



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



UNIVERSITY OF NORTH FLORIDA
Financial Audit

For the Fiscal Year Ended June 30, 2005

During the audit period, the President of the University was Mr. John A. Delaney. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

Carol C. Thompson, Chair
Steve T. Halverson, Vice Chair
Edythe M. Abdullah
Luther W. Coggin
Toni Crawford
Thomas O'Neal Douglas
Tom Foran from 4-23-05(2)
Wilfredo J. Gonzalez
Ann C. Hicks
Wanyonyi J. Kendrick
Dr. Judith L. Solano (1)
R. Bruce Taylor
Kevin M. Twomey
Jerry Watterson to 4-22-05(2)

Notes: (1) Faculty association president
(equivalent to faculty senate chair
referred to in Section 1001.71(1),
Florida Statutes).
(2) Student body president.

UNIVERSITY OF NORTH FLORIDA

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EXECUTIVE SUMMARY

The audit of the financial statements of the University of North Florida for the fiscal year ended June 30, 2005, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The scope of this audit included an examination of the financial statements of the University, a component unit of the State of Florida, and a determination as to whether management has complied with applicable laws, administrative rules, regulations, contracts, and grant agreements and other matters that are material to the financial statements. An examination of Federal awards administered by the University is included in our Statewide audit of Federal awards administered by the State of Florida.

The following provides a summary of the findings of our audit of the financial statements of the University:

- We found that the University's financial statements presented fairly, in all material respects, the financial positions of the University and its aggregate discretely presented component units as of June 30, 2005; the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- We noted no matters involving the University's internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted a certain matter that we consider to be a reportable condition.
- The results of our tests disclosed no material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This audit was made in accordance with applicable *Government Auditing Standards* issued by the Comptroller General of the United States. This audit was coordinated by Donald D. Hemmingway, CPA, and supervised by John P. Duffy, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FINDING AND RECOMMENDATION

REPORTABLE CONDITION

Finding No. 1: Bank Account Reconciliations

Effective internal controls require that the University prepare timely reconciliations of bank account balances with its general ledger balances. Such reconciliations are necessary to assure that recorded cash transactions agree with bank records, to permit prompt detection and correction of unrecorded or improperly recorded transactions, and to provide for the economic and efficient management of cash resources.

Our review of the June 30, 2005, bank account reconciliations disclosed numerous differences between the bank account balances and the general ledger balances that were either unexplained or required entries to the general ledger (a similar finding was noted in our report No. 2006-064). Subsequently, University staff resolved some of these differences and, in February 2006, net audit adjustments of \$2,271,239.22 reducing cash balances in the general ledger were accepted by the University to properly report the affected account balances and note disclosures in the accompanying financial statements. Although we were able to determine through expanded audit procedures the adjustments necessary for fair presentation of the University's financial statements, when bank accounts are not properly reconciled, there is little assurance that errors or fraud, should they occur, will be promptly detected by University personnel, and University management's ability to rely on the accuracy of financial reports prepared from the accounting records is limited.

Recommendation: The University should continue to improve its bank reconciliation procedures to provide for the identification and recording of all reconciling items in a timely manner.



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of North Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2005, as shown on pages 14 through 41. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Florida and of its aggregate discretely presented component units as of June 30, 2005, and the respective changes in

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

As discussed in note 2 to the financial statements, the University discontinued reporting a share of the reverse repurchase and securities lending agreements entered into by the State Treasury, in connection with the State Treasury's Special Purpose Investment Account investment pool, for the 2004-05 fiscal year pursuant to the State Treasury's interpretation of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. This affects the comparability of amounts reported as assets and liabilities on the statement of net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year. The University also changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This affects the comparability of amounts reported as operating and nonoperating revenues, and operating expenses, on the statement of revenues, expenses, and changes in net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of North Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative 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 the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



William O. Monroe, CPA
March 2, 2006



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

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

We have audited the financial statements of the University of North Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2005, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. 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. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the University's financial statements and not to provide an opinion on the University's internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This matter is discussed in the **FINDINGS AND RECOMMENDATIONS** section of this audit report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition referred to above is not a material weakness.

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, administrative 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 material instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to University management in our operational report No. 2006-064, dated December 2005.

This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management. Copies of this report are available pursuant to Section 11.45(4), Florida Statutes, and its distribution is not limited.

Respectfully submitted,



William O. Monroe, CPA
March 2, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

**OVERVIEW OF THE FINANCIAL STATEMENTS
AND FINANCIAL ANALYSIS**

The University of North Florida presents its financial statements for the fiscal year ended June 30, 2005. The University accounts for its transactions in accordance with the pronouncements issued by the Governmental Accounting Standards Board (GASB).

The University presents its statements as a Business-Type Activity (BTA) under the provisions of GASB Statement Nos. 34 and 35. THE BTA format includes accounting on an accrual basis and the recording of depreciation. The BTA format also requires presentation of: (1) assets and liabilities as current and noncurrent; (2) revenues and expenses as operating and nonoperating; (3) the use of the direct method for statement of cash flows; and (4) a management's discussion and analysis (MD&A) of the financial results.

The objective of the MD&A is to focus on current activities, resulting changes, and currently known facts to provide the reader with an overall summary of the accompanying financial statements. It should be read in conjunction with the basic financial statements and accompanying notes. Responsibility for the completeness and fairness of this information rests with the University's management.

The basic financial statements are comprised of the following:

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

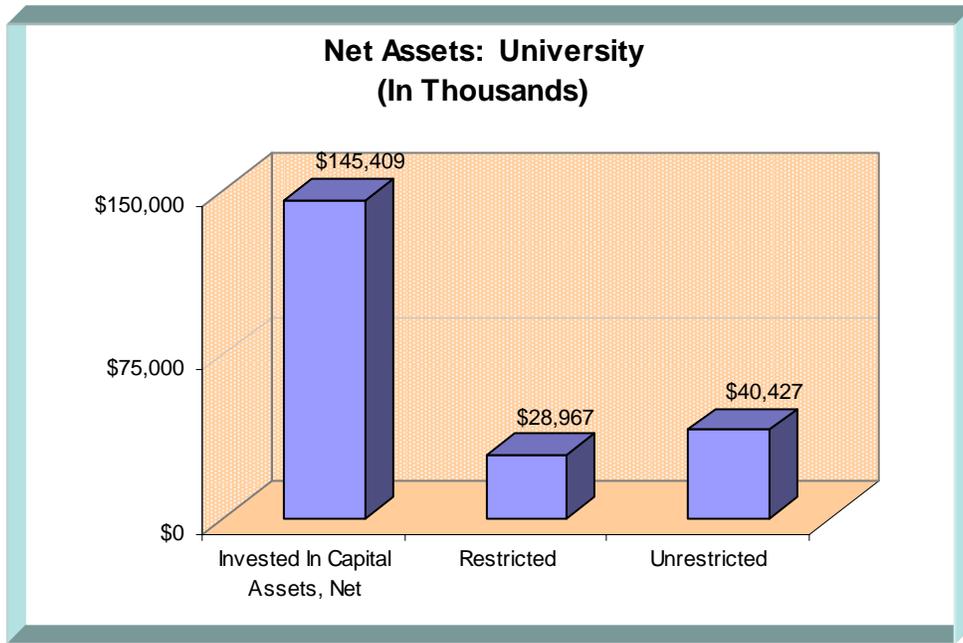
The objective of these financial statements is to provide full and adequate disclosure of all pertinent financial information. When analyzing the financial statements of the University of North Florida, interested external parties are able to evaluate the efficiency and effectiveness of the University's operations, and determine the extent to which fiscal and other compliance responsibilities have been met.

