

UNIVERSITY OF NORTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2013



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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

The audit team leader was Donald Hemmingway, CPA, and the audit was supervised by Randy R. Arend, 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) 412-2869.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

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

Summary of Report on Internal Control and Compliance

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States; however, we noted a certain additional matter as summarized below.

ADDITIONAL MATTER

Finding No. 1: The University provided cash resources 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 actions for findings included in our report No. 2013-139.

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, 2013. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

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



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

INDEPENDENT AUDITOR'S REPORT

Report on the 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of North Florida'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.

The **SCHEDULES OF RECEIPTS AND EXPENDITURES OF CITY OF JACKSONVILLE GRANT FUNDS – BUDGET AND ACTUAL** are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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.

Other Reporting Required by *Government Auditing Standards*

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* in considering the University of North Florida's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 18, 2014

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, 2013, 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. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2013, and June 30, 2012.

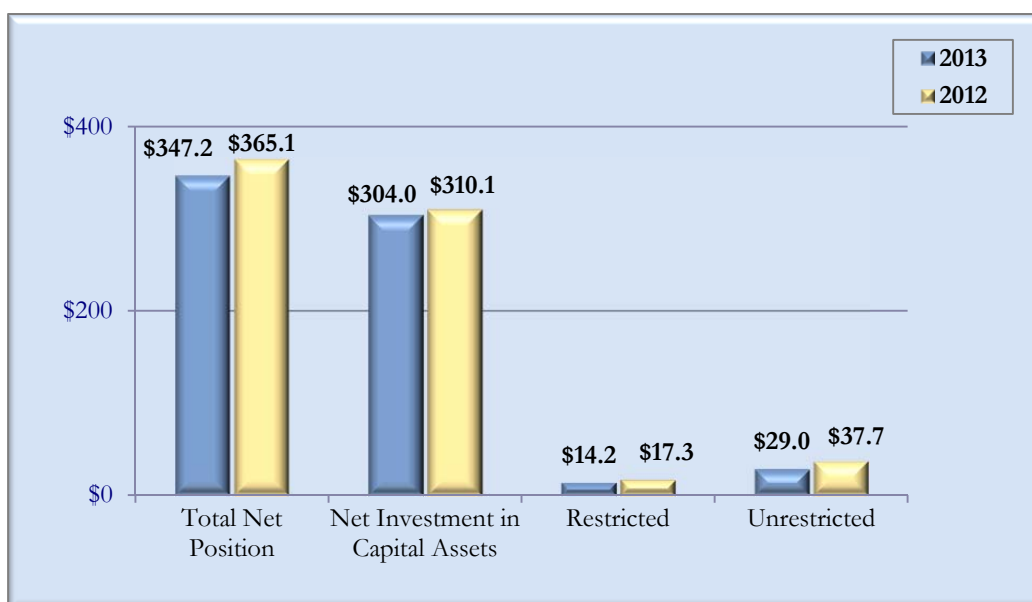
FINANCIAL HIGHLIGHTS

The University's assets totaled \$547 million at June 30, 2013. This balance reflects a \$19.2 million, or 3.4 percent, decrease as compared to the 2011-12 fiscal year, resulting primarily from a decline in restricted investments previously available to finance construction projects. Liabilities decreased by \$1.3 million, or 0.6 percent, to \$199.8 million at June 30, 2013, as compared to \$201.1 million at June 30, 2012, comprised of a \$3.5 million decrease in current liabilities and a \$2.2 million increase in noncurrent liabilities. As a result, the University's net position decreased by \$17.9 million, to a year-end balance of \$347.2 million.

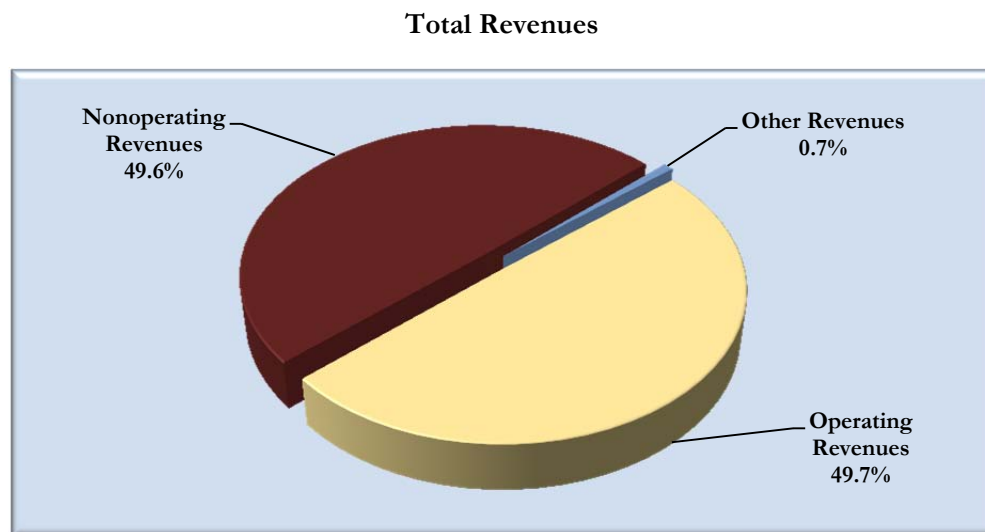
The University's operating revenues totaled \$110.5 million for the 2012-13 fiscal year, representing a 7.2 percent increase over the 2011-12 fiscal year due mainly to increases in student tuition and fees. Operating expenses totaled \$230.7 million for the 2012-13 fiscal year, representing an increase of 3.4 percent over the 2011-12 fiscal year due mainly to an increase in services and supplies expenses.

Net position represents the residual interest in the University's assets after deducting liabilities. The University's comparative total net position by category for the fiscal years ended June 30, 2013, and 2012, is shown in the following graph:

**Net Position
(In Millions)**



The following chart provides a graphical presentation of University revenues by category for the 2012-13 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 position; the statement of revenues, expenses, and changes in net position; 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 Service Institute, Inc. (TSI)
- Museum of Contemporary Art Jacksonville, Inc. (MOCA)
- University of North Florida Financing Corporation (Financing Corporation)

Based upon the application of the criteria for determining component units, the Financing Corporation is included within the University reporting entity as a blended component unit, and the Foundation, the TSI, and MOCA are included within the University reporting entity as discretely presented component units. Information regarding these component units, including summaries of the blended and discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. Information describing the component units is presented in the notes to financial statements. This MD&A focuses on the University, excluding the discretely presented component units. MD&A information for the discretely presented component units is included in their separately issued audit reports.

THE STATEMENT OF NET POSITION

The statement of net position 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. Assets less liabilities equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

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

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

	2013	2012
Assets		
Current Assets	\$ 82,781	\$ 83,710
Capital Assets, Net	451,325	458,279
Other Noncurrent Assets	12,881	24,206
Total Assets	546,987	566,195
Liabilities		
Current Liabilities	19,005	22,501
Noncurrent Liabilities	180,789	178,555
Total Liabilities	199,794	201,056
Net Position		
Net Investment in Capital Assets	304,020	310,057
Restricted	14,160	17,349
Unrestricted	29,013	37,733
Total Net Position	\$ 347,193	\$ 365,139

The University's financial position, as a whole, declined during the fiscal year ended June 30, 2013, with a decrease in net position of \$17.9 million, or 4.9 percent, from the 2011-12 fiscal year.

The University's total assets decreased by \$19.2 million. Capital assets decreased by \$7 million, primarily from annual depreciation of University assets exceeding capital asset additions, and other noncurrent assets decreased by \$11.3 million, primarily due to investments liquidated to fund construction of the Student Wellness Center and the Osprey Café during the 2012-13 fiscal year.

The University's total liabilities decreased \$1.3 million, which consisted of a \$3.5 million decrease in current liabilities and a \$2.2 million increase in noncurrent liabilities. The decrease in total liabilities resulted primarily from a \$6.3 million decrease in construction contracts payable and a \$5.5 million increase in other postemployment benefits payable.

In summary, the University's net position of \$347.2 million at June 30, 2013, included \$304 million of net investment in capital assets, \$14.2 million in restricted net position, and \$29 million in unrestricted net position. Net investment in capital assets decreased by \$6 million as a result of annual depreciation expenses exceeding capital asset additions; restricted net position decreased by \$3.2 million due primarily to the use of restricted capital projects funds for construction, and unrestricted net position decreased \$8.7 million due primarily to other postemployment benefits expenses of \$5.5 million.

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

The statement of revenues, expenses, and changes in net position 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 2012-13 and 2011-12 fiscal years:

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

	2012-13	2011-12
Operating Revenues	\$ 110,474	\$ 103,036
Less, Operating Expenses	230,729	223,067
Operating Loss	(120,255)	(120,031)
Net Nonoperating Revenues	100,645	97,745
Loss Before Other Revenues, Expenses, Gains, or Losses	(19,610)	(22,286)
Other Revenues	1,664	526
Net Decrease In Net Position	(17,946)	(21,760)
Net Position, Beginning of Year	365,139	386,899
Net Position, End of Year	\$ 347,193	\$ 365,139

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. Operating revenues generally consist of student tuition and fees, grants and contracts, and auxiliary service revenues from students and others to provide them with instruction and other goods and services.

