

**University of North Florida
Board of Trustees**

A Financial Statement Audit Report
For the Fiscal Year Ended June 30, 2002



WILLIAM O. MONROE, CPA

During the audit period, the President of the University of North Florida was Dr. Anne H. Hopkins. The Board members who served during the audit period are listed below:

Board Member

Carol C. Thompson, Chairman
Thomas O'Neal Douglas, Vice-Chairman
Luther Coggin from 3-7-02
Toni Crawford
Donna Harper Gibbs
Wilfredo Gonzalez
Steve T. Halverson
Ann C. Hicks
Lindsay Hodges through 4-19-02 (1)
Joan Wellhouse Newton
Hank Rogers from 4-20-02 (1)
James Stallings
Virginia Hall Steinmetz through 3-6-02
Kevin M. Twomey
Dr. Floyd Willis

Note: (1) The student body president, who is a voting member of the Board in accordance with Section 229.003(4), Florida Statutes.

AUDITOR GENERAL

The Auditor General provides independent, unbiased, timely, and relevant information to the Legislature, entity management, and the citizens of the State of Florida which can be used to improve the operations and accountability of public entities.

**UNIVERSITY OF NORTH FLORIDA
BOARD OF TRUSTEES**

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EXECUTIVE SUMMARY

The audit of the financial statements of the Board of Trustees of the University of North Florida for the fiscal year ended June 30, 2002, was conducted pursuant to the provisions of Section 11.45, Florida Statutes.

The scope of this audit included an examination of the financial statements of the University of North Florida, 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 grants that are material to the financial statements. An examination of Federal awards administered by the University of North Florida 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 of North Florida:

- We found that the financial statements presented fairly, in all material respects, the financial position of the University of North Florida and of its discretely presented component units as of June 30, 2002, the revenues, expenses, and changes in net assets; and the cash flows for the fiscal year then ended.
- The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.
- We noted no matters involving internal control over financial reporting and its operation that we considered to be material weaknesses.

This audit was conducted by Michelle G. Begley, CPA, and supervised by John P. Duffy, CPA. Please address inquiries regarding this report to James E. Raulerson, CPA, Audit Manager, via e-mail at jimraulerson@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.



WILLIAM O. MONROE, CPA
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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of North Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2002, as shown on pages 13 through 35. These financial statements are the responsibility of the University of North Florida'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 discretely presented component units column. 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, 2002, 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 described in note 1 to the financial statements, the University of North Florida adopted Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis - for Public Colleges and Universities*, and related pronouncements as of and for the fiscal year ended June 30, 2002.

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 grants included under the heading **INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The **MANAGEMENT’S DISCUSSION AND ANALYSIS** on pages 5 through 12 is not a required part of the financial statements, but is supplementary information required by the accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Respectfully submitted,


William O. Monroe, CPA
January 8, 2003



WILLIAM O. MONROE, CPA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, as of and for the fiscal year ended June 30, 2002, 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.

Compliance

As part of obtaining reasonable assurance about whether the University of North Florida's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of North Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the University of North Florida's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose

all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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
January 8, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis of the University of North Florida's financial statements provides an overview of the University's financial activities for the fiscal year ended June 30, 2002. The financial statements are comprised of the following:

- 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 the Financial Statements

This management's discussion and analysis is designed to focus on current activities, resulting change, and currently known facts. Please read it in conjunction with the basic financial statements and the notes to financial statements. Responsibility for the completeness and fairness of this information rests with the University's management. Since this is a transition year, only one year of data is presented in the management's discussion and analysis.

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

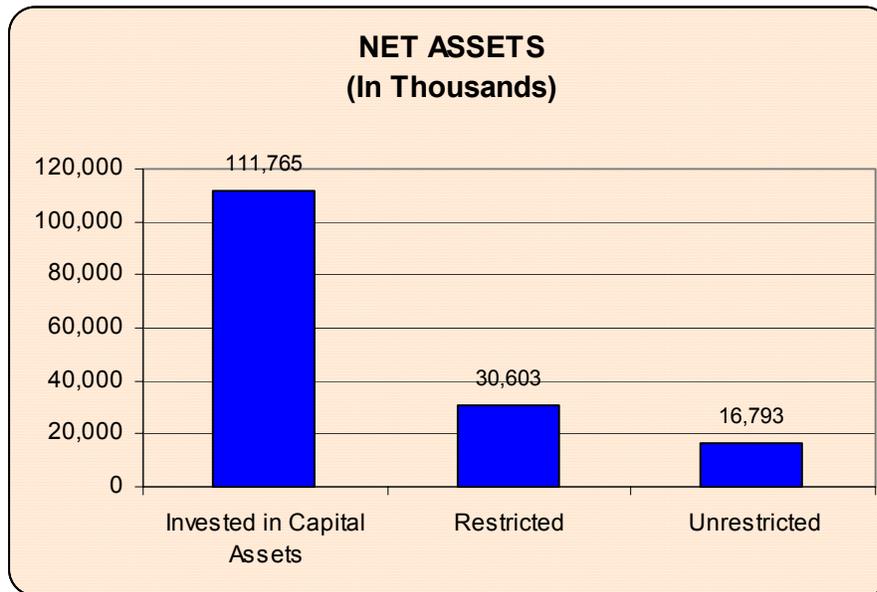
- University of North Florida (Primary Institution) – Reporting financial activities of the University for fiscal year ended June 30, 2002. Most of the programs and services generally associated with the University fall into this category, including instruction, public service, and support services.
- University of North Florida Foundation, Inc. (Foundation) and the University of North Florida Training and Service Institute, Inc. (TSI) (Component Units) – Reporting financial activities of the Foundation and TSI for the fiscal year ended June 30, 2001, the most recent audited year available. 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.

