



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



UNIVERSITY OF NORTH FLORIDA
Financial Statement Audit

For the Fiscal Year Ended June 30, 2003

During the audit period, the President of the University was Dr. Anne H. Hopkins, through August 2, 2002, and Dr. A. David Kline was the Interim President from August 3, 2002. Effective July 1, 2003, Mr. John A. Delaney became President of the University. Members of the University's Board of Trustees who served during the audit period are listed below:

Board Member

Carol C. Thompson, Chairman
Steve T. Halverson, Vice-Chairman from 1-16-03
Thomas O'Neal Douglas, Vice-Chairman to 1-15-03
Edythe Abdullah from 1-7-03
Dr. Terry M. Bowen from 1-7-03
Luther W. Coggin
Toni Crawford
Donna Harper Gibbs to 1-6-03
Wilfredo J. Gonzalez
Ann C. Hicks
Wanyonyi J. Kendrick from 1-7-03
Joan Wellhouse Newton to 1-6-03
Hank Rogers through 4-24-03 (1)
James B Stallings, Jr., to 1-6-03
R. Bruce Taylor from 1-7-03
Kevin M. Twomey
Jerry Watterson from 4-25-03 (1)
Dr. Floyd Willis to 1-6-03

Note: (1) The student body president, who is a voting member of the Board in accordance with Section 1001.71(1), Florida Statutes.

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, 2003, was conducted pursuant to the provisions of 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 grants 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 position of the University and its aggregate discretely presented component units as of June 30, 2003; 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 the University's 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
AUDITOR GENERAL

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of 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, 2003, as shown on pages 14 through 37. 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 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, 2003, 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.

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 13 is not a required part of the financial statements, but is supplementary information required by 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
February 16, 2004



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, and its aggregate discretely presented component units, as of and for the fiscal year ended June 30, 2003, 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'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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal

control 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
February 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The University of North Florida presents its financial statements for the fiscal year ended June 30, 2003. 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 of the financial results.

The objectives of the management's discussion and analysis focuses 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:

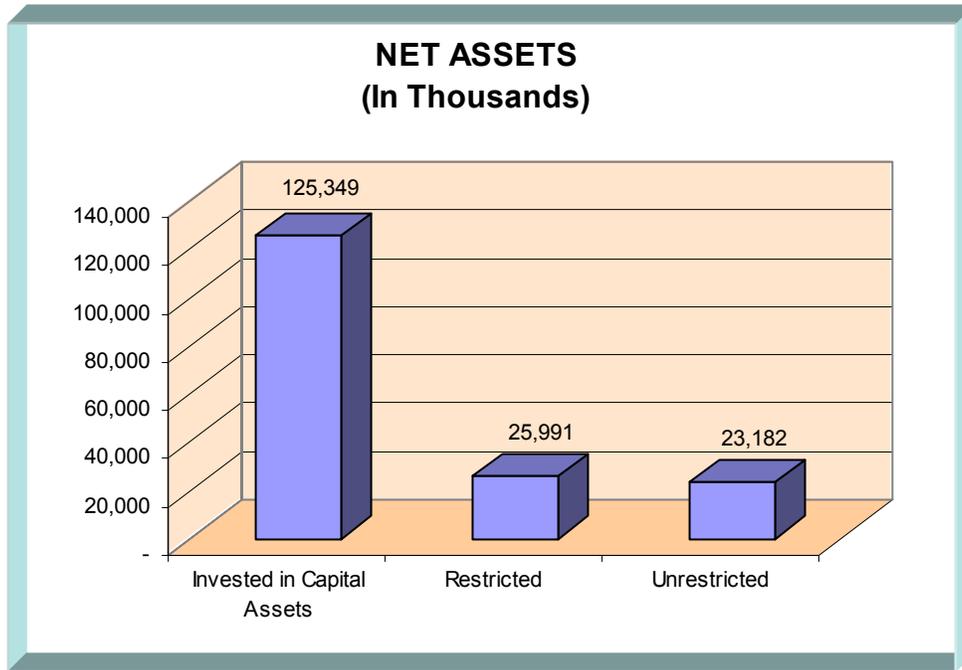
- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