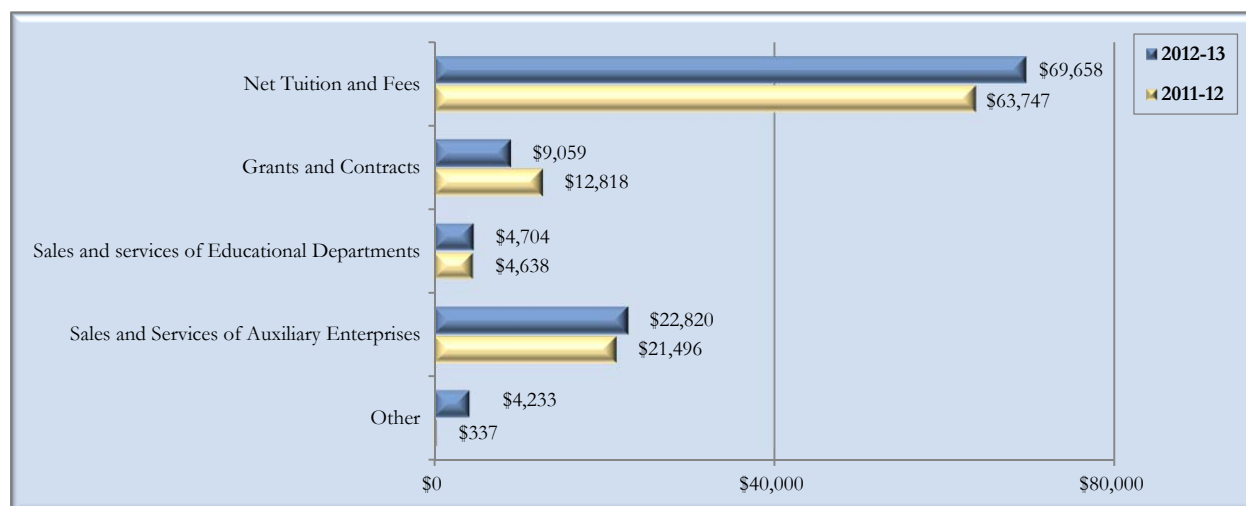
The following summarizes the operating revenues by source that were used to fund operating activities for the 2012-13 and 2011-12 fiscal years:

**Operating Revenues
(In Thousands)**

	2012-13	2011-12
Net Tuition and Fees	\$ 69,658	\$ 63,747
Grants and Contracts	9,059	12,818
Sales and Services of Educational Departments	4,704	4,638
Sales and Services of Auxiliary Enterprises	22,820	21,496
Other	4,233	337
Total Operating Revenues	\$ 110,474	\$ 103,036

The following chart presents the University's operating revenues for the 2012-13 and 2011-12 fiscal years:

**Operating Revenues
(In Millions)**



The University's total operating revenues increased by \$7.4 million as a result of a \$5.9 million increase in tuition and fees, net of scholarship allowances, due primarily to increased tuition rates; a \$1.3 million increase in sales and services of auxiliary enterprises; a \$3.9 million increase in other operating revenues as a result of contributions from University direct-support organizations; and a \$0.1 million increase in sales and services of educational departments; offset by a decrease in grants and contracts revenues of \$3.8 million.

Operating Expenses

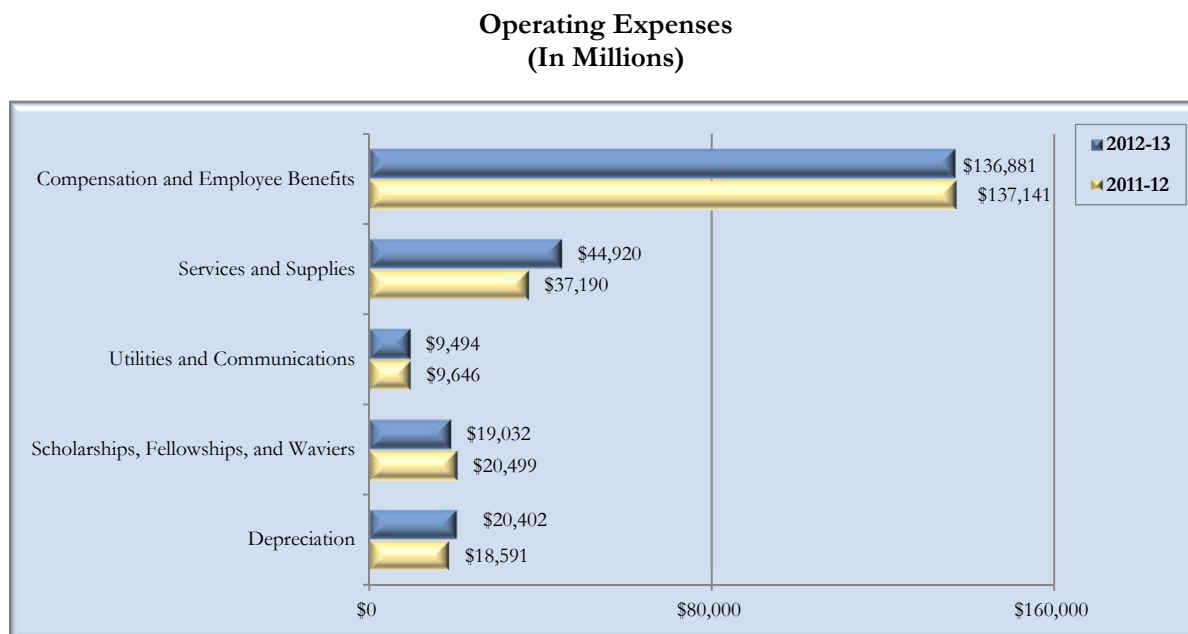
Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University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

The following summarizes the operating expenses by natural classifications for the 2012-13 and 2011-12 fiscal years:

**Operating Expenses
For the Fiscal Years
(In Thousands)**

	2012-13	2011-12
Compensation and Employee Benefits	\$ 136,881	\$ 137,141
Services and Supplies	44,920	37,190
Utilities and Communications	9,494	9,646
Scholarships, Fellowships, and Waivers	19,032	20,499
Depreciation	20,402	18,591
Total Operating Expenses	\$ 230,729	\$ 223,067

The following chart presents the University's operating expenses for the 2012-13 and 2011-12 fiscal years:



The University's overall operating expenses increased by \$7.6 million, or 3.4 percent, primarily due to the increase in services and supplies. Services and supplies expenses increased \$7.7 million primarily from a \$3.9 million increase in contractual services. Depreciation expense increased \$1.8 million primarily from the addition of new buildings during the fiscal year. Other changes were minor.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 2012-13 and 2011-12 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	2012-13	2011-12
State Noncapital Appropriations	\$ 66,345	\$ 71,160
Federal and State Student Financial Aid	33,585	35,111
Investment Income	1,522	3,013
Other Nonoperating Revenues	8,886	6,818
Loss on Disposal of Capital Assets	(55)	(640)
Interest on Capital Asset-Related Debt	(6,531)	(6,809)
Other Nonoperating Expenses	(3,107)	(10,908)
Net Nonoperating Revenues	\$ 100,645	\$ 97,745

Net nonoperating revenues increased by \$2.9 million or 3 percent. Changes in net nonoperating revenues were primarily due to decreases in State noncapital appropriations of \$4.8 million and Federal and State student financial aid and investment income of \$1.5 million each. Other nonoperating expenses decreased by \$7.8 million from the 2011-12 fiscal year, which included a one-time removal of \$6.5 million net capital assets with a historical cost between

\$1,000 and \$5,000. Other nonoperating revenues increased by \$2.1 million primarily resulting from contributions from University direct-support organizations for student scholarships and other nonoperating expenses.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2012-13 and 2011-12 fiscal years:

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2012-13</u>	<u>2011-12</u>
State Capital Appropriations	\$	\$ 451
Capital Grants, Contracts, Donations, and Fees	<u>1,664</u>	<u>75</u>
Total	\$ 1,664	\$ 526

Capital grants, contracts, donations, and fees increased \$1.6 million, primarily from \$0.9 million in donations of capital assets from the Foundation and \$0.6 million from the amortization of the cash contribution received from the University's food service provider in a prior fiscal year. The University did not receive any State capital appropriations during the 2012-13 fiscal year. State contributions (appropriations) for capital projects, depending upon the various stages of planning and completion, fluctuate from year to year.

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 2012-13 and 2011-12 fiscal years:

Condensed Statement of Cash Flows (In Thousands)		
	<u>2012-13</u>	<u>2011-12</u>
Cash Provided (Used) by:		
Operating Activities	\$ (92,412)	\$ (97,618)
Noncapital Financing Activities	105,066	107,895
Capital and Related Financing Activities	(24,922)	(30,966)
Investing Activities	<u>11,265</u>	<u>20,589</u>
Net Decrease in Cash and Cash Equivalents	(1,003)	(100)
Cash and Cash Equivalents, Beginning of Year	<u>1,190</u>	<u>1,290</u>
Cash and Cash Equivalents, End of Year	\$ 187	\$ 1,190

Major sources of funds included in operating activities are from net student tuition and fees of \$69.3 million; Federal, State, and local grants and contracts of \$9.5 million; and sales and services of auxiliary enterprises of \$22.8 million.