The University's reporting authority, the Governmental Accounting Standards Board (GASB), made significant changes to how the University presents its financial activities. The most significant changes include single-column reporting versus the traditional fund multi-column reporting, depreciating capital assets for the first time, classifying revenues and expenses as operating and nonoperating, and reducing student tuition and fees by scholarship allowances. As a result of implementing these new guidelines, the University elected to report as an entity engaged in only business-type activities. This election required the adoption of the accrual basis of accounting and entity-wide reporting of net assets, including reporting of accumulated depreciation and depreciation expense, as described in notes to the financial statements.

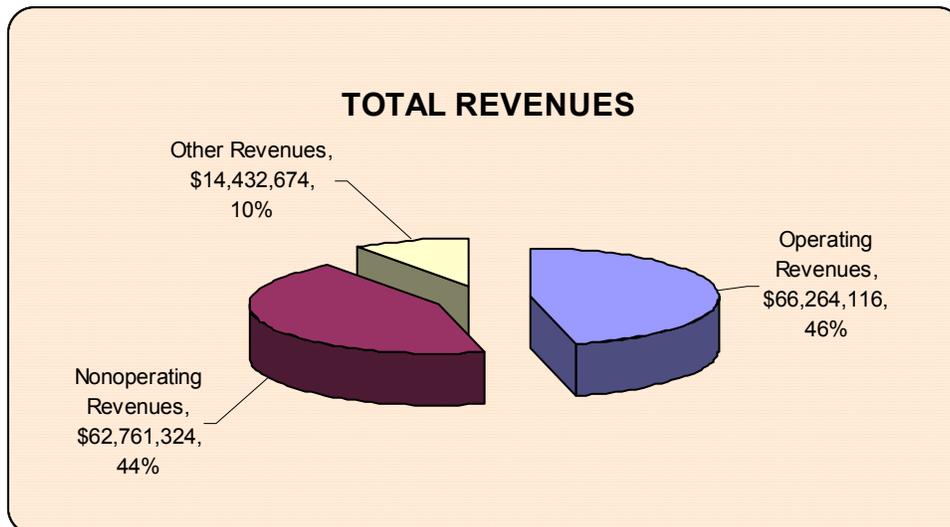
FINANCIAL HIGHLIGHTS

The University's financial position improved during the fiscal year ended June 30, 2002, with its net assets now totaling \$159.2 million. The University's revenues and other support exceeded expenses by \$15.2 million, resulting in a 10 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, 2002:



The following chart provides a graphical presentation of the University's revenues by category for the 2001-02 fiscal year:



Also, the University's component units revenues exceeded expenses increasing their net assets by \$4.5 million, or 8 percent, for the fiscal year ended June 30, 2001.

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*. GASB made significant changes to how the University presents its financial activities starting with the 2001-2002 fiscal year. The implementation of the

new reporting model required the University to restate its beginning fund balances, including accounting for the cumulative effect of accumulated depreciation on capital assets. Details related to restating fund balances are explained in a note to the financial statements, including a \$67 million adjustment for prior years accumulated depreciation of capital assets.

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 help 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 of 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 and/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 to 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 on the following page:

Net Assets, June 30 (In Thousands)		
	University 2002	Component Units 2001
Assets		
Current Assets	\$ 86,548	\$ 65,047
Noncurrent Assets	655	3,323
Capital Assets, Net of Depreciation	124,854	41,425
Total Assets	212,057	109,795
Liabilities		
Current Liabilities	19,804	1,897
Deferred Revenue	13,480	175
Noncurrent Liabilities	19,612	48,925
Total Liabilities	52,896	50,997
Net Assets		
Investment in Capital Assets, Net of Debt	111,765	4,674
Restricted	30,603	44,507
Unrestricted	16,793	9,617
Total Net Assets	\$ 159,161	\$ 58,798

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 the 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, both 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.

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 on the following page:

Operating Results (In Thousands)		
	University 2001-02	Component Units 2000-01
Operating Revenues	\$ 66,264	\$ 20,278
Operating Expenses	(127,572)	(18,299)
Operating Income (Loss)	(61,308)	1,979
Nonoperating Revenues (Expenses)	62,027	(790)
Income Before Other Contributions	719	1,189
Capital Contributions	14,433	3,265
Change in Net Assets	15,152	4,454
Net Assets, Beginning of Year	144,009	54,344
Net Assets, End of Year	<u>\$ 159,161</u>	<u>\$ 58,798</u>

It was a positive year with increases in net assets for the University and its component units. University income was \$719 thousand before capital contributions and the aggregate component unit income was \$1.2 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, expense, and changes in net assets and notes to the 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 \$66.3 million, including \$36.3 million in net student tuition and fees revenues, \$10.1 in Federal contracts and grants, and \$5.6 million in sales and services of education departments, mostly continuing education.
- Operating expenses were \$127.6 million, including \$76.2 million for personnel service and \$15.9 million for scholarship and waivers. For additional analysis, the functional distribution of expenses has been shown in the notes to the financial statements using the classifications as recommended by the National Association of College and University Business Officers.
- Nonoperating revenues and expenses netted to \$62 million in revenue, including \$59.7 million in State nonexchange support for University operations. State allocations and moneys for operations decreased by approximately \$2 million when compared to the prior year.
- Capital contributions were \$14.4 million, including \$13.1 million in Public Education Capital Outlay (PECO) encumbrance authorizations received during the fiscal year. In deferred revenues, the University has an additional \$13.5 million related to PECO allocated for projects pending encumbrance authorization.

Because operating expenses are one of the most significant items above, additional information for the University and its aggregate component units is presented on the following page:

Operating Expenses (In Thousands)		
<u>Operating Expenses</u>	<u>University 2001-02</u>	<u>Component Units 2000-01</u>
Salaries and Benefits	\$ 76,154	\$
Contractual Services	5,337	
Scholarships/Waivers	15,870	
Utilities	1,929	
Repairs and Maintenance	1,225	
Other Expenses	18,978	16,372
Depreciation	8,079	1,927
Total	\$ 127,572	\$ 18,299

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.

