksonville Economic Development Commission**

Receipts of City Funds

Amount of Award (Per City of Jacksonville Budget)	\$ 98,940.00
Amount Received in 2010-11 Fiscal Year	(49,470.00)
Amount Received in 2011-12 Fiscal Year	<u>(49,470.00)</u>

Amount Remaining to be Distributed as of June 30, 2012

\$

Expenditures of City Funds

Expenditure Category		City of Jacksonville Grant Budget	University Grant Budget	2010-11 Fiscal Year Expenditures	2011-12 Fiscal Year Expenditures	Carryforward
Compensation						
Salaries and Wages:						
Administrative and Professional	(1) \$	76,669.00	\$ 57,819.84	\$ 43,659.52	\$ 14,160.32	\$
Employee Benefits:						
Fringe Chargeback Expense			18,502.24	14,511.50	4,255.81	(265.07)
Workers' Compensation			346.92	81.85		265.07
Total Employee Benefits	(1)		18,849.16	14,593.35	4,255.81	
Supplies						
Office Supplies:						
Office Materials and Supplies				130.12	(130.12)	
ORSP Office Materials and Supplies			1,666.00	508.19	1,157.81	
Total Office Supplies		1,666.00	1,666.00	638.31	1,027.69	
Printing - ORSP Printing Charges		5,000.00	5,000.00	3,768.83	1,231.17	
Travel						
ORSP In State Travel		2,700.00	2,700.00	2,574.79	125.21	
Other						
ORSP Facilities and Admin Costs (Indirect Cost)		12,905.00	12,905.00	9,785.29	3,119.71	
Total Expenditures		<u>\$ 98,940.00</u>	<u>\$ 98,940.00</u>	<u>\$ 75,020.09</u>	<u>\$ 23,919.91</u>	<u>\$</u>

Note: (1) Salaries, including fringe benefits, were reported as a single line item in the approved program budget. However, these categories are reported in the University's budgetary accounts as separate items.

**UNIVERSITY OF NORTH FLORIDA
OTHER SUPPLEMENTARY INFORMATION
SCHEDULES OF RECEIPTS AND EXPENDITURES OF
CITY OF JACKSONVILLE GRANT FUNDS –
BUDGET AND ACTUAL (CONTINUED)
JUNE 30, 2012**

**Small Business Development Center (2011-12 FY Grant)
Contract administered by Jacksonville Economic Development Commission**

Receipts of City Funds

Amount of Award (Per City of Jacksonville Budget)	\$ 98,940.00
Amount Received in 2011-12 Fiscal Year	<u>(49,470.00)</u>
Amount Remaining to be Distributed as of June 30, 2012	<u>\$ 49,470.00</u>

Expenditures of City Funds

Expenditure Category	City of Jacksonville Grant Budget	University Grant Budget	2011-12 Fiscal Year Expenditures	Carryforward
Compensation				
Salaries and Wages:				
Administrative and Professional	(1) \$ 77,046.00	\$ 46,780.00	\$ 26,467.71	\$ 20,312.29
USPS		10,915.00	6,933.64	3,981.36
USPS Overtime			186.65	(186.65)
Total Salaries and Wages		<u>57,695.00</u>	<u>33,588.00</u>	<u>24,107.00</u>
Employee Benefits:				
Fringe Chargeback Expense		19,351.00	11,142.82	8,208.18
ORSP Leave Allowance			560.99	(560.99)
Total Employee Benefits	(1)	<u>19,351.00</u>	<u>11,703.81</u>	<u>7,647.19</u>
Supplies				
Office Supplies - ORSP Office Materials and Supplies	1,289.00	<u>1,289.00</u>	<u>1,289.00</u>	
Printing - ORSP Printing Charges	5,000.00	<u>5,000.00</u>	<u>3,996.70</u>	<u>1,003.30</u>
Travel				
ORSP In State Travel	2,700.00	<u>2,700.00</u>	<u>1,462.25</u>	<u>1,237.75</u>
Other				
ORSP Facilities and Admin Costs (Indirect Cost)	<u>12,905.00</u>	<u>12,905.00</u>	<u>7,805.87</u>	<u>5,099.13</u>
Total Expenditures	<u>\$ 98,940.00</u>	<u>\$ 98,940.00</u>	<u>\$ 59,845.63</u>	<u>\$ 39,094.37</u>

Note: (1) Salaries, including fringe benefits, were reported as a single line item in the approved program budget. However, these categories are reported in the University's budgetary accounts as separate items.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450



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

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

We have audited the financial statements of the University of North Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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. However as described in the **FINDINGS AND RECOMMENDATIONS** section of this report, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*; however, we noted a certain additional matter which is described in the **FINDINGS AND RECOMMENDATIONS** section of this report.

Management's response to the findings described in the **FINDINGS AND RECOMMENDATIONS** section of this report are included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on it.

Our **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*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 14, 2013

FINDINGS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCY

Finding No. 1: Financial Reporting

One of the principal methods that a university uses to provide accountability for its public resources is to report its financial position and activities in annual financial statements. As such, University personnel should ensure that the financial statements are accurate and include all required disclosures so users, such as the Board of Trustees, the President, University management, and other interested parties, can appropriately evaluate, among other things, the University's operations and financial condition. To promote understanding and consistency in presentation, the University is required to prepare annual financial statements in accordance with accounting principles generally accepted in the United States of America.