Major uses of operating funds were payments made to and on behalf of employees totaling \$130.7 million; payments to suppliers totaling \$53.7 million; payments to and on behalf of students for scholarships and fellowships totaling \$19 million; and other operating receipts of \$4.7 million. The decrease in cash used from operating activities was due primarily to increases in net student tuition and fees and other operating receipts, offset by a decrease in grants and contracts receipts and an increase in payments to suppliers for goods and services as compared to the prior fiscal year.

Major sources of funds included in noncapital financing activities are from State noncapital appropriations of \$66.3 million; Federal and State student financial aid of \$33.6 million; Federal direct loan program receipts of \$61 million; and other nonoperating receipts of \$5.2 million. The major use of funds was Federal direct loan program disbursements of \$61 million. The decrease in cash provided by noncapital financing activities resulted primarily from a decrease in State noncapital appropriations receipts of \$4.8 million and Federal and State student financial aid of \$1.5 million, offset by an increase in other nonoperating receipts of \$4 million as compared to the prior fiscal year.

Cash used by capital and related financing activities was \$24.9 million, comprised of \$17.8 million paid for purchase or construction of capital assets and \$2.9 million of principal and \$6.5 million of interest paid on capital debt and leases, offset by receipts of \$2.3 million.

Cash provided by investing activities was \$11.3 million from the net sales and maturities of investments.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2013, the University had \$661.9 million in capital assets, less accumulated depreciation of \$210.6 million, for net capital assets of \$451.3 million. Depreciation charges for the current fiscal year totaled \$20.4 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30 (In Thousands)

	2013	2012
Land	\$ 12,863	\$ 12,863
Construction in Progress	4,418	47,389
Buildings	391,381	356,775
Infrastructure and Other Improvements	25,951	24,197
Furniture and Equipment	8,929	7,797
Library Resources	5,882	7,330
Property Under Capital Lease and Leasehold Improvements	194	138
Computer Software	1,707	1,790
Capital Assets, Net	\$ 451,325	\$ 458,279

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

CAPITAL EXPENSES AND COMMITMENTS

The major University capital project as of June 30, 2013, was the Club House and Pool Facility, with a total capital commitment of \$6.7 million, capital expenses of \$1.3 million, and a remaining commitment of \$5.4 million. The University's total major construction commitments at June 30, 2013, are as follows:

	Amount (In Thousands)
Total Committed	\$10,732
Completed to Date	<u>4,418</u>
Balance Committed	<u>\$ 6,314</u>

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

DEBT ADMINISTRATION

As of June 30, 2013, the University had \$148.9 million in outstanding capital improvement debt payable, bonds payable, and a capital lease payable, representing a decrease of \$3 million, or 2 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)		
	2013	2012
Capital Improvement Debt Payable	\$ 14,856	\$ 15,276
Bonds Payable	134,019	136,586
Installment Purchase Payable		64
Capital Lease Payable	50	
Total	<u>\$ 148,925</u>	<u>\$ 151,926</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 University's economic condition is closely tied to that of the State of Florida. Because of limited economic growth and increased demand for State resources, a modest increase in State funding is anticipated in the 2013-14 fiscal year. There was a small tuition increase of 1.7 percent based on the rate of inflation. Regarding the University's legislative priorities, the Legislature provided a salary increase for State university employees of \$1,000 for employees making more than \$40,000 a year and \$1,400 for employees making \$40,000 or less. In addition, the University's Board of Trustees approved a salary increase of 2 percent, merit or across the board based on employee classification. The raises were effective October 2013. The Legislature also approved an additional \$600 discretionary one-time bonus that will be available to 35 percent of the campus workforce in June 2014 based on performance reviews and management discretion, and restored \$7.25 million in funding that was reduced in the prior fiscal year. In addition, \$95 million was appropriated to the State University System (SUS), of which \$50 million will be distributed to nine SUS institutions, including UNF, based on university performance. Finally, despite the lack of available Public Education Capital Outlay funding, the University will receive \$1.4 million for critical deferred maintenance and \$4 million toward the renovation cost of Skinner-Jones Hall North.

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, Hicks Hall, Suite 2200, Jacksonville, Florida 32224-2648.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF NORTH FLORIDA A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET POSITION June 30, 2013

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 106,744.43	\$ 751,004.00
Investments	74,552,870.62	
Accounts Receivable, Net	6,409,696.98	335,928.00
Pledges Receivable, Net		1,147,295.00
Due from State	1,491,376.80	
Inventories	214,599.53	62,953.00
Other Current Assets	5,654.19	107,030.00
Total Current Assets	82,780,942.55	2,404,210.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	79,867.60	3,392,294.00
Investments		1,305,710.00
Restricted Investments	10,681,185.25	88,428,766.00
Loan and Note Receivable from Component Unit	500,000.00	
Loans and Notes Receivable, Net		4,755,403.00
Pledges Receivable, Net		1,690,631.00
Depreciable Capital Assets, Net	434,044,577.88	15,295,385.00
Nondepreciable Capital Assets	17,280,903.16	3,307,556.00
Deferred Bond Issuance Costs, Net	1,619,464.71	554,267.00
Total Noncurrent Assets	464,205,998.60	118,730,012.00
Total Assets	546,986,941.15	121,134,222.00
LIABILITIES		
Current Liabilities:		
Temporary Cash Overdraft	1,315,630.81	
Accounts Payable	3,893,895.13	532,288.00
Construction Contracts Payable	1,030,259.36	
Salaries and Wages Payable	1,361,878.86	
Deposits Payable	4,608,302.84	
Unearned Revenue	801,551.18	347,897.00
Accrued Interest Payable	1,171,721.74	
Other Current Liabilities	170,133.33	559,430.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	2,940,000.00	
Capital Improvement Debt Payable	420,000.00	
Loans and Notes Payable		1,616,219.00
Capital Lease Payable	15,549.85	
Compensated Absences Payable	1,276,614.25	95,049.00
Total Current Liabilities	19,005,537.35	3,150,883.00

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2013

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 131,078,776.92	\$
Capital Improvement Debt Payable	14,436,227.32	
Loans and Notes Payable		14,415,038.00
Loans and Notes Payable to University		500,000.00
Capital Lease Payable	34,213.84	
Compensated Absences Payable	11,489,528.21	253,045.00
Other Postemployment Benefits Payable	18,950,000.00	
Unearned Revenues	4,800,000.00	
Other Noncurrent Liabilities		162,902.00
Total Noncurrent Liabilities	180,788,746.29	15,330,985.00
Total Liabilities	199,794,283.64	18,481,868.00
NET POSITION		
Net Investment in Capital Assets	304,020,177.82	3,314,445.00
Restricted for Nonexpendable:		
Endowment		84,181,773.00
Other		289,741.00
Restricted for Expendable:		
Debt Service	9,750,294.66	
Capital Projects	630,249.70	
Other	3,778,557.36	14,922,855.00
Unrestricted	29,013,377.97	(56,460.00)
TOTAL NET POSITION	\$ 347,192,657.51	\$ 102,652,354.00

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$31,990,676.74 (\$1,724,342.12 Pledged for the Student Union Revenue Bonds and \$1,180,596.58 Pledged for the Student Wellness Center Revenue Bonds)	\$ 69,658,429.46	\$
Federal Grants and Contracts	5,955,445.97	
State and Local Grants and Contracts	1,148,640.45	
Nongovernmental Grants and Contracts	1,954,342.15	
Sales and Services of Educational Departments	4,704,081.23	
Sales and Services of Auxiliary Enterprises (\$17,318,002 Pledged for Housing Facility Revenue Bonds and \$3,310,003.15 Pledged for the Parking System Revenue Bonds)	22,819,887.20	
Other Operating Revenues	4,233,124.62	13,661,324.00
Total Operating Revenues	<u>110,473,951.08</u>	<u>13,661,324.00</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	136,881,405.92	714,669.00
Services and Supplies	44,920,594.92	15,761,224.00
Utilities and Communications	9,493,602.21	
Scholarships, Fellowships, and Waivers	19,031,958.92	
Depreciation	20,402,119.41	869,808.00
Total Operating Expenses	<u>230,729,681.38</u>	<u>17,345,701.00</u>
Operating Loss	<u>(120,255,730.30)</u>	<u>(3,684,377.00)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	66,345,446.00	
Federal and State Student Financial Aid	33,584,763.00	
Investment Income	1,521,495.20	9,451,117.00
Other Nonoperating Revenues	8,886,244.90	
Loss on Disposal of Capital Assets	(55,405.59)	
Interest on Capital Asset-Related Debt	(6,530,583.12)	(1,121,034.00)
Other Nonoperating Expenses	(3,106,966.86)	
Net Nonoperating Revenues	<u>100,644,993.53</u>	<u>8,330,083.00</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	<u>(19,610,736.77)</u>	<u>4,645,706.00</u>
Capital Grants, Contracts, Donations, and Fees	1,664,091.11	
Additions to Permanent Endowments		3,403,526.00
Increase (Decrease) in Net Position	<u>(17,946,645.66)</u>	<u>8,049,232.00</u>
Net Position, Beginning of Year	365,139,303.17	94,603,122.00
Net Position, End of Year	<u>\$ 347,192,657.51</u>	<u>\$ 102,652,354.00</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, 2013