Another way to assess the financial health of an institution is to look at the statement of cash flows. 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 for the fiscal year ended June 30, 2002, is shown below:

Cash Flows for the Year (In Thousands)	
	<u>University</u>
Cash Provided (Used) by:	
Operating Activities	\$ (52,956)
Noncapital Financing Activities	67,326
Capital Related Financing Activities	(5,732)
Investing Activities	(11,971)
Net Decrease in Cash	(3,333)
Cash and Cash Equivalents, Beginning of Year	18,334
Cash and Cash Equivalents, End of Year	\$ 15,001

Cash and cash equivalents are fully explained in notes to the financial statements and for a more detailed understanding of the University's cash activity see the actual statement of cash flows. This statement is divided into five parts. The first part 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 year. The fifth section reconciles the net operating revenues (expenses) to net cash used by operating activities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2002, the University had \$124.9 million of capital assets net of depreciation, and at June 30, 2001, its component units had \$41.4 million of capital assets net of depreciation. A summary of capital assets and accumulated depreciation is shown below for the respective fiscal years:

Net Capital Assets at June 30 (In Thousands)		
	University 2002	Component Units 2001
	<u> </u>	<u> </u>
Capital Assets		
Land	\$ 7,452	\$
Buildings	107,516	40,792
Other Structures and Improvements	11,455	1,185
Furniture, Machinery, and Equipment	28,050	1,529
Library Resources	23,543	
Computer Software	683	
Construction in Progress	21,185	10,139
	<u>199,884</u>	<u>53,645</u>
Total		
Less Accumulated Depreciation:		
Buildings	40,276	11,137
Other Structures and Improvements	1,773	
Furniture, Machinery, and Equipment	15,083	1,083
Library Resources	17,386	
Computer Software	512	
	<u>75,030</u>	<u>12,220</u>
Total Accumulated Depreciation		
	<u>\$ 124,854</u>	<u>\$ 41,425</u>
Net Capital Assets		

Details of the University's capital asset activity for the fiscal year ended June 30, 2002, such as additions and deletions by category, are shown in notes to the financial statements.

As of June 30, 2002, there are several construction projects in progress. These projects include the Science and Engineering Building, the 400 Meter Track, the Golf Management Learning Center, the New Entrance Road, the Library Addition, and various infrastructure improvements and minor projects.

During the current year, the University of North Florida opened the new Fine Arts Center. This is currently the largest building on campus. It contains communication classrooms, visual art studios, and a music rehearsal room. The performance areas include a 1,400-seat "grand performance hall" and a 150-seat recital room. Additionally, during the 2001-02 fiscal year, the University received \$576,303 from the Foundation for the Fine Arts Center and these funds were matched by the Courtelis matching program which increased the total funds available to \$1,152,606.

Debt

At June 30, 2002, the University had approximately \$11.5 million in debt outstanding versus \$11.9 million the previous year, a decrease of 3.6 percent. The entire amount of this debt is State University System Revenue Certificates and proceeds were used for capital outlay projects. Additional information about debt and other obligations of the University and its component units are included in the notes to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University is not aware of any currently known 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 STATEMENTS

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2002

	<u>University</u>	<u>Component Units</u>	<u>Total Memorandum Only Reporting Entity</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 14,442,211.02	\$ 3,623,233.00	\$ 18,065,444.02
Investments with the State Treasurer	29,088,410.18		29,088,410.18
Other Investments		46,355,688.00	46,355,688.00
Accounts Receivable, Net	1,499,776.61	4,624,554.00	6,124,330.61
Contracts and Grants Receivable	2,576,586.51		2,576,586.51
Due from Primary Government	38,037,416.60	9,672,339.00	47,709,755.60
Loans and Notes Receivable, Net	769,636.10		769,636.10
Inventories	133,917.70	110,436.00	244,353.70
Other Assets		661,132.00	661,132.00
Total Current Assets	<u>86,547,954.72</u>	<u>65,047,382.00</u>	<u>151,595,336.72</u>
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	558,649.77	2,869,304.00	3,427,953.77
Other Restricted Investments	63,025.76		63,025.76
Buildings, Equipment, and Other Depreciable Capital Assets, Net	96,216,661.12	30,101,065.00	126,317,726.12
Land and Other Nondepreciable Capital Assets	28,636,858.37	11,323,964.00	39,960,822.37
Other Assets	33,558.85	452,886.00	486,444.85
Total Noncurrent Assets	<u>125,508,753.87</u>	<u>44,747,219.00</u>	<u>170,255,972.87</u>
TOTAL ASSETS	<u>212,056,708.59</u>	<u>109,794,601.00</u>	<u>321,851,309.59</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 1,248,841.88	\$ 811,249.00	\$ 2,060,090.88
Salary and Payroll Taxes Payable	1,578,736.47		1,578,736.47
Construction and Retainage Payable	2,128,710.21		2,128,710.21
Due to Component Units	13,232,831.18		13,232,831.18
Due to Primary Government	49,549.22		49,549.22
Deferred Revenue	13,480,000.00	174,633.00	13,654,633.00
Accrued Interest Payable		87,527.00	87,527.00
Long-Term Liabilities - Current Portion:			
Bonds Payable	463,167.88	600,000.00	1,063,167.88
Compensated Absences Payable	266,066.81		266,066.81
Deposits Held in Custody	836,156.61	223,322.00	1,059,478.61
Total Current Liabilities	<u>33,284,060.26</u>	<u>1,896,731.00</u>	<u>35,180,791.26</u>
Noncurrent Liabilities:			
Bonds Payable	11,009,013.36	49,100,000.00	60,109,013.36
Compensated Absences Payable	8,602,826.98		8,602,826.98
Total Noncurrent Liabilities	<u>19,611,840.34</u>	<u>49,100,000.00</u>	<u>68,711,840.34</u>
TOTAL LIABILITIES	<u>52,895,900.60</u>	<u>50,996,731.00</u>	<u>103,892,631.60</u>