Listed below are entities that are represented in the management's discussion and analysis:

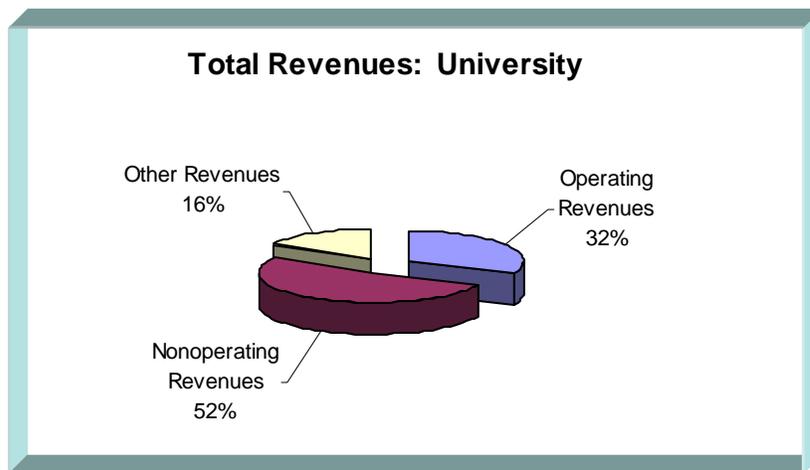
- University of North Florida (Primary Institution) – Reporting financial activities of the University for the fiscal year ended June 30, 2005. The University's principal operating activities consist of instruction, research, and public service.
- University of North Florida Foundation, Inc. (Foundation), and the University of North Florida Training and Services Institute, Inc. (TSI) (Component Units) – Reporting financial activities of the Foundation and TSI for the fiscal year ended June 30, 2005. These two not-for-profit corporations receive, hold, invest, and administer property and make expenditures to or for the benefit of the University or its programs as legally separate but discretely presented component units.

FINANCIAL HIGHLIGHTS

The University’s financial position improved during the fiscal year ended June 30, 2005, with its net assets now totaling \$214.8 million. The University’s revenues and other support exceeded expenses by \$31.2 million, resulting in a 17 percent increase in University net assets. Most of the increase resulted from additions to capital assets owned by the University and State moneys for funding future construction. The following graph presents net assets by category of the University for the fiscal year ended June 30, 2005:



The following chart provides a graphical presentation of the University’s revenues by category for the 2004-05 fiscal year:



Also, the University’s component units’ revenues exceeded expenses increasing their net assets by \$13.5 million, or 16.2 percent, for the fiscal year ended June 30, 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with the 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 Statement Nos. 37 and 38.

One of the most important questions asked about the University's finances is whether the University, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the University as a whole and on its activities in a way that helps answer this question. These statements present financial information in a form similar to that used by corporations. Examining the University's net assets is one way to evaluate the University's financial health. Over time, increases or decreases in net assets can indicate the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

THE STATEMENT OF NET ASSETS

The statement of net assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The statement of net assets is a point-in-time financial statement.

The purpose of the statement of net assets is to present to the readers of the financial statements a fiscal snapshot of the University of North Florida. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors and other entities. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant, and equipment owned by the University. The next asset category is restricted net assets. Expendable restricted net assets are available for expenditure by the University, but must be spent for purposes as determined by grantors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available for expenditure by the University for any lawful purpose of the University.

A condensed statement of net assets for the University and its aggregate component units for the respective fiscal years ended June 30 is shown below:

Condensed Statement of Net Assets (In Thousands)				
	University		Component Units	
	2005	2004	2005	2004
Assets				
Current Assets	\$ 95,574	\$105,503	\$ 23,805	\$ 21,663
Capital Assets, Net	155,847	142,408	39,573	41,692
Other Noncurrent Assets	14,994	7,210	81,249	69,111
Total Assets	<u>266,415</u>	<u>255,121</u>	<u>144,627</u>	<u>132,466</u>
Liabilities				
Current Liabilities	33,484	52,345	2,298	2,268
Noncurrent Liabilities	18,128	19,182	45,503	46,872
Total Liabilities	<u>51,612</u>	<u>71,527</u>	<u>47,801</u>	<u>49,140</u>
Net Assets				
Investment in Capital Assets, Net of Related Debt	145,409	131,131	(8,134)	(7,116)
Restricted	28,967	18,314	95,036	80,951
Unrestricted	40,427	34,149	9,924	9,491
Total Net Assets	<u>\$214,803</u>	<u>\$183,594</u>	<u>\$ 96,826</u>	<u>\$ 83,326</u>
Increase in Net Assets	<u>\$ 31,209</u>	17.0%	<u>\$ 13,500</u>	16.2%

As discussed in note 2 to the financial statements, the University discontinued reporting a share of the reverse repurchase and securities lending agreements entered into by the State Treasury, in connection with the State Treasury's Special Purpose Investment Account investment pool, for the 2004-05 fiscal year pursuant to the State Treasury's interpretation of GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. This affects the comparability of amounts reported as assets and liabilities in the statement of net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year, and is the primary reason why total current assets and current liabilities decreased from the prior fiscal year.

For a more detailed understanding of the University's and its component units' net assets, the reader should review the statement of net assets and notes to financial statements.

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

Changes in total net assets are summarized based on the related types of financial activity, and are presented in the statement of revenues, expenses, and changes in net assets. The purpose of the statement is to present the revenues (operating and nonoperating), expenses (operating and nonoperating), and any other revenues, expenses, gains, and losses to explain why and how the University's net assets changed between fiscal years or accounting periods.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the

goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, State appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

As discussed in note 2 to the financial statements, the University changed its method of reporting certain Federal and State student financial aid moneys for the 2004-05 fiscal year in accordance with GASB Statements No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This affects the comparability of amounts reported as operating and nonoperating revenues, and operating expenditures, on the statement of revenues, expenses, and changes in net assets for the 2004-05 fiscal year with amounts reported for the 2003-04 fiscal year. The new method of reporting certain Federal and State student financial aid moneys requires that they be shown as nonoperating revenue rather than operating revenue. Additionally, receipts and disbursements of the Florida Public Student Assistant Grant program, formerly recorded as additions and deductions in an Agency Fund, must now be reported on the statement of revenues, expenses, and changes in net assets. This program's expenses must be reported as operating scholarship expenses, whereas revenues are considered nonexchange transactions and must be reported as nonoperating revenues. The effect of these changes is that, although net income is unaffected, the net operating loss is substantially increased.

A condensed statement of revenues, expenses, and changes in net assets for the University and its aggregate component units for the respective fiscal years is shown below:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
(In Thousands)				
	University		Component Units	
	2004-05	2003-04	2004-05	2003-04
Operating Revenues	\$ 56,968	\$ 76,902	\$ 22,162	\$ 23,408
Operating Expenses	<u>(148,432)</u>	<u>(135,102)</u>	<u>(23,664)</u>	<u>(26,497)</u>
Operating Loss	(91,464)	(58,200)	(1,502)	(3,089)
Nonoperating Revenues	<u>92,760</u>	<u>63,027</u>	<u>4,893</u>	<u>8,476</u>
Income Before Other Contributions	1,296	4,827	3,391	5,387
Capital Contributions	29,913	6,545	9,829	4,179
Transfer of Capital Asset to Clay District School Board		<u>(2,300)</u>		
Change in Net Assets	<u>31,209</u>	<u>9,072</u>	<u>13,220</u>	<u>9,566</u>
Net Assets, Beginning of Year	183,594	174,522	83,326	73,760
Adjustments to Beginning Net Assets			<u>280</u>	
Net Assets, Beginning of Year, as Restated	<u>183,594</u>	<u>174,522</u>	<u>83,606</u>	<u>73,760</u>
Net Assets, End of Year	<u>\$214,803</u>	<u>\$183,594</u>	<u>\$ 96,826</u>	<u>\$ 83,326</u>
Increase in Net Assets	<u>\$ 31,209</u> 17.0%		<u>\$ 13,500</u> 16.2%	

It was a positive year with increases in net assets both for the University and its component units. University income was \$1.3 million before capital contributions and the aggregate component unit income was \$3.4 million before capital contributions. For a more detailed understanding of the University’s and its component units’ financial activities, the reader should review the statement of revenues, expenses, and changes in net assets and the notes to financial statements. Some highlights of the information presented on the University’s statement of revenues, expenses, and changes in net assets are as follows:

- Operating revenues were \$57 million, including \$27.1 million in net student tuition and fees revenues, \$10.8 in Federal contracts and grants, and \$12.4 million in sales and services of auxiliary enterprises, mostly continuing education.
- Operating expenses were \$148 million, including \$92.9 million for personnel services and \$14.3 million for scholarships and waivers. For additional analysis, the functional distribution of expenses has been shown in the notes to financial statements using the classifications as recommended by the National Association of College and University Business Officers.
- Nonoperating revenues and expenses netted to \$92.8 million in revenue, including \$72.1 million in State nonexchange support for University operations. State allocations and moneys for operations increased by approximately \$5.2 million when compared to the prior fiscal year.
- Capital contributions were \$29.9 million, primarily representing Public Education Capital Outlay encumbrance authorizations received during the 2004-05 fiscal year.