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 69,298,419.74
Grants and Contracts	9,483,586.07
Sales and Services of Educational Departments	4,704,081.23
Sales and Services of Auxiliary Enterprises	22,824,975.17
Payments to Employees	(130,727,266.46)
Payments to Suppliers for Goods and Services	(53,704,954.45)
Payments to Students for Scholarships and Fellowships	(19,031,958.92)
Other Operating Receipts	4,741,117.59
Net Cash Used by Operating Activities	<u>(92,412,000.03)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	66,345,446.00
Federal and State Student Financial Aid	33,584,763.00
Federal Direct Loan Program Receipts	61,032,646.00
Federal Direct Loan Program Disbursements	(61,013,870.00)
Net Change in Funds Held for Others	(35,069.08)
Other Nonoperating Receipts	5,152,010.21
Net Cash Provided by Noncapital Financing Activities	<u>105,065,926.13</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	968,378.11
Capital Grants, Contracts, Donations, and Fees	777,271.34
Proceeds from Sale of Capital Assets	10,450.00
Other Receipts for Capital Projects	615,547.31
Purchase or Construction of Capital Assets	(17,835,049.18)
Principal Paid on Capital Debt and Leases	(2,928,515.15)
Interest Paid on Capital Debt and Leases	(6,530,583.12)
Net Cash Used by Capital and Related Financing Activities	<u>(24,922,500.69)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	236,242,641.51
Purchase of Investments	(227,515,251.61)
Investment Income	2,537,403.78
Net Cash Provided by Investing Activities	<u>11,264,793.68</u>
Net Decrease in Cash and Cash Equivalents	(1,003,780.91)
Cash and Cash Equivalents, Beginning of Year	<u>1,190,392.94</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 186,612.03</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, 2013

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (120,255,730.30)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	20,402,119.41
Change in Assets and Liabilities:	
Receivables, Net	156,935.70
Inventories	13,729.14
Loans and Notes Receivable	211,214.00
Other Assets	168,588.72
Accounts Payable	367,572.02
Deposits Payable	17,372.41
Compensated Absences Payable	657,139.46
Unearned Revenue	192,706.61
Other Liabilities	159,352.80
Other Postemployment Benefits Payable	5,497,000.00
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (92,412,000.03)</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 position, but are not cash transactions for the statement of cash flows.	\$ 1,015,908.58
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ (55,405.59)
Donations of capital assets were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 886,819.77

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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. 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. Condensed financial statements for the University's blended component unit are shown in a subsequent note.

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 to assist the

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services and are governed by separate boards. 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 Foundation, Inc. (Foundation), solicits, invests, administers, and distributes private gifts for the funding of activities and facilities directly related to the mission, role, and scope of the University. This organization provides funding and services to support and foster the pursuit of higher education at the University. Although the Foundation is chartered as a private not-for-profit corporation, it operates solely for the benefit of the University and its mission of teaching, research, and service. The Foundation serves as the vehicle whereby taxpayers who want to advance the cause of higher education and to pay more than their share of the cost of education may do so. The Foundation does not serve any private causes, but generally benefits the public.
- The University of North Florida Training and Service Institute, Inc. (TSI), conducts, accounts for, and reports on special educational and training programs and related specialized activities. 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 Position

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

➤ Other Required Supplementary Information

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

The University's blended and discretely presented component units use the economic resources measurement focus and 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.

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 position 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 position 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, 2013

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 unit, the Financing Corporation, hold \$160,700.69 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; property under capital lease and 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 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
 - Computer Equipment – 2 to 10 years
 - Moveable Equipment – 3 to 20 years
- Library Resources – 5 to 10 years
- Property Under Capital Lease and Leasehold Improvements – 5 to 15 years
- Computer Software – 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, as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

- 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, capital lease 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 position. 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 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, 2013, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 844,150.90
SBA Fund B Surplus Funds Trust Fund	1,235,544.61
United States Government Obligations	11,290,743.21
Federal Agency Obligations	25,681,013.72
Bonds and Notes	46,182,603.43
Total University Investments	<u>\$ 85,234,055.87</u>

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

External Investment Pools

The University reported investments at fair value totaling \$844,150.90 at June 30, 2013, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.65 years, and had a fair value factor of 0.9975 at June 30, 2013. 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, 2013, the University reported investments at fair value of \$1,235,544.61 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 1.11845939 at June 30, 2013. The weighted-average life (WAL) of Fund B at June 30, 2013, was 3.98 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, 2013. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

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 \$83,154,360.36 at June 30, 2013. 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, 2013, were as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less Than 1	1 - 5	6-10
United States Government Obligations	\$ 11,290,743.21	\$ 1,108,874.66	\$ 10,181,868.55	\$
Federal Agency Obligations	25,681,013.72	2,154,276.63	23,418,344.11	108,392.98
Bonds and Notes	46,182,603.43	5,137,839.35	40,380,916.35	663,847.73
Total	\$ 83,154,360.36	\$ 8,400,990.64	\$ 73,981,129.01	\$ 772,240.71

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, 2013, the University had \$11,290,743.21 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, 2013, 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	\$ 25,681,013.72	\$ 427,024.84	\$ 25,253,988.88	\$
Bonds and Notes	46,182,603.43	1,782,824.01	12,596,799.25	31,802,980.17
Total	\$ 71,863,617.15	\$ 2,209,848.85	\$ 37,850,788.13	\$ 31,802,980.17

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

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

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

Discretely Presented Component Units Investments

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

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The Foundation reported investments totaling \$88,428,766. 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, 2013, the Foundation had approximately 86 percent (\$76,242,916) of its total portfolio invested in global equities and fixed-income funds, private equity funds, and an absolute return fund. The funds' 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, 2013, and June 30, 2012, and may be obtained from the Director, University of North Florida TSI/Foundation Accounting, Hicks Hall, Suite 2900, 1 UNF Drive, Jacksonville, Florida 32224-2648.

The TSI reported investments totaling \$642,399. 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 "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 limiting the duration of mid-term and long-term investments.

MOCA reported investments totaling \$663,311. MOCA's investments consist of money market funds, fixed-income mutual funds, and equity mutual funds.

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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. In accordance with the policy of the MOCA's Board, MOCA received a spending allocation of \$59,000 from the fine arts endowment fund during the 2012-13 fiscal year. The spending allocation is determined by MOCA's Board within the range of 3 to 5 percent of the average fair value of the endowed investments for the prior year and is to be utilized for unrestricted purposes. The endowment fund had a balance of \$637,851 at July 1, 2012, reported income of \$45,816, the spending allocation expense of \$59,000, and had a balance of \$624,667 at June 30, 2013, 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, 2013, and consisted of the following:

<u>Investment Type</u>	<u>Amount</u>
United States Government Bonds and Federal Agency Securities	\$ 5,172,045
Corporate Bonds	3,435,736
Real Estate Mutual Funds	33,738
Fixed-Income Mutual Funds	852,341
Equity Mutual Funds	1,585,765
Absolute Return Fund	10,380,653
Global Equities Funds	35,358,717
Global Fixed-Income Fund	5,722,877
Hedge Funds	378,438
Private Equity Funds	24,780,669
Real Assets Fund	1,991,229
Money Market Funds	42,268
Total Foundation, TSI, and MOCA Investments	<u>\$ 89,734,476</u>

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 component units manage exposure to declines in fair value occurring from increasing interest rates through the specific identification method and maintaining diversification of investments and investment maturities so as to minimize the impact of downturns in the market. Investments of these component units by investment type and their future maturities at June 30, 2013, are as follows:

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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 Agencies	\$ 5,172,045	\$ 1,015,772	\$ 4,156,273	\$
Global Fixed-Income Mutual Fund (1)	5,722,877			
Corporate Bonds	3,435,736	127,718	3,182,352	125,666
Fixed-Income Mutual Fund	233,965			233,965
Total	\$ 14,564,623	\$ 1,143,490	\$ 7,338,625	\$ 359,631
The University of North Florida				
Training and Services Institute, Inc.				
Fixed-Income Mutual Funds	\$ 235,598	\$	\$	\$ 235,598
Museum of Contemporary Art Jacksonville, Inc.				
Fixed-Income Mutual Funds	\$ 382,778	\$	\$ 232,485	\$ 150,293

Note: (1) Investment maturity information was not available for this investment type.

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, 2013, 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	\$ 5,172,045	\$ 665,631	\$ 1,923,875	\$ 2,582,539	\$
Corporate Bonds	3,435,736		752,353	2,683,383	
Fixed-Income Mutual Funds	852,341		235,598		616,743
Equity Mutual Funds	1,585,765				1,585,765 (2)
Real Estate Mutual Funds	33,738				33,738 (2)
Absolute Return Fund	10,380,653				10,380,653 (2)
Global Equities Funds	35,358,717				35,358,717 (2)
Global Fixed-Income Fund	5,722,877				5,722,877
Hedge Funds	378,438				378,438 (2)
Private Equity Funds	24,780,669				24,780,669 (2)
Real Assets Fund	1,991,229				1,991,229 (2)
Money Market Fund	42,268				42,268
Total Foundation, TSI, and MOCA Investments	\$ 89,734,476	\$ 665,631	\$ 2,911,826	\$ 5,265,922	\$ 80,891,097

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 do not have formal investment policies that address custodial credit risk.