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2002

	<u>University</u>	<u>Component Units</u>	<u>Total Memorandum Only Reporting Entity</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 111,764,535.15	\$ 4,673,847.00	\$ 116,438,382.15
Restricted:			
Nonexpendable:			
Endowment		35,132,756.00	35,132,756.00
Expendable:			
Other Restricted Net Assets	5,424,575.67	9,374,307.00	14,798,882.67
Loans	1,097,249.19		1,097,249.19
Capital Projects	24,080,960.56		24,080,960.56
Unrestricted	<u>16,793,487.42</u>	<u>9,616,960.00</u>	<u>26,410,447.42</u>
TOTAL NET ASSETS	<u>\$ 159,160,807.99</u>	<u>\$ 58,797,870.00</u>	<u>\$ 217,958,677.99</u>

The accompanying notes to the 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, 2002

	<u>University</u>	<u>Component Units</u>	<u>Total Memorandum Only Reporting Entity</u>
REVENUES			
Operating Revenues:			
Student Tuition and Fees, Net of Scholarship Allowances of \$641,558.18	\$ 36,254,763.03	\$	\$ 36,254,763.03
Federal Grants and Contracts	10,103,690.66		10,103,690.66
State and Local Grants and Contracts	7,855.00		7,855.00
Sales and Services of Auxiliary Enterprises	5,552,641.20		5,552,641.20
Other Operating Revenues	14,345,165.71	20,278,592.00	34,623,757.71
Total Operating Revenues	<u>66,264,115.60</u>	<u>20,278,592.00</u>	<u>86,542,707.60</u>
EXPENSES			
Operating Expenses:			
Personnel Services	76,153,948.53		76,153,948.53
Scholarships and Waivers	15,870,324.40		15,870,324.40
Utilities and Communications	1,929,130.79		1,929,130.79
Contractual Services	5,336,368.70		5,336,368.70
Other Services and Expenses	18,978,126.75	16,371,543.00	35,349,669.75
Materials and Supplies	1,224,641.69		1,224,641.69
Depreciation	8,079,456.14	1,927,475.00	10,006,931.14
Total Operating Expenses	<u>127,571,997.00</u>	<u>18,299,018.00</u>	<u>145,871,015.00</u>
Operating Income (Loss)	<u>(61,307,881.40)</u>	<u>1,979,574.00</u>	<u>(59,328,307.40)</u>
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	59,724,129.00		59,724,129.00
Investment Income	1,457,402.82	1,443,853.00	2,901,255.82
Noncapitalized Interest	(11,921.78)		(11,921.78)
Other Nonoperating Revenues	1,579,792.45		1,579,792.45
Other Nonoperating Expenses	(722,837.83)	(2,234,103.00)	(2,956,940.83)
Net Nonoperating Revenues (Expenses)	<u>62,026,564.66</u>	<u>(790,250.00)</u>	<u>61,236,314.66</u>
Income Before Other Revenues, Expenses, Gains, or Losses	<u>718,683.26</u>	<u>1,189,324.00</u>	<u>1,908,007.26</u>
Capital Appropriations	13,053,786.00		13,053,786.00
Capital Grants, Gifts, and Fees	940,128.50		940,128.50
Additions to Permanent Endowments		3,264,366.00	3,264,366.00
Transfers from Primary Government	438,759.51		438,759.51
Total Other Revenues	<u>14,432,674.01</u>	<u>3,264,366.00</u>	<u>17,697,040.01</u>
Increase in Net Assets	15,151,357.27	4,453,690.00	19,605,047.27
Restated Net Assets, Beginning of Year	144,009,450.72	54,344,180.00	198,353,630.72
Net Assets, End of Year	<u>\$ 159,160,807.99</u>	<u>\$ 58,797,870.00</u>	<u>\$ 217,958,677.99</u>

The accompanying notes to the 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, 2002

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 36,207,710.10
Grants and Contracts	10,008,013.35
Payments to Suppliers	(8,655,497.28)
Payments to Employees	(76,049,436.86)
Payments for Scholarships	(15,870,324.40)
Collection of Loans to Students	121,426.04
Sales and Services of Auxiliary Enterprises	5,591,245.46
Sales and Services of Educational Departments	(10,351.66)
Other Disbursements	(4,298,822.48)
	(52,956,037.73)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	59,724,129.00
Gifts and Grants Received for Other than Capital or Endowment Purposes	7,177,489.07
Change in Funds Held for Others	(457,820.42)
Other Receipts	1,579,792.45
Other Disbursements	(697,942.28)
	67,325,647.82
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	12,009,309.60
Purchases of Capital Assets	(16,697,851.82)
Principal Paid on Capital Debt	(438,759.51)
Interest Paid on Asset-Related Debt	(604,156.07)
	(5,731,457.80)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investment	(25,660,000.00)
Sales of Investments	12,212,870.17
Interest on Investments	1,476,107.07
	(11,971,022.76)
Net Decrease in Cash and Cash Equivalents	(3,332,870.47)
Cash and Cash Equivalents, Beginning of Year	18,333,731.26
	18,333,731.26
Cash and Cash Equivalents, End of Year	\$ 15,000,860.79
	\$ 15,000,860.79

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2002

	University
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (61,307,881.40)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	8,079,456.14
Changes in Assets and Liabilities:	
Accounts Receivable	184,970.82
Loans and Notes Receivable	104,645.28
Inventories	(20,491.97)
Accounts Payable	(241,808.78)
Deposits Held for Others	48,466.66
Compensated Absences	196,605.52
NET CASH USED BY OPERATING ACTIVITIES	\$ (52,956,037.73)

The accompanying notes to the 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, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. In prior fiscal years, Florida's public universities were governed by a Board of Regents, and their financial activities were reported in the State of Florida's financial statements as part of the primary government. Effective July 1, 2001, the Legislature amended Section 229.003, Florida Statutes, abolishing the Board of Regents and transferring its operations to the Florida Board of Education, which is responsible for overseeing kindergarten through graduate studies education. In addition, the Statute provided for separate boards of trustees appointed by the Governor for each university. Although the University is part of the State University System regulated and coordinated by the Florida Board of Education, effective July 1, 2001, it became a separate public instrumentality.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. 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, effective July 1, 2001, the University became a component unit of the State of Florida.