Because operating expenses are one of the most significant items above, additional information for the University and its aggregate component units for the respective fiscal years is presented below:

Operating Expenses (In Thousands)				
	<u>University</u>		<u>Component Units</u>	
	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>
Operating Expenses				
Salaries and Benefits	\$ 92,880	\$ 84,650	\$	\$
Scholarships and Waivers	14,334	12,372		
Utilities	2,483	1,616		
Services and Supplies	27,764	25,614	20,856	23,945
Depreciation	<u>10,971</u>	<u>10,850</u>	<u>2,808</u>	<u>2,552</u>
Total Operating Expenses	<u>\$148,432</u>	<u>\$135,102</u>	<u>\$ 23,664</u>	<u>\$ 26,497</u>
Increase (Decrease) in Operating Expenses	<u>\$ 13,330</u>	9.9%	<u>\$ (2,833)</u>	-10.7%

THE STATEMENT OF CASH FLOWS

Another way to assess the financial health of an institution is to look at the statement of cash flows. The primary purpose of the statement of cash flows is to provide an understanding of the University’s cash activity and its relationships to its various financial activities, operations, and overall changes in cash balances.

The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement of cash flows also helps users assess:

- An entity's ability to generate future cash flows.
- Its ability to meet obligations as they come due.
- Its needs for external financing.

A condensed statement of cash flows for the University the 2004-05 fiscal year is shown below:

Condensed Statement of Cash Flows (In Thousands)	
	<u>University</u>
Cash Provided (Used) by:	
Operating Activities	\$(81,141)
Noncapital Financing Activities	96,587
Capital Related Financing Activities	(5,956)
Investing Activities	<u>(38,674)</u>
Net Decrease in Cash and Cash Equivalents	(29,184)
Cash and Cash Equivalents, Beginning of Year	<u>28,774</u>
Cash and Cash Equivalents, End of Year	<u>\$ (410)</u>

For a more detailed understanding of the University's cash activity, the reader should review the statement of cash flows and the notes to financial statements. The statement of cash flows is divided into five sections. The first section deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities and shows the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities, such as cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows investments purchased and sold and interest received from investing activities, which is followed by a summary of the overall change in cash and cash equivalents for the fiscal year. The fifth section reconciles the net operating income (loss) to net cash used by operating activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2005, the University had \$155.8 million of capital assets, net of depreciation. Its component units had \$39.6 million of capital assets, net of depreciation. A summary of capital assets and accumulated depreciation is shown below for the respective fiscal years ended June 30:

	Net Capital Assets (In Thousands)			
	University		Component Units	
	2005	2004	2005	2004
Capital Assets				
Land	\$ 7,452	\$ 7,452	\$ 1,508	\$ 1,508
Buildings	143,979	143,979	53,993	53,845
Other Structures and Improvements	19,969	19,969	4,022	3,516
Furniture, Machinery, and Equipment	32,578	30,338	2,044	1,933
Property Under Capital Lease	1,432	1,432		
Library Resources	27,716	26,177		
Computer Software	4,993	3,502		
Construction in Progress	19,575	2,578		192
Total Capital Assets	257,694	235,427	61,567	60,994
Less, Accumulated Depreciation:				
Buildings	51,949	47,749	19,600	17,425
Other Structures and Improvements	4,545	3,558	845	481
Furniture, Machinery, and Equipment	21,885	20,542	1,549	1,396
Library Resources	21,306	19,939		
Property Under Capital Lease	567	280		
Computer Software	1,595	951		
Total Accumulated Depreciation	101,847	93,019	21,994	19,302
Total Net Capital Assets	\$ 155,847	\$ 142,408	\$ 39,573	\$ 41,692
Increase (Decrease) in Net Capital Assets	\$ 13,439	9.4%	\$ (2,119)	-5.1%

Details of the University's capital asset activity for fiscal year ended June 30, 2005, such as additions and deletions by category, are shown in notes to financial statements.

As of June 30, 2005, the University had several construction projects in progress. The Library Addition was the primary major project.

DEBT

At June 30, 2005, the University had approximately \$10.9 million in debt outstanding versus \$11.8 million the previous year, a decrease of 7.6 percent. Most of the debt is related to Academic and Student Services Facilities Bonds, the proceeds of which were used for capital outlay projects. During the 2003-04 fiscal year, the University acquired a telephone system under capital lease which represents the balance of the reported debt. Additional information about debt and other obligations of the University and its component units are included in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University currently is not aware of any facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The University's overall financial position is strong. Even with a relatively flat funded year, the University was able to generate a modest increase in net assets. The University anticipates the current fiscal year will be much

like the prior fiscal year and will maintain a close watch over resources to maintain the University's ability to react to unknown internal and external issues.

FINANCIAL SECTION

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2005**

	University	Component Units	Total Reporting Entity
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$	\$ 3,080,437.00	\$ 3,080,437.00
Investments	71,730,029.41		71,730,029.41
Accounts Receivables, Net	3,206,831.21	315,288.00	3,522,119.21
Contracts and Grants Receivable	1,236,776.93	327,723.00	1,564,499.93
Interest Receivable	305,251.28		305,251.28
Loans and Notes Receivable, Net	139,571.28		139,571.28
Pledges Receivable, Net		730,553.00	730,553.00
Due from State	18,797,769.72		18,797,769.72
Due from University		19,038,468.00	19,038,468.00
Inventories	157,525.37	124,540.00	282,065.37
Other Current Assets		187,932.00	187,932.00
Total Current Assets	95,573,755.20	23,804,941.00	119,378,696.20
Noncurrent Assets:			
Restricted Cash and Cash Equivalents		816,547.00	816,547.00
Restricted Investments	14,961,155.64	77,674,906.00	92,636,061.64
Loans and Notes Receivable, Net		100,000.00	100,000.00
Pledges Receivable, Net		2,041,509.00	2,041,509.00
Other Noncurrent Assets	33,122.09	615,568.00	648,690.09
Depreciable Capital Assets, Net	128,820,660.36	38,065,374.00	166,886,034.36
Nondepreciable Capital Assets	27,026,564.01	1,507,771.00	28,534,335.01
Total Noncurrent Assets	170,841,502.10	120,821,675.00	291,663,177.10
TOTAL ASSETS	\$ 266,415,257.30	\$ 144,626,616.00	\$ 411,041,873.30
LIABILITIES			
Current Liabilities:			
Temporary Cash Overdraft	\$ 409,902.83	\$	\$ 409,902.83
Accounts Payable	5,494,981.18	528,489.00	6,023,470.18
Construction Contracts Payable	560,728.83		560,728.83
Salaries and Wages Payable	3,267,515.30		3,267,515.30
Deposits Payable	3,296,070.70		3,296,070.70
Due to Other State Universities	44.68		44.68
Due to Component Units	19,038,468.00		19,038,468.00
Deferred Revenue	248,333.33	569,135.00	817,468.33
Long-Term Liabilities - Current Portion:			
Bonds Payable	530,842.02	1,200,000.00	1,730,842.02
Capital Leases Payable	302,943.01		302,943.01
Compensated Absences Payable	334,586.80		334,586.80
Total Current Liabilities	33,484,416.68	2,297,624.00	35,782,040.68