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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 does not have a formal investment policy that addresses 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, student housing rentals, contract and grant reimbursements due from third parties, and student fee deferments. As of June 30, 2013, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 5,121,175.50
Student Housing Rentals	605,262.91
Contracts and Grants	422,251.28
Other	261,007.29
Total Accounts Receivable	<u>\$ 6,409,696.98</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 \$140,971.64 at June 30, 2013.

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, 2013 the University had loans and notes receivable from the Foundation and MOCA as shown below:

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

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In December 2007, the University acquired the Alumni Hall building, which was partially financed with a \$1 million note from the Foundation. The note was paid in full during the 2012-13 fiscal year. In April 2009, the University's Board of Trustees authorized providing a revolving line of credit to MOCA, 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 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 \$155,837 for the Foundation and \$658 for MOCA.

4. DUE FROM STATE

This amount consists of \$1,491,376.80 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. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 12,863,268.61	\$	\$	\$ 12,863,268.61
Construction in Progress	47,388,649.64	9,404,898.44	52,375,913.53	4,417,634.55
Total Nondepreciable Capital Assets	\$ 60,251,918.25	\$ 9,404,898.44	\$ 52,375,913.53	\$ 17,280,903.16
Depreciable Capital Assets:				
Buildings	\$ 477,394,322.12	\$ 48,256,072.00	\$ 73,204.20	\$ 525,577,189.92
Infrastructure and Other Improvements	40,021,684.87	4,018,372.94		44,040,057.81
Furniture and Equipment	23,032,481.33	3,408,053.59	463,459.38	25,977,075.54
Library Resources	39,543,251.53	207,064.02		39,750,315.55
Property Under Capital Lease and Leasehold Improvements	142,545.54	83,161.00		225,706.54
Computer Software	8,595,776.46	502,271.46		9,098,047.92
Total Depreciable Capital Assets	588,730,061.85	56,474,995.01	536,663.58	644,668,393.28
Less, Accumulated Depreciation:				
Buildings	120,618,700.05	13,608,686.71	30,959.38	134,196,427.38
Infrastructure and Other Improvements	15,824,909.06	2,264,589.35		18,089,498.41
Furniture and Equipment	15,235,617.72	2,262,282.91	450,298.61	17,047,602.02
Library Resources	32,213,410.06	1,654,693.79		33,868,103.85
Property Under Capital Lease and Leasehold Improvements	4,751.52	26,135.24		30,886.76
Computer Software	6,805,565.57	585,731.41		7,391,296.98
Total Accumulated Depreciation	190,702,953.98	20,402,119.41	481,257.99	210,623,815.40
Total Depreciable Capital Assets, Net	\$ 398,027,107.87	\$ 36,072,875.60	\$ 55,405.59	\$ 434,044,577.88

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Combined capital assets activity for the University's discretely presented component units for the fiscal year ended June 30, 2013, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 3,307,556	\$	\$	\$ 3,307,556
Total Nondepreciable Capital Assets	\$ 3,307,556	\$	\$	\$ 3,307,556
Depreciable Capital Assets:				
Buildings	\$ 14,100,634	\$	\$	\$ 14,100,634
Leasehold Improvements	5,951,106			5,951,106
Furniture and Equipment	521,605			521,605
Total Depreciable Capital Assets	20,573,345			20,573,345
Less, Accumulated Depreciation:				
Buildings	1,222,054	564,025		1,786,079
Leasehold Improvements	2,676,107	300,884		2,976,991
Furniture and Equipment	509,991	4,899		514,890
Total Accumulated Depreciation	4,408,152	869,808		5,277,960
Total Depreciable Capital Assets, Net	\$ 16,165,193	\$ 869,808	\$	\$ 15,295,385

6. 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, 2013. This did not, however, represent an overdraft in the University's depository account.

7. UNEARNED REVENUE

Unearned 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, 2013, the University reported unearned revenue of \$5,601,551.18, of which \$5,400,000 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 ten-year period beginning July 1, 2012. However, the unamortized portion of these funds is repayable by the University to the food service provider if the agreement is not renewed or is terminated prior to June 30, 2022.

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2013, include bonds payable, capital improvement debt payable, a capital lease payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2013, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 136,586,017.60	\$	\$ 2,567,240.68	\$ 134,018,776.92	\$ 2,940,000.00
Capital Improvement Debt Payable	15,275,595.52		419,368.20	14,856,227.32	420,000.00
Installment Purchase Payable	63,918.92		63,918.92		
Capital Lease Payable		64,359.92	14,596.23	49,763.69	15,549.85
Compensated Absences Payable	12,109,003.00	2,043,849.77	1,386,710.31	12,766,142.46	1,276,614.25
Other Postemployment Benefits Payable	13,453,000.00	6,303,000.00	806,000.00	18,950,000.00	
Total Long-Term Liabilities	\$ 177,487,535.04	\$ 8,411,209.69	\$ 5,257,834.34	\$ 180,640,910.39	\$ 4,652,164.10

Bonds Payable. The University had the following bonds payable outstanding at June 30, 2013:

Bond Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date
Capital Improvement Revenue Bonds:				
Student Union Project, Series 2007	\$ 21,235,000.00	\$ 19,700,000.00	4.00 - 5.00	11-01-2037
Housing Project, Series 2007	111,185,000.00	103,865,000.00	5.00	11-01-2037
Parking System, Series 1998, Remarketed	9,600,000.00	7,400,000.00	(1)	05-01-2028
Total Capital Improvement Revenue Bonds	142,020,000.00	130,965,000.00		
Add: Unamortized Bond Premiums		3,053,776.92		
Total Capital Improvement Debt	\$ 142,020,000.00	\$ 134,018,776.92		

Note: (1) The Parking System, Series 1998, Remarketed Bonds have a variable interest rate, which was 0.056786 percent as of June 30, 2013.

During the 2006-07 fiscal year, Student Union Project and Student Housing Project bonds were issued by the 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 Foundation, and refund the existing debt on housing facilities; (3) purchase reserve products (bond insurance); (4) pay capitalized interest; and (5) pay the costs of issuance of the Series 2007 bonds.

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

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prepaid rent is amortized and, as shown in note 14, the University reported remaining prepaid rent payable to the Financing Corporation of \$83,574,467 at June 30, 2013.

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 Investor Services 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 position.

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 0.056786 percent at June 30, 2013. 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, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,940,000.00	\$ 6,094,339.66	\$ 9,034,339.66
2015	3,590,000.00	5,957,434.40	9,547,434.40
2016	4,170,000.00	5,792,109.85	9,962,109.85
2017	4,355,000.00	5,607,813.42	9,962,813.42
2018	4,550,000.00	5,414,191.99	9,964,191.99
2019-2023	26,035,000.00	23,771,641.59	49,806,641.59
2024-2028	28,950,000.00	17,361,008.95	46,311,008.95
2029-2033	25,950,000.00	10,859,500.00	36,809,500.00
2034-2038	30,425,000.00	3,954,375.00	34,379,375.00
Subtotal	130,965,000.00	84,812,414.86	215,777,414.86
Add: Unamortized Bond Premiums	3,053,776.92		3,053,776.92
Total	\$ 134,018,776.92	\$ 84,812,414.86	\$ 218,831,191.78

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2013:

<u>Capital Improvement Debt Type and Series</u>	<u>Amount of Original Debt</u>	<u>Amount Outstanding (1)</u>	<u>Interest Rates (Percent) (2)</u>	<u>Maturity Date</u>
Capital Improvement Debt				
2010A - Student Wellness Center	\$ 2,575,000.00	\$ 1,796,227.32	3.00	11-01-2016
2010B - Student Wellness Center	13,060,000.00	13,060,000.00	4.00 - 7.50	11-01-2035
Total Capital Improvement Debt	\$ 15,635,000.00	\$ 14,856,227.32		

Notes: (1) Amount outstanding includes unamortized premium.

(2) Interest payments on the Series 2010A Bonds are tax exempt to the bondholders, while interest payments on the 2010B Bonds are taxable.

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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 University has pledged a portion of future Student Wellness Center fees to repay \$15,275,595.52 in capital improvement bonds issued by the Florida 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 the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$28,326,752.32, and principal and interest paid for the current year totaled \$1,453,521.67. During the 2012-13 fiscal year, Student Wellness Center fee assessments totaled \$1,180,596.58, while interest subsidies received for the bonds totaled \$438,477.31.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	475,000.00	849,800.00	1,324,800.00
2019-2023	2,615,000.00	3,885,000.00	6,500,000.00
2024-2028	3,160,000.00	3,037,737.50	6,197,737.50
2029-2033	3,945,000.00	1,823,800.00	5,768,800.00
2034-2036	2,865,000.00	329,062.50	3,194,062.50
Subtotal	14,825,000.00	13,470,525.00	28,295,525.00
Add: Unamortized Bond Premiums	31,227.32		31,227.32
Total	\$ 14,856,227.32	\$ 13,470,525.00	\$ 28,326,752.32

Capital Lease Payable. The University entered into a capital lease agreement to acquire an ultrasound machine with a cost of \$83,161 and an interest rate of 6.53 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2013, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2014	\$ 18,801.08
2015	18,801.08
2016	18,801.08
Total Minimum Payments	56,403.24
Less, Amount Representing Interest	6,639.55
Present Value of Minimum Payments	\$ 49,763.69

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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, 2013, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$12,766,142.46. The current portion of the compensated absences liability, \$1,276,614.25, is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three fiscal years calculated as a percentage of those three years' total compensated absences liability.