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

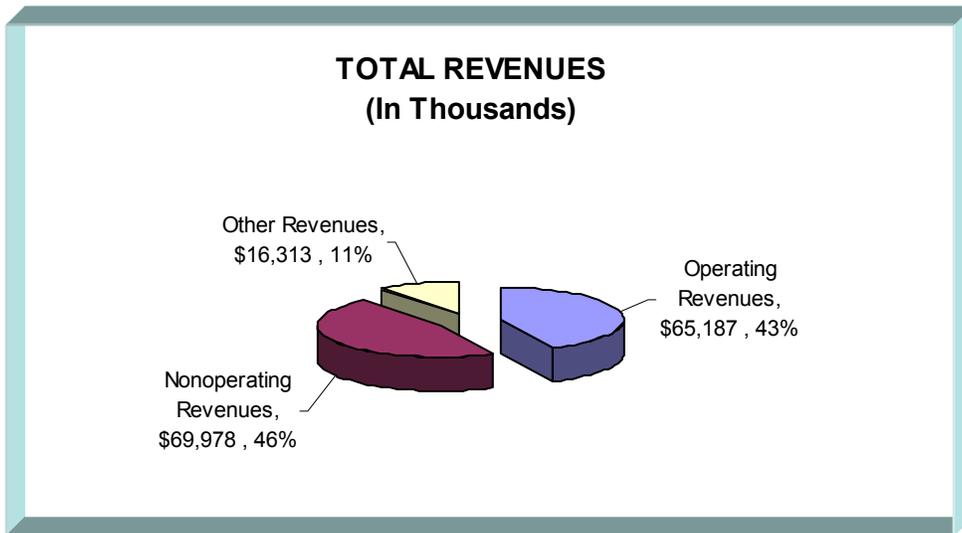
- University of North Florida (Primary Institution) – Reporting financial activities of the University for fiscal year ended June 30, 2003. The University's principal operating activities consist of instruction, research, and public service.
- University of North Florida Foundation, Inc. (Foundation), 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, 2003. During the current fiscal year, the Foundation and TSI were able to complete their audited financial statements to match the University's fiscal year reporting period. 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, 2003, with its net assets now totaling \$174.5 million. The University's revenues and other support exceeded expenses and adjustments by \$15.3 million, resulting in a 9.7 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, 2003:



The following chart provides a graphical presentation of the University’s revenues by category for the 2002-03 fiscal year:



Also, the University’s component units’ revenues exceeded expenses, increasing their net assets by \$10.4 million, or 16.5 percent, for the fiscal year ended June 30, 2003.

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 2001-02 fiscal year. The implementation of the new reporting model required

the University to restate its beginning net assets, including accounting for the cumulative effect of accumulated depreciation on 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 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 use by the University.

Net assets are divided into three major categories. The first category is invested in capital assets, net of related debt. This represents the University's equity in property, plant, and equipment. The next asset category is restricted net assets. Expendable restricted net assets are available for use by the University, but must be spent for purposes as determined by grantors and 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 use 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 in the following table:

**Condensed Statement of
Assets, Liabilities, and Net Assets, June 30
(In Thousands)**

	University		Component Units	
	2003	2002	2003	2002 (1)
Assets				
Current Assets	\$ 99,092	\$ 86,548	\$ 28,008	\$ 20,369
Noncurrent Assets	2,834	655	54,867	50,893
Capital Assets, Net of Depreciation	138,177	124,854	40,327	42,649
Total Assets	240,103	212,057	123,202	113,911
Liabilities				
Current Liabilities	35,416	19,804	1,490	1,606
Deferred Revenue	10,958	13,480	152	187
Noncurrent Liabilities	19,207	19,612	47,800	48,794
Total Liabilities	65,581	52,896	49,442	50,587
Net Assets				
Investment in Capital Assets, Net of Related Debt	125,349	111,765	(7,873)	(6,451)
Restricted	25,991	30,603	72,842	61,004
Unrestricted	23,182	16,793	8,791	8,771
Total Net Assets	\$ 174,522	\$ 159,161	\$ 73,760	\$ 63,324
Increase in Net Assets	\$ 15,361	9.65%	\$ 10,436	16.48%

Note: (1) See note 14 to the financial statements.