The governing body of the University is its Board of Trustees. The Board constitutes a body corporate composed of twelve (12) members appointed by the governor and one student member. The Board of Trustees is under the general direction and control of the Commissioner of Education, the Chancellor of the Division of Colleges and Universities, and is governed by Florida law and rules of the Florida Board of Education. By statute, the Board of Trustees selects the President and the Florida Board of Education must ratify the candidate selected. The University Board of Trustees adopts University rules and procedures, and plans for future needs of the University. The University President is responsible for the management of the University and has the ultimate responsibility for administering the policies prescribed by the Board of Trustees.

Component Units. Based on the application of the criteria for determining component units, the following component units are included within the University Board of Trustees' reporting entity as discretely presented component units:

- 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 the pursuit of higher education at the University and 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 benefits the public generally.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

- 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.

Additional condensed financial statements for the University's component units are included in a subsequent note. Additional information on the University's component units, including copies of audit reports, is available by contacting the University Controller's Office.

These component units are also direct-support organizations. As provided in Section 240.299, Florida Statutes, direct support organizations are separate, not-for-profit corporations 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. An independent certified public accountant conducts an annual postaudit of each organization's financial statements. The audited financial statements are submitted to the Auditor General and the Board of Trustees for review.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America 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). In November 1999, the Governmental Accounting Standards Board issued GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 35 allows public colleges and universities the option of reporting as a special-purpose government either engaged in only business-type activities, engaged in only governmental activities, or engaged in both governmental and business-type activities. The universities of the State University System, including the University of North Florida, elected to report as an entity engaged in only business-type activities. This election 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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows (presented using the direct method in compliance with GASB Statement No. 9)
- 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 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.

Interdepartmental transactions of Auxiliary Service Departments have been accounted for as reductions of expenditures and not revenues of those departments. Under operating leases with one of its component units, the University acts as an agent to manage day-to-day operations of the Foundation's student housing and parking structures. These facilities were constructed with money borrowed by the Foundation, which pledged anticipated net revenues from operations to retire the debt; therefore, all revenues and expenses related to these operations are reported by the Foundation.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses include all fiscal transactions related to these activities as well as administration, operation and maintenance of plant assets, and depreciation of capital assets. Nonoperating revenues include State appropriations, investment income, and capital funding. Interest on asset-related debt is a nonoperating expense.

The University follows Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

When both restricted and unrestricted resources are available to fund specific programs, it is the University's policy to first apply the restricted resources to such programs followed by the use of the unrestricted resources.

Student tuition and fees are reported net of scholarship allowances. 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 calculated its scholarship allowances applying the method prescribed by NACUBO Advisory Report No. 2000-05. Under this method, the University computes these amounts by allocating the cash

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third party aid.

Cash and Cash Equivalents. The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, unexpended general revenue appropriation releases, and cash held in the State Treasury. Banks qualified as public depositories under Florida law hold cash deposits of the University. All such deposits are insured by Federal depository insurance or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes.

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

- Buildings and Improvements – Up to 40 Years, Depending on Construction
- Infrastructure and Improvements – 10 to 20 Years
- Furniture and Equipment:
 - Equipment (Non-Office) – 5 Years
 - Computer Equipment – 3 Years
 - Movable Equipment – 5 Years
- Library Materials – 10 Years

2. ACCOUNTING CHANGES FOR NEW REPORTING MODEL

In connection with the University's implementation of GASB Statements Nos. 34 and 35, the University made adjustments to beginning fund balances to reflect the cumulative effect of this accounting change. These adjustments are summarized on the following page:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

	Amount
Adjustments:	
Accumulated Depreciation:	
Buildings	\$ (37,195,605.06)
Infrastructure and Other Improvements	(1,125,987.80)
Furniture and Equipment	(11,987,568.33)
Library Resources	(16,228,066.09)
Other Capital Assets	(424,027.50)
Total Accumulated Depreciation	(66,961,254.78)
Other Adjustments	1,270,045.79
Total Adjustments	(65,691,208.99)
Fund Balance, Beginning of Year	209,700,659.71
Restated Net Assets, Beginning of Year	\$ 144,009,450.72

3. INVESTMENTS

The University participates in investment pools through the State Treasury in accordance with the provisions of Section 18.125, Florida Statutes. These investment pools operate under investment guidelines established by Section 215.47, Florida Statutes. The University's investments in these pools are reported at market value.

Generally accepted accounting principles require that the credit risk of investments be classified into the following three categories:

- Risk Category 1 – Insured or registered, or securities held by the entity or its agent in the entity's name.
- Risk Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.
- Risk Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Certain University investments, such as investment pools managed by other governments, cannot be categorized because the University's investments are not evidenced by specific, identifiable investment securities. All University investments at June 30, 2002, were in investment pools managed by the State Treasury with a fair market value of \$29,151,435.94.