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 2012-13 fiscal year, 201 retirees received postemployment healthcare benefits. The University provided required contributions of \$806,000 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 \$1,243,000, which represents 1.38 percent of covered payroll.

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.

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The following table shows the University's annual OPEB cost for the fiscal year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 3,882,000
Amortization of Unfunded Actuarial Accrued Liability	2,109,000
Interest on Normal Cost and Amortization	240,000
Annual Required Contribution	6,231,000
Interest on Net OPEB Obligation	538,000
Adjustment to Annual Required Contribution	(466,000)
Annual OPEB Cost (Expense)	6,303,000
Contribution Toward the OPEB Cost	(806,000)
Increase in Net OPEB Obligation	5,497,000
Net OPEB Obligation, Beginning of Year	13,453,000
Net OPEB Obligation, End of Year	\$ 18,950,000

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013, 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>
2010-11	\$ 3,459,000	16.2%	\$ 7,904,000
2011-12	6,268,000	11.5%	13,453,000
2012-13	6,303,000	12.8%	18,950,000

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 \$90,299,933 for the 2012-13 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 67.9 percent.

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

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

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2013, and the University's 2012-13 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 and an inflation rate of 3 percent. Initial healthcare cost trend rates were 8.29 percent, 9.16 percent, and 8.13 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 10.43 percent, 4.92 percent, and 8.80 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, 2013, was 24 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	\$11,180,357	\$	\$ 807,000	\$10,373,357	\$ 929,800
Promissory Note Payable in Monthly Installments of Principal and Interest at 4.7 Percent	1,070,334		350,598	719,736	367,437
Loan Payable to Foundation Payable in Full or in Part Prior to Maturity on May 20, 2021, at 4.5 Percent (1)	3,801,987	393,416		4,195,403	
Total	\$16,052,678	\$393,416	\$1,157,598	\$15,288,496	\$1,297,237

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.

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

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>
2014	\$ 1,297,237
2015	1,417,083
2016	1,213,055
2017	1,375,802
2018	1,554,329
2019-2021	4,235,587
Total	<u>\$ 11,093,093</u>

Loans and notes payable at June 30, 2013, for MOCA are as follows:

<u>Description</u>	<u>Current</u>	<u>Noncurrent</u>
Regions Bank line of credit (\$375,982) with interest payable monthly at one month LIBOR plus 3.5 percent, maturity of August 1, 2013. Loan collateralized by eligible pledges receivable.	\$ 318,982	\$
Revolving line of credit (\$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 MOCA 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.		423,779
Total	<u>\$ 318,982</u>	<u>\$ 923,779</u>

9. 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS 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 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.

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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 2012-13 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	5.18
Florida Retirement System, Senior Management Service	3.00	6.30
Florida Retirement System, Special Risk	3.00	14.90
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	5.44
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, 2011, June 30, 2012, and June 30, 2013, totaled \$4,068,719.24, \$2,699,768.82, and \$2,749,273.06, respectively, which were equal to the required contributions for each fiscal year.

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There were 266 University participants in the Investment Plan during the 2012-13 fiscal year. The University's contributions, including employee contributions, to the Investment Plan totaled \$774,053.38, which was equal to the required contribution for the 2012-13 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 FRS for eight 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, 5.64 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 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 814 University participants during the 2012-13 fiscal year. The University's contributions to the Program totaled \$2,723,245.49 and employee contributions totaled \$2,492,069.33 for the 2012-13 fiscal year.

10. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2013, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Club House and Pool Facility	\$ 6,731,400.00	\$ 1,329,120.13	\$ 5,402,279.87
Other Projects	4,000,723.03	3,088,514.42	912,208.61
Total	\$ 10,732,123.03	\$ 4,417,634.55	\$ 6,314,488.48

11. 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

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discrimination liability. During the 2012-13 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 \$50 million for named windstorm and flood losses. 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.

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.

12. 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 position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

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<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 74,465,489.63
Research	5,215,037.76
Public Services	4,533,594.32
Academic Support	21,607,867.98
Student Services	18,963,500.53
Institutional Support	22,680,961.15
Operation and Maintenance of Plant	16,193,030.22
Scholarships, Fellowships, and Waivers	19,031,958.92
Depreciation	20,402,119.41
Auxiliary Enterprises	27,636,121.46
Total Operating Expenses	<u>\$ 230,729,681.38</u>

13. 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 Position

	<u>Parking System</u>	<u>Housing System</u>	<u>Student Union</u>	<u>Student Wellness Center</u>
Assets				
Current Assets	\$ 13,423,102.95	\$ 5,938,872.40	\$ 542,159.16	\$ 1,315,575.94
Capital Assets, Net	8,636,411.19	102,964,273.99	45,040,498.73	19,763,569.51
Other Noncurrent Assets	55,480.30	9,275,933.28	1,555,921.36	240,226.19
Total Assets	<u>22,114,994.44</u>	<u>118,179,079.67</u>	<u>47,138,579.25</u>	<u>21,319,371.64</u>
Liabilities				
Current Liabilities	486,226.95	3,790,325.76	623,108.82	589,291.67
Noncurrent Liabilities	7,030,585.36	104,619,651.80	19,569,059.00	14,436,227.32
Total Liabilities	<u>7,516,812.31</u>	<u>108,409,977.56</u>	<u>20,192,167.82</u>	<u>15,025,518.99</u>
Net Position				
Net Investment in Capital Assets	1,291,891.49	(2,552,409.79)	25,046,439.73	5,147,568.38
Restricted for Debt Service		8,242,886.64	1,370,113.36	137,294.66
Restricted for Capital Projects				264,781.37
Unrestricted	13,306,290.64	4,078,625.26	529,858.34	744,208.24
Total Net Position	<u>\$ 14,598,182.13</u>	<u>\$ 9,769,102.11</u>	<u>\$ 26,946,411.43</u>	<u>\$ 6,293,852.65</u>

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

	Parking System	Housing System	Student Union	Student Wellness Center
Operating Revenues	\$ 3,310,003.15	\$ 17,318,002.00	\$ 1,724,342.12	\$ 1,180,596.58
Depreciation Expense	(1,101,604.28)	(3,721,184.32)	(1,316,925.50)	(276,626.40)
Other Operating Expenses	(1,020,498.74)	(7,824,978.76)	(1,360,436.97)	(588,920.51)
Operating Income (Loss)	1,187,900.13	5,771,838.92	(953,020.35)	315,049.67
Nonoperating Revenues (Expenses):				
Nonoperating Revenues	358,360.72	379,259.15	2,667,093.68	1,250,935.03
Interest Expense	(14,199.99)	(5,165,183.96)	(963,198.55)	(446,503.80)
Other Nonoperating Expenses	(810,524.42)	(2,798,553.61)	(1,613,627.05)	(18,024.55)
Net Nonoperating Revenues (Expenses)	(466,363.69)	(7,584,478.42)	90,268.08	786,406.68
Increase (Decrease) in Net Position	721,536.44	(1,812,639.50)	(862,752.27)	1,101,456.35
Net Position, Beginning of Year	13,876,645.69	11,581,741.61	27,809,163.70	5,192,396.30
Net Position, End of Year	\$ 14,598,182.13	\$ 9,769,102.11	\$ 26,946,411.43	\$ 6,293,852.65

Condensed Statement of Cash Flows

	Parking System	Housing System	Student Union	Student Wellness Center
Net Cash Provided (Used) by:				
Operating Activities	\$ 1,905,725.13	\$ 9,612,811.52	\$ 1,168,867.40	\$ 1,389,624.20
Noncapital Financing Activities	(483,744.72)	(1,535,025.79)	127,077.59	(4,158.51)
Capital and Related Financing Activities	(422,281.19)	(7,223,166.85)	(1,364,210.04)	(1,419,788.55)
Investing Activities	356,653.70	218,066.00	17,700.04	6,661.31
Net Increase (Decrease) in Cash and Cash Equivalents	1,356,352.92	1,072,684.88	(50,565.01)	(27,661.55)
Cash and Cash Equivalents, Beginning of Year	11,842,573.12	4,256,070.42	469,011.54	845,898.29
Cash and Cash Equivalents, End of Year	\$ 13,198,926.04	\$ 5,328,755.30	\$ 418,446.53	\$ 818,236.74

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:

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Condensed Statement of Net Position

	UNF TSI Investments, LLC
Assets	
Current Assets	\$ 47,833
Capital Assets, Net	<u>15,622,111</u>
Total Assets	<u>15,669,944</u>
Liabilities	
Current Liabilities	1,756,395
Noncurrent Liabilities	<u>13,991,259</u>
Total Liabilities	<u>15,747,654</u>
Net Position	
Net Investment in Capital Assets	333,615
Unrestricted	<u>(411,325)</u>
Total Net Position	<u>\$ (77,710)</u>

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

	UNF TSI Investments, LLC
Operating Revenues	\$ 1,703,898
Depreciation Expense	(564,025)
Other Operating Expenses	<u>(2,500)</u>
Operating Income	<u>1,137,373</u>
Nonoperating Expenses	
Interest Expense	<u>(1,108,030)</u>
Net Nonoperating Expenses	<u>(1,108,030)</u>
Increase in Net Position	29,343
Net Position, Beginning of Year	<u>(107,053)</u>
Net Position, End of Year	<u>\$ (77,710)</u>

Condensed Statement of Cash Flows

	UNF TSI Investments, LLC
Net Cash Provided (Used) by:	
Noncapital Financing Activities	\$ (213,632)
Capital and Related Financing Activities	<u>213,632</u>
Net Change in Cash and Cash Equivalents	
Cash and Cash Equivalents, Beginning of Year	<u> </u>
Cash and Cash Equivalents, End of Year	<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, 2013, totaled \$14,005,996.