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, both operating and nonoperating; expenses, both 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 in the following table:

Operating Results				
(In Thousands)				
	<u>University</u>		<u>Component Units</u>	
	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02 (1)</u>
Operating Revenues	\$ 65,187	\$ 66,264	\$ 21,788	\$ 29,013
Operating Expenses	<u>(126,988)</u>	<u>(127,572)</u>	<u>(22,717)</u>	<u>(26,796)</u>
Operating Income (Loss)	(61,801)	(61,308)	(929)	2,217
Nonoperating Revenues (Expenses)	<u>63,954</u>	<u>62,027</u>	<u>4,208</u>	<u>(1,973)</u>
Income Before Other Revenues, Expenses, Gains, or Losses	2,153	719	3,279	244
Capital Appropriations and Contributions	<u>16,313</u>	<u>14,433</u>	<u>7,157</u>	<u>4,282</u>
Increase in Net Assets	18,466	15,152	10,436	4,526
Net Assets, Beginning of Year	159,161	144,009	63,324	58,798
Adjustments to Beginning Net Assets	<u>(3,105)</u>			
Net Assets, End of Year	<u>\$ 174,522</u>	<u>\$ 159,161</u>	<u>\$ 73,760</u>	<u>\$ 63,324</u>
Increase in Net Assets	<u>\$ 15,361</u>	9.65%	<u>\$ 10,436</u>	16.48%

Note: (1) See note 14 to the financial statements.

It was a positive year with increases in net assets for the University and its component units. University income was \$2.2 million before capital contributions and the aggregate component units income was \$3.3 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 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 \$65.2 million, including \$28.3 million in net student tuition and fees revenues, \$14.8 in Federal contracts and grants, and \$8.2 million in sales and services of education departments, mostly continuing education.
- Operating expenses were \$127 million, including \$78 million for personnel services and \$10.5 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 \$64 million in revenue, including \$65.6 million in State nonexchange support for University operations. State allocations and moneys for operations increased by approximately \$5.9 million when compared to the 2001-02 fiscal year.
- Capital contributions were \$16.3 million, including \$15 million in Public Education Capital Outlay (PECO) encumbrance authorizations received during the fiscal year. In deferred revenues, the University has an additional \$11 million related to PECO allocated for projects pending encumbrance authorization.

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

Operating Expenses (In Thousands)				
	<u>University</u>		<u>Component Units</u>	
	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02 (1)</u>
Operating Expenses				
Salaries and Benefits	\$ 78,006	\$ 76,154	\$	\$
Contractual Services	8,342	5,337		
Scholarships and Waivers	10,454	15,870		
Utilities and Communications	1,451	1,929		
Materials and Supplies	822	1,225		
Other Services and Expenses	18,869	18,978	20,279	24,492
Depreciation	9,044	8,079	2,438	2,304
Total Operating Expenses	<u>\$126,988</u>	<u>\$127,572</u>	<u>\$22,717</u>	<u>\$ 26,796</u>
Change in Operating Expenses	<u>\$ (584)</u>	-0.46%	<u>\$ (4,079)</u>	-15.22%

Note: (1) See note 14 to the financial statements.

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.
- Ability to meet obligations as they come due.
- Needs for external financing.

A condensed statement of cash flows for the University for the fiscal year ended June 30, 2003, is shown in the following table:

Cash Flows for the Year (In Thousands)	
	<u>University</u>
Cash Provided (Used) by:	
Operating Activities	\$ (47,290)
Noncapital Financing Activities	66,630
Capital Related Financing Activities	(1,254)
Investing Activities	<u>(6,138)</u>
Net Increase in Cash and Cash Equivalents	11,948
Cash and Cash Equivalents, Beginning of Year	<u>15,001</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 26,949</u></u>

Cash and cash equivalents are fully explained in the notes to financial statements. For a more detailed understanding of 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, 2003, the University had \$138.2 million of capital assets, net of depreciation. Its component units had \$40.3 million of capital assets, net of depreciation. A summary of capital assets and accumulated depreciation at June 30 is shown in the following table:

Net Capital Assets at June 30 (In Thousands)				
	University		Component Units	
	2003	2002	2003	2002 (1)
Capital Assets				
Land	\$ 7,452	\$ 7,452	\$	\$
Buildings	111,948	107,516	53,845	53,845
Other Structures and Improvements	14,444	11,455	1,667	1,629
Furniture, Machinery, and Equipment	30,126	28,050	1,670	1,593
Library Resources	24,943	23,543		
Computer Software	2,721	683		
Construction in Progress	32,867	21,185		
Total	<u>224,501</u>	<u>199,884</u>	<u>57,182</u>	<u>57,067</u>
Less, Accumulated Depreciation:				
Buildings	43,435	40,276	15,256	13,088
Other Structures and Improvements	2,571	1,773	314	150
Furniture, Machinery, and Equipment	21,084	15,083	1,285	1,180
Library Resources	18,629	17,386		
Computer Software	605	512		
Total Accumulated Depreciation	<u>86,324</u>	<u>75,030</u>	<u>16,855</u>	<u>14,418</u>
Net Capital Assets	<u>\$138,177</u>	<u>\$124,854</u>	<u>\$40,327</u>	<u>\$42,649</u>
Increase (Decrease) in Net Assets	<u>\$ 13,323</u>	10.67%	<u>\$ (2,322)</u>	-5.44%
Note: (1) See note 14 to the financial statements.				