Investments held by the University's component units at June 30, 2001, are reported at fair value based upon quoted market prices. These investments are categorized on the following page:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

	I n v e s t m e n t s			Fair Value
	Risk Category			
	1	2	3	
<u>Component Units</u>				
Bonds and Notes	\$	\$	\$ 3,974,240.00	\$ 3,974,240.00
Stocks			6,416,832.00	6,416,832.00
Total	\$	\$	\$ 10,391,072.00	
Money Market and Mutual Funds				35,964,616.00
Total Component Unit Investments				\$ 46,355,688.00

4. RECEIVABLES

Accounts Receivable, Net. Accounts receivable represent amounts for student fee deferrals, various student services provided by the University, and various auxiliary services provided to students and third parties. These receivables are reported net of a \$162,635.69 allowance for uncollectible accounts.

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.

Loans and Notes Receivable, Net. Loans and notes receivable represent student loans made under the Federal Perkins Loan Program and the University's short-term loan programs. Loans and notes receivable are reported net of a \$198,225.47 allowance for uncollectible loans and notes.

Allowances for Uncollectible Accounts Receivable and Loans and Notes Receivable. Allowances for uncollectible accounts 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. Most of the estimated uncollectible loans and notes receivable relate to the Federal Perkins Loan Program based upon projected defaults calculated by the University's billing agent in accordance with procedures prescribed by the United States Department of Education.

5. DUE FROM PRIMARY GOVERNMENT (STATE)

This amount is comprised of State Public Education Capital Outlay (PECO) allocations for construction of University facilities due to the University at June 30, 2002.

6. DUE TO COMPONENT UNITS

This amount is comprised of moneys accumulated under the University's operating leases for housing and parking facilities owned by the Foundation, a component unit, and held by the University at June 30,

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

2002. The University receives and invests excess receipts in the State Treasury via the Auxiliary Fund. The University pays, on behalf of the Foundation, operating and other agreed upon expenses, such as scheduled debt, from the Auxiliary Fund and any unexpended moneys are obligated to support future operations or costs under the operating leases for housing and parking. Because the most recent audited financial statements for Foundation are for the fiscal year ended June 30, 2001, the amount reported by the component unit as Due from Primary Government (part of the Foundation's accounts receivable) on the statement of net assets does not agree because of the timing difference.

7. 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.

8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 7,451,525.50	\$	\$	\$ 7,451,525.50
Construction in Progress	10,104,742.93	11,080,589.94		21,185,332.87
Total Nondepreciable Capital Assets	\$ 17,556,268.43	\$ 11,080,589.94	\$	\$ 28,636,858.37
Depreciable Capital Assets:				
Buildings	\$ 105,383,200.40	\$ 2,270,183.31	\$ 137,516.41	\$ 107,515,867.30
Infrastructure and Other Improvements	9,710,256.94	1,745,026.68		11,455,283.62
Furniture and Equipment	24,813,379.95	3,639,276.21	402,263.75	28,050,392.41
Library Resources	22,238,734.32	1,303,795.00		23,542,529.32
Other Capital Assets	538,043.16	145,238.26		683,281.42
Total Depreciable Assets	162,683,614.77	9,103,519.46	539,780.16	171,247,354.07
Less Accumulated Depreciation:				
Buildings	37,195,605.06	3,080,771.51		40,276,376.57
Infrastructure and Other Improvements	1,125,987.80	647,195.10		1,773,182.90
Furniture and Equipment	11,987,568.33	3,105,190.37	10,017.97	15,082,740.73
Library Resources	16,228,066.09	1,157,848.45		17,385,914.54
Other Capital Assets	424,027.50	88,450.71		512,478.21
Total Accumulated Depreciation	66,961,254.78	8,079,456.14	10,017.97	75,030,692.95
Total Depreciable Capital Assets, Net	95,722,359.99	1,024,063.32	529,762.19	96,216,661.12
Total Capital Assets, Net	\$ 113,278,628.42	\$ 12,104,653.26	\$ 529,762.19	\$ 124,853,519.49

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

9. LONG-TERM LIABILITIES

Long-term liabilities of the University include bonds and compensated absences. The long-term liability activity for the year ended June 30, 2002, is shown below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Leases:					
Bonds Payable	\$ 11,899,018.97	\$	\$ 426,837.73	\$ 11,472,181.24	\$ 463,167.88
Other Liabilities:					
Compensated Absences Payable	8,672,288.27	576,494.52	379,889.00	8,868,893.79	266,066.81
Total Long-Term Liabilities	\$ 20,571,307.24	\$ 576,494.52	\$ 806,726.73	\$ 20,341,075.03	\$ 729,234.69

Bonds Payable. The former Board of Regents and currently the Florida Board of Education issue both term and serial Revenue Bonds on behalf of the State University System, the proceeds of which are used to acquire and construct various University capital projects. The bonds are secured and payable from the State University System Capital Improvement and Building Fees. The Florida 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. Bonds payable at June 30, 2002, are shown below:

Bond Type	Amount of Original Issue	Total Retired	Amount Outstanding		Interest Rates (Percent)	Annual Maturity To
			Principal	Interest		
State University System						
Revenue Certificates:						
Series 1991	\$ 2,726,048.15	\$ 2,708,205.82	\$ 17,842.33	\$ 1,337.00	6.50	2003
Series 1993	3,655,234.79	1,358,496.31	2,296,738.48	740,575.89	4.800 - 5.375	2013
Series 1997	3,836,631.04	564,922.18	3,271,708.86	2,190,738.21	5.00 - 7.00	2022
Series 1997A	2,264,354.71	107,196.58	2,157,158.13	1,007,653.90	4.00 - 5.00	2016
Series 1998	4,178,965.95	450,232.51	3,728,733.44	2,209,045.27	4.00 - 5.00	2023
Total Bonds Payable	\$ 16,661,234.64	\$ 5,189,053.40	\$ 11,472,181.24	\$ 6,149,350.27		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2002, is shown on the following page:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