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2005

	University	Component Units	Total Reporting Entity
LIABILITIES (Continued)			
Noncurrent Liabilities:			
Bonds Payable	\$ 9,560,613.59	\$ 45,000,000.00	\$ 54,560,613.59
Capital Leases Payable	555,552.67		555,552.67
Compensated Absences Payable	8,012,083.24	242,008.00	8,254,091.24
Other Noncurrent Liabilities		260,969.00	260,969.00
Total Noncurrent Liabilities	18,128,249.50	45,502,977.00	63,631,226.50
TOTAL LIABILITIES	51,612,666.18	47,800,601.00	99,413,267.18
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	145,408,743.43	(8,134,626.00)	137,274,117.43
Restricted for Nonexpendable:			
Endowment		63,807,446.00	63,807,446.00
Other		1,593,603.00	1,593,603.00
Restricted for Expendable:			
Loans	103,252.64		103,252.64
Capital Projects	24,338,037.59	19,052,393.00	43,390,430.59
Other Restricted Net Assets	4,526,042.55	10,582,895.00	15,108,937.55
Unrestricted	40,426,514.91	9,924,304.00	50,350,818.91
Total Net Assets	214,802,591.12	96,826,015.00	311,628,606.12
TOTAL LIABILITIES AND NET ASSETS	\$ 266,415,257.30	\$ 144,626,616.00	\$ 411,041,873.30

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2005

	University	Component Units	Total Reporting Entity
REVENUES			
Operating Revenues:			
Student Tuition and Fees, Net of Scholarships Allowances of \$11,064,461.48	\$ 27,139,916.05	\$	\$ 27,139,916.05
Federal Grants and Contracts	10,772,268.66		10,772,268.66
State and Local Grants and Contracts	2,633,153.69		2,633,153.69
Nongovernmental Grants and Contracts	4,043,844.48		4,043,844.48
Sales and Services of Auxiliary Enterprises	12,378,772.66		12,378,772.66
Other Operating Revenues		22,162,569.00	22,162,569.00
Total Operating Revenues	56,967,955.54	22,162,569.00	79,130,524.54
EXPENSES			
Operating Expenses:			
Compensation and Employee Benefits	92,880,314.20		92,880,314.20
Services and Supplies	27,763,014.07	20,856,451.00	48,619,465.07
Utilities	2,483,276.77		2,483,276.77
Scholarships and Fellowships	14,333,857.08		14,333,857.08
Depreciation	10,971,251.88	2,808,171.00	13,779,422.88
Total Operating Expenses	148,431,714.00	23,664,622.00	172,096,336.00
Operating Loss	(91,463,758.46)	(1,502,053.00)	(92,965,811.46)
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	72,057,909.86		72,057,909.86
Federal and State Student Financial Aid	18,084,739.34		18,084,739.34
Investment Income	2,247,042.86	4,893,344.00	7,140,386.86
Other Nonoperating Revenues	2,705,603.03		2,705,603.03
Interest on Asset-Related Debt	(556,995.48)		(556,995.48)
Other Nonoperating Expenses	(1,778,662.19)		(1,778,662.19)
Net Nonoperating Revenues	92,759,637.42	4,893,344.00	97,652,981.42
Income Before Other Revenues, Expenses, Gains, or Losses	1,295,878.96	3,391,291.00	4,687,169.96
Capital Appropriations	29,395,308.00		29,395,308.00
Capital Grants, Contracts, and Donations	517,704.60	5,160,872.00	5,678,576.60
Additions to Permanent Endowments		4,668,186.00	4,668,186.00
Increase in Net Assets	31,208,891.56	13,220,349.00	44,429,240.56
Net Assets, Beginning of Year	183,593,699.56	83,325,537.00	266,919,236.56
Adjustment to Beginning Net Assets		280,129.00	280,129.00
Net Assets, Beginning of Year, as Restated	183,593,699.56	83,605,666.00	267,199,365.56
Net Assets, End of Year	\$ 214,802,591.12	\$ 96,826,015.00	\$ 311,628,606.12

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, 2005**

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 27,233,321.53
Grants and Contracts	17,660,931.41
Sales and Services of Auxiliary Enterprises	12,378,772.66
Other Payments	(1,484,983.61)
Payments to Employees	(94,000,915.78)
Payments to Suppliers for Goods and Services	(28,923,627.41)
Payments to Students for Scholarships	(14,114,292.70)
Net Loans Issued to Students	109,503.82
Net Cash Used by Operating Activities	(81,141,290.08)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	72,057,909.86
Federal and State Student Financial Aid	18,084,739.34
Operating Subsidies and Transfers	1,960,599.00
Net Change in Funds Held for Others	2,350,212.66
Other Nonoperating Receipts	2,705,603.03
Other Nonoperating Expenses	(571,339.88)
Net Cash Provided by Noncapital Financing Activities	96,587,724.01
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	24,301,239.38
Capital Subsidies and Transfers	(3,614,980.86)
Purchases of Capital Assets	(25,567,766.64)
Principal Paid on Capital Debt	(810,530.53)
Interest Paid on Capital Debt	(556,995.48)
Other Receipts	292,825.93
Net Cash Used by Capital and Related Financing Activities	(5,956,208.20)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(152,522,727.10)
Sales of Investments	111,816,905.11
Investment Income	2,031,985.05
Net Cash Used by Investing Activities	(38,673,836.94)
Net Decrease in Cash and Cash Equivalents	(29,183,611.21)
Cash and Cash Equivalents, Beginning of Year	28,773,708.38
Cash and Cash Equivalents, End of Year	\$ (409,902.83)

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2005**

	University
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (91,463,758.46)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,971,251.88
Change in Assets and Liabilities:	
Accounts Receivable, Net	(1,162,893.29)
Contracts and Grants Receivable	211,664.58
Loans and Notes Receivable, Net	109,503.82
Inventories	(33,542.80)
Accounts Payable	1,332,639.08
Salaries and Wages Payable	(905,361.89)
Deposits Payable	(163,886.64)
Compensated Absences Payable	(215,239.69)
Deferred Revenue	178,333.33
NET CASH USED BY OPERATING ACTIVITIES	\$ (81,141,290.08)

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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, and is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the State's Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The Faculty Association President and the Student Body President of the University are also members. The State's Board of Education is responsible for overseeing kindergarten through graduate school education in the State. The State's 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 Florida law, State Board of Education rules, and Board of Governors rules. The Trustees select the University President and the State Board of Education ratifies the candidate selected. 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 for the University.

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

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

- The 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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

the pursuit of higher education at the University. Although the Foundation is chartered as a private not-for-profit corporation, it operates solely for the benefit of the University and its mission of teaching, research, and service. The Foundation serves as the vehicle whereby taxpayers who want to advance the cause of higher education and to pay more than their share of the cost of education may do so. The Foundation does not serve any private causes, but generally benefits the public.

- The University of North Florida Training and Service Institute, Inc. (TSI), conducts, accounts for, and reports on special educational and training programs and related specialized activities. TSI was organized for the purpose of providing training and service to assist the University in achieving excellence by providing supplemental resources from external sources and to provide valuable educational support services.

An annual audit of each component unit'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 component units, including copies of audit reports, is available by contacting the University Controller's Office. Condensed financial statements for the 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 applicable to colleges and universities as prescribed by the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities, which requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

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 FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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 plant assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income, and capital asset funding. Interest on capital asset-related debt is a nonoperating expense.

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University is able to identify, within its accounting system, amounts paid for tuition and fees by financial aid. To the extent that these resources are used to pay student charges, the University records a scholarship allowance against tuition and fee revenues paid, and reduces scholarship expenses.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows for Proprietary and Non-Expendable Trust Funds*.

Cash and Cash Equivalents. The University reports as cash and cash equivalents cash on hand and amounts in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005**

280, Florida Statutes. The University's component units reported as cash and cash equivalents amounts in bank demand account and money market funds subject to immediate withdrawal. Cash and cash equivalents and investments that are externally restricted to make debt service payments, or to purchase or construct capital or other restricted assets, are classified as restricted.