Details of University's capital asset activity for year ended June 30, 2003, such as additions and deletions by category, are shown in the notes to financial statements.

As of June 30, 2003, the University has several construction projects in progress. These projects include the Science and Engineering Building, the 400 Meter Track, the Library Addition, and various infrastructure improvements.

DEBT

At June 30, 2003, the University had approximately \$11.1 million in debt outstanding versus \$11.5 million the previous year, a decrease of 3.2 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 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, 2003**

	<u>University</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 18,591,156.27	\$ 6,081,626.00	\$ 24,672,782.27
Restricted Cash and Cash Equivalents	5,631,637.41	1,350,000.00	6,981,637.41
Investments with the State Treasurer	45,063,971.00		45,063,971.00
Accounts Receivable, Net	1,789,735.19	438,589.00	2,228,324.19
Contracts and Grants Receivable	1,995,837.92	880,585.00	2,876,422.92
Due from State	25,818,073.62		25,818,073.62
Due from University		17,302,606.00	17,302,606.00
Loans and Notes Receivable, Net	83,781.50	850,000.00	933,781.50
Pledges Receivable, Net		821,751.00	821,751.00
Inventories	117,669.79	136,651.00	254,320.79
Other Assets		146,619.00	146,619.00
Total Current Assets	99,091,862.70	28,008,427.00	127,100,289.70
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	2,726,093.05		2,726,093.05
Restricted Investments with the State Treasurer	69,144.64		69,144.64
Other Restricted Investments		51,432,816.00	51,432,816.00
Buildings, Equipment, and Other Depreciable Capital Assets, Net	97,858,816.26	40,326,784.00	138,185,600.26
Land and Other Nondepreciable Capital Assets	40,318,590.27		40,318,590.27
Pledges Receivable, Net		2,517,696.00	2,517,696.00
Other Assets	38,636.55	916,002.00	954,638.55
Total Noncurrent Assets	141,011,280.77	95,193,298.00	236,204,578.77
TOTAL ASSETS	240,103,143.47	123,201,725.00	363,304,868.47
LIABILITIES			
Current Liabilities:			
Accounts Payable	2,052,299.01	586,172.00	2,638,471.01
Salary and Payroll Taxes Payable	1,997,779.91		1,997,779.91
Construction and Retainage Payable	2,212,882.88		2,212,882.88
Due to Component Units	17,302,606.00		17,302,606.00
Deferred Revenue	10,958,000.00	151,522.00	11,109,522.00
Long-Term Liabilities - Current Portion:			
Bonds Payable	480,366.47	900,000.00	1,380,366.47
Compensated Absences Payable	264,576.78		264,576.78
Obligations Under Security Lending and Reverse Repurchase Agreements	7,167,218.12		7,167,218.12
Deposits Held in Custody	3,938,575.83		3,938,575.83
Other Current Liabilities		3,676.00	3,676.00
Total Current Liabilities	46,374,305.00	1,641,370.00	48,015,675.00
Noncurrent Liabilities:			
Bonds Payable	10,621,826.54	47,300,000.00	57,921,826.54
Compensated Absences Payable	8,554,649.23	242,752.00	8,797,401.23
Other Long-Term Liabilities	30,336.32	257,360.00	287,696.32
Total Noncurrent Liabilities	19,206,812.09	47,800,112.00	67,006,924.09
TOTAL LIABILITIES	65,581,117.09	49,441,482.00	115,022,599.09