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14. BLENDED COMPONENT UNIT

The University has one blended component unit as discussed in note 1. The following financial information is presented for the University's blended component unit:

Condensed Statement of Net Position

	UNF Financing Corporation, Inc.	University	Eliminations	Total Primary Government
Assets:				
Prepaid Rent Receivable from University	\$ 83,574,467.00	\$	\$ (83,574,467.00)	\$
Note Receivable from Blended CU		9,613,000.00	(9,613,000.00)	
Other Current Assets	1,139,273.00	82,672,130.55	(1,030,461.00)	82,780,942.55
Capital Assets, Net		451,325,481.04		451,325,481.04
Other Noncurrent Assets	10,962,323.00	1,918,194.56		12,880,517.56
Total Assets	95,676,063.00	545,528,806.15	(94,217,928.00)	546,986,941.15
Liabilities:				
Prepaid Rent Payable to Blended CU		83,574,467.00	(83,574,467.00)	
Note Payable To University	9,613,000.00		(9,613,000.00)	
Other Current Liabilities	3,972,127.00	16,063,871.35	(1,030,461.00)	19,005,537.35
Noncurrent Liabilities	131,078,777.00	49,709,969.29		180,788,746.29
Total Liabilities	144,663,904.00	149,348,307.64	(94,217,928.00)	199,794,283.64
Net Position:				
Net Investment in Capital Assets		304,020,177.82		304,020,177.82
Restricted - Expendable		14,159,101.72		14,159,101.72
Unrestricted	(48,987,841.00)	78,001,218.97		29,013,377.97
Total Net Position	\$ (48,987,841.00)	\$ 396,180,498.51	\$	\$ 347,192,657.51

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

	UNF Financing Corporation, Inc.	University	Eliminations	Total Primary Government
Operating Revenues	\$ 8,563,689.00	\$ 109,964,820.32	\$ (8,054,558.24)	\$ 110,473,951.08
Depreciation Expense		(20,402,119.41)		(20,402,119.41)
Other Operating Expenses	(9,684,512.00)	(201,386,667.53)	743,617.56	(210,327,561.97)
Operating Loss	(1,120,823.00)	(111,823,966.62)	(7,310,940.68)	(120,255,730.30)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	26,781.00	111,054,785.66	(743,617.56)	110,337,949.10
Interest Expense		(6,530,583.12)		(6,530,583.12)
Other Nonoperating Expense		(11,216,930.69)	8,054,558.24	(3,162,372.45)
Net Nonoperating Revenues	26,781.00	93,307,271.85	7,310,940.68	100,644,993.53
Other Revenues, Expenses, Gains, and Losses		1,664,091.11		1,664,091.11
Decrease in Net Position	(1,094,042.00)	(16,852,603.66)		(17,946,645.66)
Net Position, Beginning of Year	(47,893,799.00)	413,033,102.17		365,139,303.17
Net Position, End of Year	\$ (48,987,841.00)	\$ 396,180,498.51	\$	\$ 347,192,657.51

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Condensed Statement of Cash Flows

	UNF Financing Corporation, Inc.	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ (2,751.55)	\$ (99,720,189.16)	\$ 7,310,940.68	\$ (92,412,000.03)
Noncapital Financing Activities		112,376,866.81	(7,310,940.68)	105,065,926.13
Capital and Related Financing Activities		(24,922,500.69)		(24,922,500.69)
Investing Activities	(33,702.53)	11,298,496.21		11,264,793.68
Net Decrease in Cash and Cash Equivalents	(36,454.08)	(967,326.83)		(1,003,780.91)
Cash and Cash Equivalents, Beginning of Year	116,321.68	1,074,071.26		1,190,392.94
Cash and Cash Equivalents, End of Year	\$ 79,867.60	\$ 106,744.43	\$	\$ 186,612.03

15. DISCRETELY PRESENTED COMPONENT UNITS

The University has three discretely presented component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information for the fiscal year ended June 30, 2013, is from the most recently available audited financial statements for the component units:

Condensed Statement of Net Position

	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.	
Assets:				
Current Assets	\$ 1,769,473	\$ 471,601	\$ 163,136	\$ 2,404,210
Capital Assets, Net		15,622,111	2,980,830	18,602,941
Other Noncurrent Assets	98,230,992	1,202,399	693,680	100,127,071
Total Assets	100,000,465	17,296,111	3,837,646	121,134,222
Liabilities:				
Current Liabilities	375,170	2,298,285	477,428	3,150,883
Noncurrent Liabilities	162,902	14,244,304	923,779	15,330,985
Total Liabilities	538,072	16,542,589	1,401,207	18,481,868
Net Position:				
Net Investment in Capital Assets		333,615	2,980,830	3,314,445
Restricted Nonexpendable	83,846,847		624,667	84,471,514
Restricted Expendable	14,844,500		78,355	14,922,855
Unrestricted	771,046	419,907	(1,247,413)	(56,460)
Total Net Position	\$ 99,462,393	\$ 753,522	\$ 2,436,439	\$ 102,652,354

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

	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.	
Operating Revenues	\$ 5,662,989	\$ 6,341,719	\$ 1,656,616	\$ 13,661,324
Depreciation Expense		(564,025)	(305,783)	(869,808)
Operating Expenses	(10,084,802)	(4,713,413)	(1,677,678)	(16,475,893)
Operating Income (Loss)	(4,421,813)	1,064,281	(326,845)	(3,684,377)
Net Nonoperating Revenues (Expenses)				
Nonoperating Revenues	9,343,044	62,105	45,968	9,451,117
Interest Expense		(1,108,030)	(13,004)	(1,121,034)
Net Nonoperating Revenues (Expenses)	9,343,044	(1,045,925)	32,964	8,330,083
Additions to Permanent Endowments	3,403,526			3,403,526
Increase (Decrease) in Net Position	8,324,757	18,356	(293,881)	8,049,232
Net Position, Beginning of Year	91,137,636	735,166	2,730,320	94,603,122
Net Position, End of Year	\$ 99,462,393	\$ 753,522	\$ 2,436,439	\$ 102,652,354

**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 REQUIRED 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, 2013**

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

Receipt 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 Received in 2012-13 Fiscal Year	<u>(201,602.00)</u>
Amount Remaining to be Distributed as of June 30, 2013	<u>\$ 145,344.00</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	2012-13 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>\$201,602.00</u>	<u>\$145,344.00</u>
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- Notes:
- (1) Per City of Jacksonville Contract Number 9367 dated May 28, 2009, the original budget of \$523,525 was 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 of an error in recording revenues and receivables at June 30, 2012, that was corrected in the 2012-13 fiscal year.
 - (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, 2013**

**Small Business Development Center (2011-12 FY Grant)
Contract Administered by the City of Jacksonville Office of Economic Development**

Receipts of City Funds

Amount of Award (Per City of Jacksonville Budget)	\$ 98,940.00
Amount Received in 2011-12 Fiscal Year	(49,470.00)
Amount Received in 2012-13 Fiscal Year	<u>(49,470.00)</u>
Amount Remaining to be Distributed as of June 30, 2013	<u>\$ 0.00</u>

Expenditures of City Funds

Expenditure Category	City of Jacksonville Grant Budget	University Grant Budget	2011-12 Fiscal Year Expenditures	2012-13 Fiscal Year Expenditures	Carryforward
Compensation					
Salaries and Wages:					
Administrative and Professional	(1) \$ 77,046.00	\$ 46,780.00	\$ 26,467.71	\$ 19,498.41	\$ 813.88
USPS		10,915.00	6,933.64	4,677.93	(696.57)
USPS Overtime			186.65	(69.34)	(117.31)
Total Salaries and Wages		<u>57,695.00</u>	<u>33,588.00</u>	<u>24,107.00</u>	<u>0.00</u>
Employee Benefits:					
Fringe Chargeback Expense		19,351.00	11,142.82	7,138.82	1,069.36
ORSP Leave Allowance			560.99	508.37	(1,069.36)
Total Employee Benefits	(1)	<u>19,351.00</u>	<u>11,703.81</u>	<u>7,647.19</u>	<u>0.00</u>
Supplies					
Office Supplies - ORSP Office Materials and Supplies	1,289.00	<u>1,289.00</u>	<u>1,289.00</u>		<u>0.00</u>
Printing - ORSP Printing Charges	5,000.00	<u>5,000.00</u>	<u>3,996.70</u>	<u>1,003.30</u>	<u>0.00</u>
Travel					
ORSP In State Travel	2,700.00	<u>2,700.00</u>	<u>1,462.25</u>	<u>1,237.75</u>	<u>0.00</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>	<u>0.00</u>
Total Expenditures	<u>\$ 98,940.00</u>	<u>\$ 98,940.00</u>	<u>\$ 59,845.63</u>	<u>\$ 39,094.37</u>	<u>\$ 0.00</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, 2013**