Custodial Credit Risk – Deposits. Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, the component unit's deposits may not be returned to it. All University and component unit 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. Component unit deposits totaled \$3,896,984 at June 30, 2005, of which \$1,988,890 was uninsured and uncollateralized and, therefore, exposed to custodial credit risk.

Capital Assets. University capital assets consist of land, buildings, infrastructure and other improvements, furniture and equipment, property under capital lease, library resources, construction in progress, and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$1,000 for all tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

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

Capital assets of the University's component units are stated at cost. Depreciation is recorded on the straight-line basis 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, 2005

- Buildings – 20 to 30 years
- Land Improvements – 10 years
- Furniture and Equipment
 - Housing Furnishings – 5 to 20 years
 - Housing and Parking Equipment – 5 years
 - Vehicles – 5 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds and revenue certificates payable, capital leases payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds and revenue certificates payable are reported net of unamortized premium or discount. The University amortizes bond premiums and discounts over the life of the bonds and revenue certificates using the straight-line method.

2. REPORTING CHANGES

In prior fiscal years, the University reported a share of the reverse repurchase and securities lending agreements entered into by the State Treasury, in connection with the State Treasury's Special Purpose Investment Account (SPIA) investment pool, as an investment and corresponding liability, and made note disclosure in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. Currently, the State Treasury is of the opinion that since the University owns a share of the SPIA investment pool, and not the underlying securities, the University does not need to make disclosure of the reverse repurchase and securities lending agreements entered into by the State Treasury. Accordingly the University did not report an asset or liability associated with, or disclose information pertaining to, those agreements in its financial statements for the 2004-05 fiscal year.

In prior fiscal years, moneys received for Federal and State student financial aid relating to the Pell Grant, Supplemental Educational Opportunity Grant, and Bright Futures Scholarship programs were reported as operating revenues on the statement of revenues, expenses, and changes in net assets. However, pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, moneys received under these programs represent nonexchange transactions that should be reported as nonoperating revenues. Accordingly, for the 2004-05 fiscal year, the University began reporting moneys received under these programs as nonoperating revenues in the statement of revenues, expenses, and changes in net assets.

In prior fiscal years, moneys received and disbursed from the Florida Department of Education for the Florida Public Student Assistance Grant program was accounted for in the Agency Fund and, as such,

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

revenues and expenses of this program were not reported on the statement of revenues, expenses, and changes in net assets. However, pursuant to GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, moneys received and disbursed under this program should be reported as revenues and expenses in the Current Restricted Fund because the University has “administrative involvement” in this program. Accordingly, for the 2004-05 fiscal year, the University began reporting revenues and expenses for this program in the Current Restricted Fund. Pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, moneys received under this program represent nonexchange transactions and, as such, are reported as nonoperating revenues on the statement of revenues, expenses, and changes in net assets.

3. TEMPORARY CASH OVERDRAFT

At June 30, 2005, a cash overdraft resulted from the University investing its funds until outstanding checks are cashed. The University maintains bank accounts with a local bank to process all its general operating expenses and for payroll transactions. Funds in excess of current needs, including float, were invested. The carrying amount of the University’s total cash equivalents was \$(409,902.83) and the bank balance was \$402,217.75, which was 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.

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds awaiting clearing with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the University is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University’s Board of Trustees as authorized by law.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

The University had investments totaling \$86,691,185.05 at June 30, 2005, in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The University's investments in the pool are reported at fair value. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 2.22 years at June 30, 2005. 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 the financial statements of the State's Comprehensive Annual Financial Report.

Component Units Investments

Investments held by the University's component units at June 30, 2005, consist of government and agency mortgage backed securities, corporate bonds, equity mutual funds, bond mutual funds, and hedge funds.

The University of North Florida Foundation, Inc. (Foundation) reported investments totaling \$70,501,124. 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 downturn, as equity markets have historically displayed a high degree of such correlation during these periods. The role of hedge funds is to reduce the overall volatility of the equity fund performance. Fixed income securities will be diversified among different sectors and the fixed income market. The principal purpose of the fixed income fund will be to reduce risk by reducing the overall prolonged economic contraction. The fixed income objective is to obtain an average annual real total return (net of investment management fees and expenses) in excess of 2.75 percent. Decisions as to individual security selection, security size and quality, etc., will be left to broad manager discretion.

The University of North Florida Training and Service Institute, Inc. (TSI) reported investments totaling \$7,173,782. TSI's investment policy requires equity securities to be limited to investments in publicly traded securities on a major stock exchange or NASDAQ and provides that not more than 25 percent of the total equity portfolio may be invested in foreign companies. For fixed income securities, the investment policy provides that not more than 25 percent of the total equity portfolio may be invested in foreign companies and no more than 20 percent of the fair value of the portfolio may be invested in Collateralized Mortgage Obligations (CMO)s that consist of GNMA's, FNMA's, and FHLMC's. There is no limit on investments in securities issued directly by the U.S. Government or any agency or instrumentality thereof. TSI's investment policy prohibits investments in interest only or principal only CMO's, interest rate swaps, precious metals,

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2005

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.

Component units investments at June 30, 2005, based reported at estimated fair value on valuations provided by external investment managers, consisted of the following:

<u>Investment Type</u>	<u>Component Units</u>
U.S. Government Bonds and Agency Securities	\$ 19,125,939
Fixed Income Mutual Funds	10,621,273
Equity Mutual Funds	39,261,783
Hedge Funds	<u>8,665,911</u>
Total Component Units Investments	<u><u>\$ 77,674,906</u></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 and TSI do not have formal investment 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 its investments so as to minimize the impact of downturns in the market. Investments of the component units in debt securities, and bond and fixed income mutual funds, and their future maturities at June 30, 2005, are as follows:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
University of North Florida Foundation, Inc.					
U.S. Government and Agency Securities	\$ 6,527,940	\$ 1,240,859	\$ 3,487,463	\$ 212,250	\$ 1,587,368
Mortgage Backed Securities	4,401,974		39,419	69,890	4,292,665
Corporate Bond Funds	8,196,026	378,519	4,752,611		3,064,896
Fixed Income Mutual Funds	<u>8,093,088</u>	<u>3,874,205</u>	<u>4,203,673</u>	<u>15,210</u>	
Total	<u><u>\$ 27,219,028</u></u>	<u><u>\$ 5,493,583</u></u>	<u><u>\$ 12,483,166</u></u>	<u><u>\$ 297,350</u></u>	<u><u>\$ 8,944,929</u></u>
Training and Service Institute, Inc.					
Fixed Income Mutual Funds	<u>\$ 2,528,188</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,528,188</u>	<u>\$</u>
Total	<u><u>\$ 2,528,188</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 2,528,188</u></u>	<u><u>\$</u></u>

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has no formal investment policy on credit risk. The TSI's investment policy provides that fixed income securities shall be rated "A" or higher by Moody's or Standard and Poor's rating services. At June 30, 2005, component unit debt securities' credit quality ratings are as follows:

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Investment Type	Fair Value	Credit Quality Rating			
		AAA	AA	A	Unrated
U.S. Government Bonds and Agency Securities	\$ 4,523,468	\$	\$ 4,523,468	\$	\$
Mortgage Backed Securities	4,333,624		4,333,624		
Corporate Bond Funds	8,196,026		8,196,026		
Other Fixed Income Mutual Funds	10,621,273	1,893,587	3,631,795	4,971,316	124,575
Total	\$27,674,391	\$ 1,893,587	\$20,684,913	\$ 4,971,316	\$ 124,575

Note: The credit quality ratings are from Standard and 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 University or its component units and are not registered in the University or its component units' name. The Foundation and the TSI have no formal investment policy on custodial credit risk.

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

5. RECEIVABLES

Accounts Receivable, Net. Accounts receivable represent amounts for student fee deferments, various student services provided by the University, and various auxiliary services provided to students and third parties. These receivables are reported net of a \$93,201.42 allowance for uncollectible accounts.