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2003

	<u>University</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 125,348,979.13	\$ (7,873,215.00)	\$ 117,475,764.13
Restricted:			
Nonexpendable:			
Endowment		43,778,717.00	43,778,717.00
Expendable:			
Other Restricted Net Assets	6,091,507.39	11,509,241.00	17,600,748.39
Loans	392,544.37		392,544.37
Capital Projects	19,507,260.43	17,554,931.00	37,062,191.43
Unrestricted	<u>23,181,735.06</u>	<u>8,790,569.00</u>	<u>31,972,304.06</u>
TOTAL NET ASSETS	<u>\$ 174,522,026.38</u>	<u>\$ 73,760,243.00</u>	<u>\$ 248,282,269.38</u>

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2003

	<u>University</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
REVENUES			
Operating Revenues:			
Student Tuition and Fees, Net of Scholarship Allowances of \$6,675,361.23	\$ 28,258,775.75	\$	\$ 28,258,775.75
Federal Grants and Contracts	14,836,701.00		14,836,701.00
State and Local Grants and Contracts	3,391,984.22		3,391,984.22
Nongovernmental Grants and Contracts	1,436,088.00		1,436,088.00
Sales and Services of Auxiliary Enterprises	8,207,566.37		8,207,566.37
Other Operating Revenues	9,055,403.78	21,788,329.00	30,843,732.78
Total Operating Revenues	<u>65,186,519.12</u>	<u>21,788,329.00</u>	<u>86,974,848.12</u>
EXPENSES			
Operating Expenses:			
Personnel Services	78,005,849.56		78,005,849.56
Scholarships and Waivers	10,453,858.52		10,453,858.52
Utilities and Communications	1,451,020.81		1,451,020.81
Contractual Services	8,342,389.11		8,342,389.11
Other Services and Expenses	18,868,497.55	20,279,422.00	39,147,919.55
Materials and Supplies	822,467.50		822,467.50
Depreciation	9,043,500.36	2,437,753.00	11,481,253.36
Total Operating Expenses	<u>126,987,583.41</u>	<u>22,717,175.00</u>	<u>149,704,758.41</u>
Operating Loss	<u>(61,801,064.29)</u>	<u>(928,846.00)</u>	<u>(62,729,910.29)</u>
NONOPERATING REVENUES (EXPENSES)			
State Appropriations	65,640,980.81		65,640,980.81
Investment Income	2,755,633.74	4,207,614.00	6,963,247.74
Noncapitalized Interest	(30,336.32)		(30,336.32)
Other Nonoperating Revenues	1,581,881.87		1,581,881.87
Other Nonoperating Expenses	(5,994,357.77)		(5,994,357.77)
Net Nonoperating Revenues	<u>63,953,802.33</u>	<u>4,207,614.00</u>	<u>68,161,416.33</u>
Income Before Other Revenues, Expenses, Gains, or Losses	<u>2,152,738.04</u>	<u>3,278,768.00</u>	<u>5,431,506.04</u>
Capital Appropriations	15,019,075.00		15,019,075.00
Capital Grants, Gifts, and Fees	1,294,595.72	50,000.00	1,344,595.72
Additions to Permanent Endowments		7,107,120.00	7,107,120.00
Total Other Revenues	<u>16,313,670.72</u>	<u>7,157,120.00</u>	<u>23,470,790.72</u>
Increase in Net Assets	<u>18,466,408.76</u>	<u>10,435,888.00</u>	<u>28,902,296.76</u>
Net Assets, Beginning of Year	159,160,807.99	63,324,355.00	222,485,162.99
Adjustment to Beginning Net Assets	(3,105,190.37)		(3,105,190.37)
Adjusted Net Assets, Beginning of Year	<u>156,055,617.62</u>	<u>63,324,355.00</u>	<u>219,379,972.62</u>
Net Assets, End of Year	<u>\$ 174,522,026.38</u>	<u>\$ 73,760,243.00</u>	<u>\$ 248,282,269.38</u>

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

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2003**

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 28,380,825.68
Grants and Contracts	20,215,260.81
Payments to Suppliers	(9,801,266.57)
Payments to Employees	(77,636,473.90)
Payments for Scholarships	(10,453,858.52)
Student Loan Collections	547,475.29
Sales and Services of Auxiliary Enterprises	7,908,494.83
Sales and Services of Educational Departments	(37,876.07)
Other Disbursements	(6,412,046.84)
	(47,289,465.29)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	65,640,980.81
Change in Funds Held for Others	(169,898.78)
Other Receipts	5,655,675.88
Other Disbursements	(4,496,393.65)
	66,630,364.26
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	26,006,994.51
Purchases of Capital Assets	(26,180,454.51)
Proceeds from Capital Debt	2,080,978.45
Principal Paid on Capital Debt	(2,572,489.17)
Interest Paid on Asset-Related Debt	(589,469.92)
	(1,254,440.64)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investments	(36,239,011.83)
Sales of Investments	27,312,754.95
Interest on Investments	2,787,824.49
	(6,138,432.39)
Net Increase in Cash and Cash Equivalents	11,948,025.94
Cash and Cash Equivalents, Beginning of Year	15,000,860.79
	\$ 26,948,886.73
Cash and Cash Equivalents, End of Year	\$ 26,948,886.73