Fiscal Year Ending June 30	State University System Revenue Certificates		
	Principal	Interest	Total
2003	\$ 463,167.88	\$ 581,777.93	\$ 1,044,945.81
2004	488,492.73	557,777.49	1,046,270.22
2005	515,344.75	532,857.13	1,048,201.88
2006	541,743.11	508,517.17	1,050,260.28
2007	569,838.05	482,959.70	1,052,797.75
2008-2012	3,352,250.32	1,962,819.85	5,315,070.17
2013-2017	3,053,073.17	1,086,856.99	4,139,930.16
2018-2022	2,372,164.01	423,565.06	2,795,729.07
2023	271,532.14	12,218.95	283,751.09
Total	11,627,606.16	6,149,350.27	17,776,956.43
Less, Bond Discount	155,424.92		155,424.92
Total	<u>\$ 11,472,181.24</u>	<u>\$ 6,149,350.27</u>	<u>\$ 17,621,531.51</u>

Compensated Absences. University employees may accrue annual and sick leave based on length of service, but are subject to certain limitations regarding the amount that will be paid upon termination. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is paid in the current fiscal year. Although the University expects the liability to be funded from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of a liability for compensated absences, without the corresponding recognition of such future resources, results in a reduction of current year net assets. For the fiscal year ended June 30, 2002, the estimated liability for compensated absences, which includes the employer's share of the Florida Retirement System and FICA contributions, totaled \$8,868,893.79. The current portion of the compensated absences liability of \$266,066.81 at June 30, 2002, was estimated based on actual usage and leave payouts over the last three years, calculated as a percentage of those years' total compensated absences liability.

10. UNIVERSITY HOUSING AND PARKING FACILITIES PROVIDED BY FOUNDATION

The University, as noted earlier, operates as an agent for certain University housing and parking facilities that are owned by the Foundation. The Foundation borrowed the moneys for construction through the issuance of bonds which 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 University of North Florida Foundation, Inc., they are secured by a revenue stream derived from operating leases executed with the University of North Florida. Under the terms of the leases, the University pledges all the related revenue from the parking system and the housing system, respectively, to guarantee all debt service payments and further covenants to set rates within each system that will achieve the coverage ratios

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2002

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

The following summary of these bond issues is presented in the Foundation's most recent audit report for the fiscal year ended June 30, 2001, and provides an overview (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), all of which is outstanding at June 30, 2001. 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.

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, 2001, is \$9,300,000.

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 First Union, 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, 2001, is \$16,000,000.

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, 2001, the variable rate for the Series 2000, the Series 1997, and Series 1994 Bonds is 2.85 percent. 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.

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

UNF Foundation Housing System Revenue Bonds - Variable Rate				
Fiscal Year Ending June 30	Series 1994	Series 1997	Series 2000	Total Principal
2002	\$ 200,000.00	\$ 100,000.00	\$	\$ 300,000.00
2003	300,000.00	200,000.00	100,000.00	600,000.00
2004	300,000.00	200,000.00	100,000.00	600,000.00
2005	300,000.00	200,000.00	300,000.00	800,000.00
2006	300,000.00	200,000.00	400,000.00	900,000.00
2007	300,000.00	200,000.00	400,000.00	900,000.00
2008-2012	2,200,000.00	1,100,000.00	2,100,000.00	5,400,000.00
2013-2017	3,400,000.00	1,500,000.00	1,700,000.00	6,600,000.00
2018-2022	4,800,000.00	1,600,000.00	1,400,000.00	7,800,000.00
2023-2027	3,900,000.00	2,600,000.00	1,500,000.00	8,000,000.00
2028-2030	_____	1,400,000.00	5,000,000.00	6,400,000.00
Total Housing Related Principal	\$ 16,000,000.00	\$ 9,300,000.00	\$ 13,000,000.00	\$ 38,300,000.00

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 2001, net of operating costs, represented debt service coverage of 205 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 varying rate not to exceed 12 percent and is 2.85 percent at June 30, 2001. 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 shown on the following page:

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UNF Foundation Parking System Revenue Bonds - Variable Rate	
<u>Fiscal Year Ending June 30</u>	<u>Principal</u>
2002	\$ 300,000.00
2003	300,000.00
2004	300,000.00
2005	300,000.00
2006	300,000.00
2007-2011	1,700,000.00
2012-2016	2,200,000.00
2017-2012	2,500,000.00
2022-2026	2,500,000.00
2027-2030	1,000,000.00
Total Parking Related Principal	<u><u>\$ 11,400,000.00</u></u>

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 2001, net of operating costs, represented debt service coverage of 206 percent.

11. FUNCTIONAL DISTRIBUTION OF EXPENSES

The operating expenses on the statement of revenues, expenses, and changes in net assets are presented in the natural classification. Below are those same expenses presented in functional classifications as recommended by NACUBO. The functional classification (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 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 functional classification of expenses are summarized on the following page:

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<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 39,346,296.68
Research	3,965,217.92
Public Services	5,367,467.53
Academic Support	11,986,450.85
Student Services	10,313,965.20
Institutional Support	10,922,713.35
Operation and Maintenance of Plant	7,215,530.30
Scholarships and Fellowships	15,088,174.99
Auxiliary Operations	15,003,875.65
Loan Operating Expenses	<u>282,848.39</u>
Total Functional Expenses	119,492,540.86
Depreciation Expenses	<u>8,079,456.14</u>
Total Operating Expenses	<u><u>\$ 127,571,997.00</u></u>

12. 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. Essentially, all regular employees of participating employers are eligible and must enroll as members of the Plan. Benefits vest at specified ages or number of years of service depending upon the employee's classification. 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 the period of DROP participation, deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

The Plan's financial statements and other supplemental information are included in the comprehensive annual financial report of the State of Florida, which may be obtained by contacting the State of Florida, Department of Financial Services in Tallahassee, Florida. Also, an annual report on the Plan, which

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includes its financial statements, required supplemental information, actuarial report, and other relevant information may be obtained from the State of Florida, Division of Retirement in Tallahassee, Florida.