**Small Business Development Center (2012-13 FY Grant)
Contract Administered by the City of Jacksonville Office of Economic Development**

Receipts of City Funds

Amount of Award (Per City of Jacksonville Budget)	\$ 98,940.00
Amount Received in 2012-13 Fiscal Year	<u>(49,470.00)</u>
Amount Remaining to be Distributed as of June 30, 2013	<u>\$ 49,470.00</u>

Expenditures of City Funds

Expenditure Category	City of Jacksonville Grant Budget	University Grant Budget	2012-13 Fiscal Year Expenditures	Carryforward
Compensation				
Salaries and Wages:				
Administrative and Professional	(1) \$ 77,046.00	\$ 46,780.00	\$ 36,427.75	\$ 10,352.25
USPS		10,915.00	7,826.77	3,088.23
USPS Overtime			165.59	(165.59)
Total Salaries and Wages		<u>57,695.00</u>	<u>44,420.11</u>	<u>13,274.89</u>
Employee Benefits:				
Fringe Chargeback Expense		19,351.00	14,556.15	4,794.85
ORSP Leave Allowance			865.67	(865.67)
Total Employee Benefits	(1)	<u>19,351.00</u>	<u>15,421.82</u>	<u>3,929.18</u>
Supplies				
Office Supplies - ORSP Office Materials and Supplies	1,289.00	<u>1,289.00</u>	<u>500.00</u>	<u>789.00</u>
Printing - ORSP Printing Charges	5,000.00	<u>5,000.00</u>	<u>2,250.00</u>	<u>2,750.00</u>
Travel				
ORSP In State Travel	2,700.00	<u>2,700.00</u>	<u>1,430.40</u>	<u>1,269.60</u>
Other				
ORSP Facilities and Admin Costs (Indirect Cost)	<u>12,905.00</u>	<u>12,905.00</u>	<u>9,603.36</u>	<u>3,301.64</u>
Total Expenditures	<u>\$ 98,940.00</u>	<u>\$ 98,940.00</u>	<u>\$ 73,625.69</u>	<u>\$ 25,314.31</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

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



PHONE: 850-412-2722
FAX: 850-488-6975

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

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

Report on the Financial Statements

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 18, 2013, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who 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 of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Management's response to the finding described in the **FINDINGS AND RECOMMENDATIONS** section of this report are included as Exhibit A. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 18, 2014

FINDING AND RECOMMENDATION

ADDITIONAL MATTER

Finding No. 1: Line of Credit and Cash Payments to a Direct-Support Organization

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 subject to the provision of this section, which include references to rules and guidelines of the Board of Governors.

Line of Credit. In our audit report Nos. 2013-139 and 2012-105, we noted that 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. As of June 30, 2011, the University had advanced \$500,000 from its auxiliary funds to MOCA and, as of June 30, 2013, no repayments had been received from MOCA on this line of credit.

In response to our inquiries on February 14, 2014, University personnel provided draft minutes from a MOCA Finance and Audit Committee meeting held on January 23, 2014, that indicated MOCA planned to repay the University \$25,000 in the 2013-14 fiscal year, and make payments of \$50,000 each fiscal year thereafter until the amount advanced was repaid. We were provided documentation of a \$25,000 payment from MOCA to the University on February 13, 2014. However, as of February 21, 2014, University records did not evidence that a formal repayment plan had been presented to the University's Board of Trustees (Board) for approval. A Board-approved formal repayment plan would provide a clear understanding to both parties on repayment of the advances and ensure that the repayment plan is consistent with the Board's intent to recover these funds. As of February 21, 2014, the University was still owed \$475,000 for advances made under the line of credit.

Cash Payments. During the 2012-13 fiscal year and through February 21, 2014, the University made three payments totaling \$481,049 to MOCA. The University reported these payments as operating expenses. Our review of documentation supporting these payments disclosed the following:

- On July 3, 2012, a payment of \$261,000 was made to MOCA to pay for salaries and benefits for certain MOCA personnel incurred during the 2011-12 fiscal year. University records indicated that MOCA reported this payment as revenue for the 2011-12 fiscal year, without which MOCA would have experienced an unrestricted deficit cash balance of \$258,090 at June 30, 2012. Although Section 1004.28(2), Florida Statutes, in part, provides that each State university board of trustees is authorized to permit the use of personal services (i.e., use of University personnel), there is no specific authority for the University to pay the salaries and benefits of employees working for a direct-support organization.
- On June 28, 2013, a payment of \$157,000 was made to MOCA to pay for salaries and benefits for certain MOCA personnel incurred during the 2011-12 fiscal year. University records indicated that without this payment, MOCA would have experienced an unrestricted deficit cash balance of \$47,532 at June 30, 2013.
- On December 19, 2013, subsequent to the 2012-13 fiscal year, a payment of \$63,049 was made to MOCA to partially pay the salaries and benefits for certain MOCA personnel incurred during the 2013-14 fiscal year. As

noted above, there is no specific authority for the University to pay the salaries and benefits of employees working for a direct-support organization.

In response to a prior audit finding regarding the University providing line of credit advances to a direct-support organization, University personnel indicated that “Specific statutory authority is not a condition to a university board’s permission to act.” In response to our inquiries regarding the cash payments to MOCA, University personnel indicated they consider the cash payments covering the cost of MOCA salaries to be consistent with the University’s practice of providing personal services to its direct-support organizations. However, the University possesses only the authority granted to it by statute or implied by its statutory authority. Although Section 1004.28(2), Florida Statutes, authorizes the University to permit use of property, facilities, and personal services to its direct-support organizations, we are unaware of any specific authority in Florida Statutes or Board of Governors regulations permitting the University to make loans or cash payments to a University direct-support organization.

Recommendation: In the absence of specific statutory authority, the University should discontinue the practice of making cash payments to its direct-support organization. The University should also seek to establish a formal repayment plan with MOCA and submit the plan to the University’s Board for approval, and continue its efforts to collect the \$475,000 outstanding for the line of credit owed by MOCA. Further, the University should seek to recover the \$481,049 in questioned cash transfers to MOCA.

Follow-up to Management’s Response

The University’s response to this finding indicates that the University has explicit statutory authority in Section 1004.28(2)(a), Florida Statutes, to permit a direct-support organization to use personal services of the University and, therefore, has the implied authority to pay for salaries and benefits of full-time MOCA employees. However, we disagree that the authority of the University to permit a direct-support organization to use personal services of the University necessarily implies the authority to pay salaries and benefits for the direct-support organization’s employees. Further, as noted by the Attorney General in Attorney General Opinion No. 97-58, any reasonable doubt as to the existence of a particular administrative power should be resolved against it exercise. As stated in our finding, we are unaware of any explicit statutory authority necessarily implied from an expressly granted power for the University to pay salaries and benefits for employees of a direct-support organization or to make loans to a direct-support organization.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for finding No. 1 included in our report No. 2013-139. The University had not taken corrective action for finding No. 2 in our audit report No. 2013-139 and finding No. 1 in our audit report No. 2012-105, which is included as finding No. 1 in this audit report.

EXHIBIT A
MANAGEMENT'S RESPONSE



ADMINISTRATION & FINANCE
Office of the Vice President

UNIVERSITY *of*
NORTH FLORIDA

March 18, 2014

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, 2013, enclosed is the University 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

With respect to the recommendation to establish a formal repayment plan for Board approval, the University feels their efforts of informing both Boards of the repayment requirements as well as including these payments in the budgets is sufficient for purposes of this loan. This is further evidenced by the initial payment from MOCA to the University.

With respect to the salary reimbursements, the University's authority to dedicate funds to the payment of salaries at MOCA is implied by express statutory authority, granted by Section 1004.28(2)(a), to permit a direct support organization to use personal services of the University. Personal services are defined by Section 1004.28(1)(b) to include full-time or part-time personnel. Personal services of the University include the cost of compensating full-time or part-time personnel employed for the University's benefit whether they appear on the University's payroll or MOCA's payroll.

The MOCA employees whose salaries are covered by the University are essential employees. Their positions are necessary to meeting the ongoing operations of MOCA, which exists, by its very nature, for the exclusive benefit of a state university.

Additionally, the University's representation on MOCA's board of trustees and its executive committee far exceeds the control requirements of Section 1004.28, giving the University more extensive oversight of MOCA. Section 1004.28(3) *permits* the chair of the University's board of trustees to appoint a representative to MOCA's board of trustees and executive committee. That Section *requires* that the President of the University or his designee serve on MOCA's board of trustees and executive committee.

By contrast, MOCA's bylaws give the University much more control and authority over the operations. The University has majority control over the executive committee, can appoint and remove, for cause or no cause, any trustee, and can veto any budgetary expense. This broad authority ensures that the University's representation and control, which oversee the performance of MOCA employees paid by the University, exceed both the statutory requirement and customary practice for direct support organizations.