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2003**

	University
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (61,801,064.29)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	9,043,500.36
Changes in Assets and Liabilities:	
Receivables, Net	510,252.54
Loans and Notes Receivable	515,584.40
Inventories	16,247.91
Payables	1,222,500.57
Deposits Held for Others	3,253,181.00
Compensated Absences	(49,667.78)
NET CASH USED BY OPERATING ACTIVITIES	\$ (47,289,465.29)

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, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University of North Florida is a separate public instrumentality that is part of the State's public universities. A constitutional amendment effective January 7, 2003, created a board of governors to be responsible for the management of the State's universities. A separate board of trustees shall administer each public university.

The University of North Florida Board of Trustees (Trustees) consists of thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The Faculty Association President and the President of the Student Body of the University also are members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provides governance in accordance with the Florida law, State Board of Education rules, and the Board of Governors. The Trustees select the University President for ratification by the Board of Governors. 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.

Component Units. Based on the application of the criteria for determining component units, the following component units are included within the University's 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. 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.

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.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

These component units are also direct-support organizations. As provided in Section 1004.28, 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 audit of each organization's financial statements. The audited financial statements are submitted to the Auditor General and the Board of Trustees.

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 State's public universities, 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
 - 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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

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 expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, institutional support, and auxiliary operations. Operating revenues and expenses include all fiscal transactions directly 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 FASB Statements and interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, 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 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 in demand accounts, unexpended general revenue appropriation releases, and cash held in the State Treasury.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

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. Cash and cash equivalents and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, and to purchase or construct capital or other restricted assets are classified as restricted.

Capital Assets. University capital assets consist of land, buildings, infrastructure and improvements, furniture and equipment, library resources, computer software, and construction in progress. These assets are capitalized and recorded 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:
 - Furniture – 5 to 20 Years
 - Equipment (Non-Office) – 5 to 15 Years
 - Computer Equipment – 2 to 10 Years
 - Movable Equipment – 3 to 20 Years
- Library Materials – 10 Years
- Other Capital Assets – 5 Years

2. ADJUSTMENT TO BEGINNING NET ASSETS

The University made an adjustment of \$3,105,190.37 to reduce beginning net assets to correct a University error in implementing GASB Statement Nos. 34 and 35 in the prior year relating to prior period depreciation.

3. INVESTMENTS

The University participates in investment pools through the State Treasury in accordance with the provisions of Sections 17.61 and 215.49, Florida Statutes. These investments conform with guidelines provided in

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003**

Section 215.47, Florida Statutes. The University’s investments in these pools are reported at fair market value of \$45,133,115.64.

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.

University investments in investment pools managed by the State Treasury cannot be categorized because the University's investments are not evidenced by specific, identifiable investment securities.

Under the State Treasury’s authority to purchase and sell securities, it has entered into reverse repurchase and secured lending agreements. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. A secured lending agreement is a loan of securities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. As required by generally accepted accounting principles, the University has reported investments and an offsetting current liability of \$7,167,218.12 in order to account for these transactions. Required note disclosures for these agreements are reported in the State’s Comprehensive Annual Financial Report.

Investments held by the University’s component units at June 30, 2003, are reported at fair value based upon quoted market prices. These investments are categorized in the following table:

	Investments			Fair Value
	Risk Category			
	1	2	3	
<u>Component Units</u>				
Bonds and Notes	\$	\$	\$ 4,870,270	\$ 4,870,270
U.S. Government Obligations			3,669,323	3,669,323
Federal Agency Obligations			3,090,273	3,090,273
Total	\$	\$	\$ 11,629,866	
Money Market and Mutual Funds				39,802,950
Total Component Units Investments				\$ 51,432,816

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

4. 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 \$263,134.39 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 no allowance for uncollectible accounts has been recognized.