Loans and Notes Receivable, Net. Loans and notes receivable represent amounts owed on promissory notes from debtors including student loans made under the University's short-term loan program. These receivables are reported net of a \$4,317 allowance for uncollectible loans and notes.

Contracts and Grants Receivable. Contracts and grants receivable represent grant reimbursements due from third parties. These receivables are deemed fully collectible and therefore no allowance for uncollectible accounts has been recognized.

Pledges Receivable, Net. The Foundation accounts for its pledges in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Pledges receivable are reported for

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restricted accounts at estimated net realizable value, and reported in current and long-term portions, net of appropriate allowances and present value discounts of \$1,365,603.

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, loans, and notes receivable are reported based upon management's best estimate as of fiscal year-end considering type, age, collection history, and any other factors considered appropriate. In general, management considers accounts receivable and non-Federal short-term loans and notes receivable over 180 days old doubtful of collection.

6. DUE FROM STATE

This amount primarily represents Public Education Capital Outlay allocations due to the University for construction of University facilities.

7. DUE FROM/TO UNIVERSITY/COMPONENT UNITS

These amounts are related to housing and parking facilities provided and financed by the Foundation in support of the University, and represent the amount of moneys accumulated under the University's operating leases for housing and parking facilities owned by the Foundation and held by the University at June 30, 2005. The University uses the accumulated moneys to pay, on behalf of the Foundation, operating and other agreed upon expenses, such as scheduled debt, and any unexpended moneys are obligated to support future operations and costs under the operating leases for housing and parking.

8. INVENTORIES

Inventories consist of expendable supplies and goods purchased for resale, and were valued using the last invoice cost method, which approximates the first-in, first-out method of inventory valuation.

9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 7,451,525.50	\$	\$	\$ 7,451,525.50
Construction in Progress	2,577,724.78	16,997,313.73		19,575,038.51
Total Nondepreciable Capital Assets	\$ 10,029,250.28	\$ 16,997,313.73	\$	\$ 27,026,564.01
Depreciable Capital Assets:				
Buildings	\$ 143,979,159.47	\$	\$	\$ 143,979,159.47
Infrastructure and Other Improvements	19,969,033.11			19,969,033.11
Furniture and Equipment	30,337,983.47	4,383,901.45	2,143,839.49	32,578,045.43
Property Under Capital Lease	1,431,627.76			1,431,627.76
Library Resources	26,177,406.83	1,538,607.00		27,716,013.83
Other Capital Assets	3,501,612.67	1,491,128.67		4,992,741.34
Total Depreciable Capital Assets	225,396,823.31	7,413,637.12	2,143,839.49	230,666,620.94
Less, Accumulated Depreciation:				
Buildings	47,748,981.83	4,199,633.81		51,948,615.64
Infrastructure and Other Improvements	3,557,756.27	987,054.79		4,544,811.06
Furniture and Equipment	20,541,504.73	3,309,432.85	1,966,428.54	21,884,509.04
Property Under Capital Lease	280,306.15	286,325.55		566,631.70
Library Resources	19,938,919.54	1,367,374.43		21,306,293.97
Other Capital Assets	951,079.67	644,019.50		1,595,099.17
Total Accumulated Depreciation	93,018,548.19	10,793,840.93	1,966,428.54	101,845,960.58
Total Depreciable Capital Assets, Net	\$ 132,378,275.12	\$ (3,380,203.81)	\$ 177,410.95	\$ 128,820,660.36

Depreciation expense reported on the statement of revenues, expenses, and changes in net assets includes net losses on disposition of capital assets and other minor adjustments totaling \$177,410.95.

Capital assets of the component units as of June 30, 2005, totaled \$39,573,145, net of accumulated depreciation of \$21,994,177. About \$38,041,231 of capital assets related to land improvements, buildings, furnishings, and equipment related to student housing and parking systems.

10. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2005, include bonds payable, capital lease payable, and compensated absences payable. Long-term liabilities activity for the fiscal year ended June 30, 2005, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 10,609,160.21	\$	\$ 517,704.60	\$ 10,091,455.61	\$ 530,842.02
Capital Lease Payable	1,151,321.61		292,825.93	858,495.68	302,943.01
Compensated Absences	8,561,909.73	135,704.31	350,944.00	8,346,670.04	334,586.80
Total Long-Term Liabilities	\$ 20,322,391.55	\$ 135,704.31	\$ 1,161,474.53	\$ 19,296,621.33	\$ 1,168,371.83

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Bonds Payable. Bonds were issued to acquire and construct various University academic and student service facilities. Outstanding bonds, which include both term and serial revenue bonds, are secured and payable from capital improvement and building fees. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

The University had the following bonds payable outstanding at June 30, 2005:

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Academic and Student Services Facilities Bonds:				
Series 1997	\$ 3,836,631.04	\$ 2,969,552.58	5.05 - 5.63	2022
Series 1997A	2,264,354.71	2,029,789.04	4.50 - 5.10	2016
Series 1998	4,178,965.95	3,376,511.39	4.00 - 5.00	2023
Series 2003A	<u>2,202,500.94</u>	<u>1,715,602.60</u>	4.00 - 5.00	2013
Total Bonds Payable	<u>\$ 12,482,452.64</u>	<u>\$ 10,091,455.61</u>		

Note: (1) Amount outstanding includes unamortized bond discounts and premiums.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2005, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 530,842.02	\$ 497,617.32	\$ 1,028,459.34
2007	558,144.16	472,822.92	1,030,967.08
2008	598,531.55	446,727.42	1,045,258.97
2009	619,516.42	418,693.63	1,038,210.05
2010	653,031.70	387,893.75	1,040,925.45
2011-2015	3,374,896.41	1,425,863.28	4,800,759.69
2016-2020	2,415,730.70	659,811.03	3,075,541.73
2021-2023	<u>1,290,986.86</u>	<u>111,841.21</u>	<u>1,402,828.07</u>
Subtotal	10,041,679.82	4,421,270.56	14,462,950.38
Bond Premiums	153,971.81		153,971.81
Bond Discounts	<u>(104,196.02)</u>		<u>(104,196.02)</u>
Total	<u>\$ 10,091,455.61</u>	<u>\$ 4,421,270.56</u>	<u>\$ 14,512,726.17</u>

Capital Lease Payable. During the 2003-04 fiscal year, the University acquired a telephone system for \$1,431,628 under a capital lease. The stated interest rate was 3.41 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2005, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2006	\$ 328,379.44
2007	328,379.44
2008	246,284.59
Total Minimum Payments	903,043.47
Less, Amount Representing Interest	44,547.79
Present Value of Minimum Payments	\$ 858,495.68

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 Rule 6C-5.920 and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2005, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$8,346,670.04. The current portion of the compensated absences liability of \$334,586.80 is based on actual payouts over the last three years, calculated as a percentage of those years' total compensated absences liability.

Component Units Bonds Payable

The University of North Florida Foundation, Inc. (Foundation), borrowed moneys for the construction of student housing and parking facilities through the issuance of bonds, which pledged anticipated net revenues from operations to retire the debt and, therefore, are accounted for and reported along with the related assets in the Foundation's records. While these bonds are issued by and in the name of the Foundation, they are secured by a revenue stream derived from operating leases executed with the University. Under the terms of the leases, the University acts as an agent to manage day-to-day operations of the Foundation's student housing and parking facilities, and pledges all the related revenue from the housing and parking system to guarantee all debt service payments and further covenants to set rates within each system that will achieve the coverage ratios spelled out in the bond documents. The bonds are also credit enhanced by means of bank letters of credit to provide additional security to the bondholders and enhance the rates at which the bonds trade. These letters of credit are "non-recourse." This means that in the event of a catastrophe which prevents the University from being able to meet its obligations under the terms of the operating leases, the bank would step in to meet the terms of the bonds under the provisions of the letter of

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credit. By virtue of their nonrecourse provisions, the bank would not be able to look to the Foundation's other assets to recover its loss.