Our review of the University's 2011-12 fiscal year financial statements, as presented for audit, disclosed that financial accounting and reporting procedures could be improved as discussed below:

- Restricted investments and temporary cash overdraft were overstated by \$14,061,744.42 on the University's statement of net assets. These overstatements were caused by an error in the University's recording of an adjustment to establish the temporary cash overdraft account.
- Total net assets restricted for capital projects was overstated and unrestricted net assets was understated by \$3,656,790.37 on the statement of net assets as the result of an error in the University's adjustment to reclassify restricted investments and the temporary cash overdraft.
- Other nonoperating revenues was overstated by \$5.5 million on the statement of revenues, expenses, and changes in net assets, deferred revenues was understated on the statement of net assets, and unrestricted net assets was overstated by \$5.5 million because of an error in reporting the receipt of certain auxiliary fund moneys. The University's contracted food management company provided advance funding of \$5.5 million as a contribution toward the construction of a replacement dining facility. Under the terms of the agreement, the University was required to amortize the revenue on a monthly basis over a ten-year period beginning July 2012; however, the University reported the \$5.5 million as other nonoperating revenues when received rather than reporting as deferred revenues at June 30, 2012, and amortizing the balance as earned over the following ten years.

Reporting errors such as the above may cause financial statement users to misunderstand the University's financial position and activity. We extended our audit procedures to determine the adjustments necessary to properly report amounts on the financial statements, and University personnel accepted these adjustments. However, our extended audit procedures cannot substitute for management's responsibility to implement adequate controls over financial reporting.

Recommendation: **The University should improve its financial reporting procedures to ensure that financial statement accounts and transactions are properly reported.**

ADDITIONAL MATTER

Finding No. 2: Line of Credit to a Direct-Support Organization

On April 16, 2009, the Board of Trustees authorized the University to enter into a revolving line of credit with the Museum of Contemporary Art Jacksonville, Inc. (MOCA), a University direct-support organization, whereby the

University could loan MOCA up to \$500,000 to help cover operational costs. The agreement provided that the loan could be repaid in whole or in part at any time without interest or penalty, except upon an event of default, and that if MOCA was dissolved, works of art may be sold to repay the debt. In our report No. 2012-105, we noted that as of June 30, 2011, the University had advanced \$500,000 from its auxiliary funds to MOCA. As of June 30, 2012, no additional advances were made; however, no repayments were received from MOCA.

Section 1004.28(1)(a)2., Florida Statutes, provides that a direct-support organization is organized and operated exclusively to receive, hold, invest, administer property, and make expenditures to and for the benefit of a university. Section 1004.28(2), Florida Statutes, in part, provides that each State university board of trustees is authorized to permit use of property, facilities, and personal services at any State university by any university direct-support organization and subject to the provision of this section, which include references to rules and guidelines of the Board of Governors. In response to our prior audit finding, University personnel indicated that “Specific statutory authority is not a condition to a university board’s permission to act.” However, the University possesses only the authority granted to it by statute or implied by its statutory authority. We are unaware of any specific authority in Florida Statutes or Board of Governors regulations permitting the University to make loans to a University direct-support organization.

Recommendation: **The University should seek to collect the outstanding amount owed by MOCA and replenish University accounts.**

PRIOR AUDIT FOLLOW-UP

The University had not taken corrective action for finding No. 1 in our audit report No. 2012-105, which is included as finding No. 2.

EXHIBIT A
MANAGEMENT'S RESPONSE



ADMINISTRATION & FINANCE
Office of the Vice President

UNIVERSITY of
NORTH FLORIDA

March 10, 2013

Mr. David W. Martin
Auditor General
State of Florida
111 West Madison Street
Claude Pepper Building, Suite G-74
Tallahassee, FL 32399-1450

Dear Mr. Martin:

In connection with the University of North Florida Financial Statement Audit for the fiscal year ending June 30, 2012, enclosed is the University's response to the preliminary and tentative audit findings.

Should you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,

Shari Shuman
Vice President, Administration & Finance

Enclosure

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Responses to Florida Auditor General's Preliminary Findings dated February 19, 2013

Finding No. 1: The University needed to improve its financial reporting process to ensure its financial statement transactions are properly reported.

Recommendation: The University should improve its financial reporting procedures to ensure that financial statement accounts and transactions are properly reported.

University Response:

We concur that one of our most important responsibilities is to appropriately report on its financial position and activities in our annual financial statements. As such, we take this responsibility extremely seriously. The adjustments made this year were primarily due to a set of unique and isolated circumstances and situations that have been addressed, as well as, revised controls put in place to address the issues.

Finding No. 2: The University provided a line of credit to one of its direct-support organizations without specific legal authority.

Recommendation: The University should seek to collect the outstanding amount owed by MOCA and replenish University accounts.

University Response:

Although the University presented its position to this finding in the prior audit response, we concur with the recommendation as stated and will continue to monitor and collect the outstanding amounts owed by MOCA as funds become available.