The contribution rates for Plan members are established, and may be amended, by the State of Florida. During the 2001-02 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.30
Florida Retirement System, Senior Management Service	0.00	9.28
Florida Retirement System, Special Risk	0.00	18.44
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	12.67
Florida Retirement System, Reemployed Retiree	(B)	(B)
Notes: (A) Employer rates include the post-employment health insurance supplement of 1.11 percent.		
(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 (including employee contributions) for the fiscal years ended June 30, 2000, June 30, 2001, and June 30, 2002, totaled \$2,191,676.44, \$2,335,663.07, and \$2,318,167.22, 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 State University System faculty and administrators. The Program which became effective July 1, 1984, was expanded in 1988 to include the State University System Executive Service. The Program is designed to aid the University System in recruiting employees by offering more portability to employees not expected to remain in the Florida Retirement System for six or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the Florida Retirement System, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 10.43 percent on behalf of the participant. A portion of the total contribution remains in the Optional Retirement Program Trust Fund for program 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 reduction,

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an amount not to exceed the percentage contributed by the University to the participant's annuity account. There were 425 University participants during the 2001-02 fiscal year. Required contributions made to the Program in the 2001-02 fiscal year totaled \$3,883,162.82, including \$1,101,169.74 for employee contributions.

13. POSTEMPLOYMENT 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 2001-02 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 retirement systems.

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 2001-02 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.

14. COMPONENT UNITS

The University has two component units. Refer to note 1 for additional discussion pertaining to the component units and how to obtain further information on individual component units. These component units contain 100 percent of the total component unit assets and revenues reported in the component unit column of the University's financial statements. Shown below is summary financial information for the fiscal year ended June 30, 2001, the most recent audited component unit financial statements:

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CONDENSED STATEMENT OF NET ASSETS			
ALL COMPONENT UNITS			
	<u>University of North Florida Foundation, Inc.</u>	<u>University of North Florida Training and Service Institute, Inc.</u>	<u>Total Component Units</u>
ASSETS			
Current Assets	\$ 46,497,369	\$ 8,877,674	\$ 55,375,043
Due from Primary Government	9,672,339		9,672,339
Capital Assets, Net	41,425,029		41,425,029
All Other Noncurrent Assets	<u>3,322,190</u>		<u>3,322,190</u>
TOTAL ASSETS	<u><u>\$ 100,916,927</u></u>	<u><u>\$ 8,877,674</u></u>	<u><u>\$ 109,794,601</u></u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Current Liabilities	\$ 1,030,206	\$ 866,525	\$ 1,896,731
Noncurrent Liabilities	<u>49,100,000</u>		<u>49,100,000</u>
Total Liabilities	<u>50,130,206</u>	<u>866,525</u>	<u>50,996,731</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	4,673,847		4,673,847
Endowment	35,132,756		35,132,756
Restricted	9,374,307		9,374,307
Unrestricted	<u>1,605,811</u>	<u>8,011,149</u>	<u>9,616,960</u>
Total Net Assets	<u>50,786,721</u>	<u>8,011,149</u>	<u>58,797,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 100,916,927</u></u>	<u><u>\$ 8,877,674</u></u>	<u><u>\$ 109,794,601</u></u>

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CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS			
ALL COMPONENT UNITS			
	University of North Florida Foundation, Inc.	University of North Florida Training and Service Institute, Inc.	Total Component Units
Operating Revenue	\$ 10,782,321	\$ 9,496,271	\$ 20,278,592
Depreciation Expense	(1,832,617)	(94,858)	(1,927,475)
Other Operating Expenses	(9,309,876)	(7,061,667)	(16,371,543)
Operating Income (Loss)	(360,172)	2,339,746	1,979,574
Nonoperating Revenues (Expenses):			
Investment Income (Loss), Net	1,226,977	216,876	1,443,853
Nonoperating Expenses	(280,000)	(1,954,103)	(2,234,103)
Additions to Permanent Endowments	3,264,366		3,264,366
Change in Net Assets	3,851,171	602,519	4,453,690
Beginning Net Assets	46,935,550	7,408,630	54,344,180
ENDING NET ASSETS	<u>\$ 50,786,721</u>	<u>\$ 8,011,149</u>	<u>\$ 58,797,870</u>

15. CONSTRUCTION CONTRACT COMMITMENTS

A summary of major construction contract commitments remaining at June 30, 2002, is shown below:

Project	Contract Amount	Completed to Date	Balance Committed
Science and Engineering Building:			
Architect/Engineer	\$ 1,566,430.47	\$ 1,170,069.93	\$ 396,360.54
Contractor	16,038,695.28	6,370,332.00	9,668,363.28
Total	<u>\$ 17,605,125.75</u>	<u>\$ 7,540,401.93</u>	<u>\$ 10,064,723.82</u>

16. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University provided coverage for these risks through participation in the State Risk Management Trust Fund, State Group Health Insurance Plan, and commercially purchased insurance.

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State Risk Management Trust Fund. The State Risk Management Trust Fund provides property insurance coverage for University buildings and contents against loss from fire, lightning, sinkholes, and other hazards customarily insured by extended coverage and loss from the removal of personal property from such properties when endangered by covered perils. The Fund also provides casualty insurance coverage for the risks of loss related to Federal civil rights actions, workers' compensation, court awarded attorney fees, automobile liability, and general liability. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

State Group Health Insurance Plan. University employees may obtain health care services through participation in the State of Florida's 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 the risks of loss related to medical and prescription drug claims are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risks of losses covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Divisions of Group Insurance in the Department of Management Services.

Other Coverage. Boiler and machinery coverage, health and hospitalization coverage for student athletic programs, inland marine coverage and student professional liability insurance are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

17. LITIGATION

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