The following summary, providing an overview of these bond issues, is presented in the Foundation's audit report for the fiscal year ended June 30, 2005 (additional information can be obtained from the Foundation):

➤ Capital Improvement Revenue Bonds:

On April 7, 2000, the Foundation issued \$13,000,000 of Capital Improvement Revenue Bonds (Series 2000 Bonds). The proceeds were used to finance the cost of an addition to the housing system located at the University. Principal is payable in annual installments beginning November 1, 2002, through 2030. The balance outstanding at June 30, 2005, is \$12,500,000.

On March 11, 1997, the Foundation issued \$9,500,000 of Capital Improvement Revenue Bonds (Series 1997 Bonds). The proceeds were also used to finance the cost of an addition to the housing system located at the University. Principal is payable in annual installments beginning November 1, 1999, through 2027. The balance outstanding at June 30, 2005, is \$8,600,000.

On November 16, 1994, the Foundation issued \$17,000,000 of Capital Improvement Revenue Bonds (Series 1994 Bonds). The proceeds were used to pay-off the outstanding balance of a previously existing \$9,200,000 Multi-Modal Interchangeable Rate Industrial Development Revenue Bonds issue, the outstanding balance on a \$2,000,000 revenue note previously issued by a financial institution, and to construct and furnish additional student residence facilities at the University. Principal is payable in annual installments beginning November 1, 1996, through 2024. The balance outstanding at June 30, 2005, is \$14,900,000.

Interest payments on the Capital Improvement Revenue Bonds are made monthly. The interest rate is a variable rate not to exceed 12 percent. At June 30, 2005, the variable rate for the Series 2000, Series 1997, and Series 1994 Bonds is 2.43 percent. The interest rates ranged from 1.03 percent to 3.09 percent during the 2005 fiscal year. The Series 2000, Series 1997, and Series 1994 Bonds are parity issues, which are collateralized by all net revenue collections derived from the student residence facilities.

Principal repayments on all Capital Improvement Revenue Bonds during the next five years and thereafter are as follows:

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UNF Foundation Housing System Revenue Bonds, Variable-Rate

Fiscal Year Ending June 30	Series			Total Principal
	1994	1997	2000	
2006	\$ 300,000	\$ 200,000	\$ 400,000	\$ 900,000
2007	300,000	200,000	400,000	900,000
2008	400,000	200,000	400,000	1,000,000
2009	400,000	200,000	400,000	1,000,000
2010	400,000	200,000	500,000	1,100,000
2011-2015	2,900,000	1,400,000	1,800,000	6,100,000
2016-2020	4,200,000	1,700,000	1,500,000	7,400,000
2021-2025	6,000,000	600,000	1,400,000	8,000,000
2026-2030		3,900,000	4,100,000	8,000,000
2031			1,600,000	1,600,000
Total Housing Related Principal	\$ 14,900,000	\$ 8,600,000	\$ 12,500,000	\$ 36,000,000

The covenants of the Capital Improvement Revenue Bonds require rental revenues sufficient to pay 100 percent of the costs of operation and maintenance of the facility plus 120 percent of debt service during such year. Rental revenues during 2005, net of operating costs, represented debt service coverage of 135 percent.

➤ **Parking System Improvement Revenue Bonds:**

On April 30, 1998, the Foundation issued \$11,700,000 of Parking System Improvement Revenue Bonds (the Parking Bonds) in order to retire the outstanding balance of a prior issue and to begin construction of a new parking facility at the University. The Parking Bonds are collateralized by the revenue stream from the parking system at the University. The interest rate is a variable rate not to exceed 12 percent and is 2.43 percent at June 30, 2005. The interest rates ranged from 1.03 percent to 3.09 percent during fiscal year 2005. Interest payments are made monthly. Principal is payable in 28 annual installments from May 1, 2001, through May 1, 2028.

Principal repayments on the Parking System Improvement Revenue Bonds during the next five years and thereafter are as follows:

**UNF Foundation Parking System Revenue
Bonds, Variable-Rate**

Fiscal Year Ending June 30	Principal
2006	\$ 300,000
2007	300,000
2008	300,000
2009	300,000
2010	400,000
2011-2015	2,100,000
2016-2020	2,500,000
2021-2025	2,500,000
2026-2028	1,500,000
Total Parking Related Principal	\$ 10,200,000

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The covenants of the Parking Bonds require parking revenues sufficient to pay 100 percent of the costs of operation and maintenance of the facility plus 125 percent of debt service during such year. Rental revenues during 2005, net of operating costs, represented debt service coverage of 336 percent.

11. STATE RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System, a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). Plan provisions 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 plan eligibility, contributions, and benefits are defined and described in detail. Participating employers include all State departments, counties, district school boards, community colleges, and universities. Many municipalities and special districts have elected to be participating employers. Essentially, all regular employees of participating employers are eligible to enroll as members of the Plan.

The Florida Legislature reduced the vesting period of the Plan from 10 to 6 years of service effective July 1, 2001. Any member employed in a regularly established position as of July 1, 2001, with a total of 6 or more years of creditable service is considered vested. Former members who were not employed with a participating Plan employer on July 1, 2001, must return to covered employment for one year to become eligible for the six-year vesting provision. An exception to this one-year requirement applies to former members who are within one year of vesting under the pre-2001 vesting requirements. These members will only be required to work the lesser of one year or the amount of time it would have taken to vest in their class of membership prior to July 1, 2001. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before the specified retirement age. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments, as well as supplements for certain employees to cover social security benefits lost by virtue of retirement system membership.

A Deferred Retirement Option Program (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 a Florida Retirement System employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund, and accrue

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interest. Upon termination of employment, the participant receives the total DROP benefits and begins to receive previously determined retirement benefits.

The Plan’s financial statements and other supplemental information 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 Plan, which includes its financial statements, required supplemental information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

The State of Florida establishes contribution rates for Plan members. Contribution rates during the 2004-05 fiscal year are presented below:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.39
Florida Retirement System, Special Risk	0.00	18.53
Florida Retirement System, Senior Management Services	0.00	9.37
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plans	0.00	9.11
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance supplement. Also, employer rates, other than for DROP participants, include .08 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University’s liability for participation in the Plan 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 to the Plan (none from employees) for the fiscal years ended June 30, 2003, June 30, 2004, and June 30, 2005, totaled \$1,912,839.97, \$2,420,530.54, and \$2,382,278.62, respectively, which were equal to the required contributions for each fiscal year.

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

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

There were 440 University participants during the 2004-05 fiscal year. Required contributions made to the Program totaled \$4,903,369.14, including \$1,487,106.17 from employee contributions.

Public Employee Optional Retirement Program. Pursuant to Section 121.4501, Florida Statutes, the Florida Legislature created a Public Employee Optional Retirement Program (PEORP), also known as the Florida Retirement System (FRS) Investment Program. The PEORP is a defined contribution plan, sponsored by the State of Florida, available as an option to the FRS defined benefit plan, and is self-directed by the employee. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. A retirement account is established for each employee who selects this option and an employer contribution is directed to the individual account. The employees have the responsibility of selecting how their funds are invested within the approved set of investment choices and may take their funds when they leave the Florida Retirement System. With each pay period, the University contributes a percentage (same as the FRS rate) of the participating employees' earnings to an annuity plan. Pension benefits are determined by the dollars in the account at the time of retirement.

There were 83 University participants during the 2004-05 fiscal year. Required contributions made to the PEORP totaled \$197,649.25.

12. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2004-05 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered

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retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 11.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2004-05 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

13. CONSTRUCTION COMMITMENTS

The University’s major construction commitments at June 30, 2005, are as follows:

	Amount
Total Estimated Cost	\$ 39,565,386.00
Amount Expended	19,575,038.51
Estimated Amount Committed	\$ 19,990,347.49

14. RISK MANAGEMENT PROGRAMS

Pursuant to Section 1001.72(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers’ compensation, general liability, and fleet automotive liability. During the 2004-05 fiscal year, the State retained the first \$2,000,000 of losses for each occurrence with an annual aggregate retention of \$40,000,000 for wind and flood and \$5,000,000 for perils other than wind and flood. Losses in excess of \$2,000,000 per occurrence were commercially insured up to \$85,000,000 for wind, \$50,000,000 for flood, and \$200,000,000 for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

Pursuant to Section 110.123, Florida Statutes, university employees may obtain health care 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

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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.

15. LITIGATION

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

16. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 46,367,605.18
Research	6,090,202.59
Public Service	7,098,751.24
Academic Support	15,506,525.96
Student Services	12,362,893.94
Institutional Support	16,116,658.47
Operations and Maintenance of Plant	9,870,951.62
Scholarships	11,542,781.44
Auxiliary Enterprises	12,373,753.62
Loan Operations	<u>130,338.06</u>
Total Functional Expenses	137,460,462.12
Depreciation Expense	<u>10,971,251.88</u>
Total Operating Expenses	<u><u>\$ 148,431,714.00</u></u>

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17. COMPONENT UNITS

The University has two 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 unit column of the financial statements. The following financial information is from the most recently available audited financial statements of the component units:

	<u>Direct-Support Organizations</u>		Total Component Units
	University of North Florida Foundation, Inc. 6-30-05	University of North Florida Training and Service Institute, Inc. 6-30-05	
Condensed Statement of Net Assets			
Assets:			
Note Receivable from University of North Florida Foundation, Inc.	\$	\$ 50,000	\$ 50,000
Other Current Assets	21,552,925	2,252,016	23,804,941
Capital Assets, Net	38,041,231	1,531,914	39,573,145
Other Noncurrent Assets	73,842,749	7,405,781	81,248,530
Total Assets	133,436,905	11,239,711	144,676,616
Liabilities:			
Note Payable to University of North Florida Training and Service Institute, Inc.	50,000		50,000
Other Current Liabilities	1,688,852	608,772	2,297,624
Noncurrent Liabilities	45,260,969	242,008	45,502,977
Total Liabilities	46,999,821	850,780	47,850,601
Net Assets:			
Invested in Capital Assets, Net of Related Debt	(8,158,769)	24,143	(8,134,626)
Restricted	93,686,337	1,350,000	95,036,337
Unrestricted	909,516	9,014,788	9,924,304
Total Net Assets	\$ 86,437,084	\$ 10,388,931	\$ 96,826,015
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	\$ 14,336,834	\$ 7,825,735	\$ 22,162,569
Operating Expenses	15,532,201	8,132,421	23,664,622
Operating Loss	(1,195,367)	(306,686)	(1,502,053)
Net Nonoperating Revenues	4,236,117	657,227	4,893,344
Other Revenues, Expenses, Gains, and Losses	9,829,058		9,829,058
Increase in Net Assets	12,869,808	350,541	13,220,349
Net Assets, Beginning of Year	73,287,147	10,038,390	83,325,537
Adjustment to Beginning Net Assets	280,129		280,129
Net Assets, Beginning of Year, as Restated	73,567,276	10,038,390	83,605,666
Net Assets, End of Year	\$ 86,437,084	\$ 10,388,931	\$ 96,826,015

Note: The \$50,000 due from the University of North Florida Foundation, Inc., to the University of North Florida Training and Service Institute, Inc., was eliminated for entity-wide consolidation purposes on the statement of net assets.

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18. PRIOR PERIOD ADJUSTMENT – COMPONENT UNIT

A \$280,129 adjustment to beginning net assets reported in the statement of revenues, expenses, and changes in net assets was to increase the component units' (Foundation's Parking \$72,750 and Housing \$207,379) beginning net asset balance for University returned moneys that were previously expensed and deposited to provide sufficient funds to make on-time interest payments.

19. SEGMENT INFORMATION WITHIN DISCRETELY PRESENTED COMPONENT UNITS

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instrument 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 Foundation's Parking and Housing Facilities operations are identifiable activities for which revenues have been pledged for payment of debt and the related segment information for the 2004-05 fiscal year is shown below:

Condensed Statement of Net Assets

	Parking System	Housing System
Assets		
Current Assets	\$ 5,880,643	\$ 13,231,875
Capital Assets, Net	10,903,142	27,102,832
Other Noncurrent Assets	85,404	299,475
Total Assets	16,869,189	40,634,182
Liabilities		
Current Liabilities	357,756	1,251,990
Noncurrent Liabilities	9,900,000	35,100,000
Total Liabilities	10,257,756	36,351,990
Net Assets		
Invested in Capital Assets, Net of Related Debt	703,142	(8,897,168)
Restricted - Expendable	5,908,289	13,179,360
Total Net Assets	\$ 6,611,431	\$ 4,282,192

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

	Parking System	Housing System
Operating Revenues	\$ 2,579,672	\$ 8,057,590
Depreciation and Amortization Expenses	(1,014,691)	(1,693,674)
Other Operating Expenses	(951,420)	(6,056,428)
Operating Income	613,561	307,488
Net Nonoperating Expenses	(39,188)	(214,204)
Increase in Net Assets	574,373	93,284
Net Assets, Beginning of Year	5,964,308	3,981,529
Adjustments to Beginning Net Assets	72,750	207,379
Net Assets, Beginning of Year, As Restated	6,037,058	4,188,908
Net Assets, End of Year	<u>\$ 6,611,431</u>	<u>\$ 4,282,192</u>

Condensed Statement of Cash Flows

	Parking System	Housing System
Net Cash Provided (Used) in:		
Operating Activities	\$ 448,394	\$ 800,652
Capital and Related Financing Activities	(448,394)	(800,652)
Net Decrease in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Year	55,539	
Cash and Cash Equivalents, End of Year	<u>\$ 55,539</u>	<u>\$</u>

APPENDIX A
MANAGEMENT RESPONSE



OFFICE OF THE PRESIDENT

UNIVERSITY *of*
NORTH FLORIDA

March 15, 2006

Mr. William O. Monroe, CPA
Auditor General
Room G74, Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

Pursuant to Section 11.45(4)(d), Florida Statutes, enclosed is the University of North Florida's response to the preliminary and tentative audit finding and recommendation for the financial audit for fiscal year ended June 30, 2005.

Sincerely,

John A. Delaney
President

JAD/bge

Enclosure

UNF's Financial Statement Audit Preliminary and Tentative Finding

Finding No. 1: Bank Account Reconciliations

Effective internal controls require that the University prepare timely reconciliations of bank account balances with its general ledger balances. Such reconciliations are necessary to assure that recorded cash transactions agree with bank records, to permit prompt detection and correction of unrecorded or improperly recorded transactions, and to provide for the economic and efficient management of cash resources. Our review of the June 30, 2005, bank account reconciliations disclosed numerous differences between the bank account balances and the general ledger balances that were either unexplained or required entries to the general ledger (a similar finding was noted in our report No. 2006-064). Subsequently, University staff resolved some of these differences and, in February 2006, net audit adjustments of \$2,271,239.22 reducing cash balances in the general ledger were accepted by the University to properly report the affected account balances and note disclosures in the accompanying financial statements. Although we were able to determine through expanded audit procedures the adjustments necessary for fair presentation of the University's financial statements, when bank accounts are not properly reconciled, there is little assurance that errors or fraud, should they occur, will be promptly detected by University personnel, and University management's ability to rely on the accuracy of financial reports prepared from the accounting records is limited.

Recommendation: The University should continue to improve its bank reconciliation procedures to provide for the identification and recording of all reconciling items in a timely manner.

University Response: We concur that proper and timely bank account reconciliations are a necessary and vital internal control in order to ensure proper financial accounting and reporting. Bank reconciliations were delayed due to the opening of new bank accounts along with the implementation of the new ERP system. This shift to a local computer system was actually mandated by the State, and this same issue has occurred on most other campuses. The Controller's office hired several people to catch up and work on bank reconciliations. Bank accounts are now up to date and fully reconciled, except for the Cashier's account which is complete through September. To ensure segregation of duties, bank account reconciliations have been assigned to the Treasury area. The individual responsible for the reconciliations has no incompatible duties.