Loans and Notes Receivable, Net. Loans and notes receivable represent student loans made under the University's short-term loan program. Loans and notes receivable are reported net of a \$26,613.98 allowance for uncollectible loans and notes.

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

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. The estimated uncollectible loans and notes receivable relate to the University's short-term loan programs.

5. DUE FROM STATE

This amount is comprised of State Public Education Capital Outlay (PECO) and Capital Improvement Trust Fund allocations for construction of University facilities due to the University at June 30, 2003.

6. DUE FROM UNIVERSITY/TO COMPONENT UNITS

These amounts are related to housing and parking facilities provided and financed by the Foundation in support of the University.

Moneys are accumulated under the University's operating leases for housing and parking facilities owned by the Foundation and held by the University at June 30, 2003. The University receives and invests excess receipts in the State Treasury via the Auxiliary Fund. The University pays, on behalf of the Foundation,

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003

operating and other agreed upon expenses, such as scheduled debt, from the Auxiliary Fund and any unexpended moneys are obligated to support future operations and costs under the operating leases for housing and parking.

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 assets activity of the University for the year ended June 30, 2003, is shown in the following table:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 7,451,525.50	\$	\$	\$ 7,451,525.50
Construction in Progress	21,185,332.87	13,967,971.96	2,286,240.06	32,867,064.77
Total Nondepreciable Capital Assets	\$ 28,636,858.37	\$ 13,967,971.96	\$ 2,286,240.06	\$ 40,318,590.27
Depreciable Capital Assets:				
Buildings	\$ 107,515,867.30	\$ 4,432,300.70	\$	\$ 111,948,168.00
Infrastructure and Other Improvements	11,455,283.62	2,988,622.96		14,443,906.58
Furniture and Equipment	28,050,392.41	3,098,429.15	1,022,815.49	30,126,006.07
Library Resources	23,542,529.32	1,400,175.01		24,942,704.33
Other Capital Assets	683,281.42	2,038,379.65		2,721,661.07
Total Depreciable Assets	171,247,354.07	13,957,907.47	1,022,815.49	184,182,446.05
Less, Accumulated Depreciation:				
Buildings	40,276,376.57	3,158,917.59		43,435,294.16
Infrastructure and Other Improvements	1,773,182.90	797,518.58		2,570,701.48
Furniture and Equipment	15,082,740.73	6,856,893.41	855,753.89	21,083,880.25
Library Resources	17,385,914.54	1,242,553.45		18,628,467.99
Other Capital Assets	512,478.21	92,807.70		605,285.91
Total Accumulated Depreciation	75,030,692.95	12,148,690.73 (1)	855,753.89	86,323,629.79
Total Depreciable Capital Assets, Net	96,216,661.12	1,809,216.74	167,061.60	97,858,816.26
Total Capital Assets, Net	\$ 124,853,519.49	\$ 15,777,188.70	\$ 2,453,301.66	\$ 138,177,406.53

Note: (1) This amount includes a prior period adjustment to the beginning balance totaling \$3,105,190.37; therefore, depreciation expense for the 2002-03 fiscal year totals \$9,043,500.36. See note 2 for additional information.

Capital assets of the component units as of June 30, 2003, totaled \$40,326,784, net of accumulated depreciation of \$16,855,302. About \$40,300,496 of capital assets related to land improvements, buildings, furnishings, and equipment related to student housing and parking systems.

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003**

9. LONG-TERM LIABILITIES

Long-term liabilities of the University include bonds and compensated absences. The long-term liabilities activity for the year ended June 30, 2003, is shown in the following table:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 11,472,181.24	\$ 2,202,500.94	\$ 2,572,489.17	\$ 11,102,193.01	\$ 480,366.47
Compensated Absences Payable	8,868,893.79	93,181.22	142,849.00	8,819,226.01	264,576.78
Total Long-Term Liabilities	\$ 20,341,075.03	\$ 2,295,682.16	\$ 2,715,338.17	\$ 19,921,419.02	\$ 744,943.25

Bonds Payable. The State Board of Education issued both term and serial revenue bonds on behalf of the State’s public universities, the proceeds of which were used to acquire and construct various academic and student service facilities. The bonds are secured and payable from capital improvement and building fees. The State Board of Administration administers the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

On April 10, 2003, the State Board of Education issued \$50,545,000 of University System Improvement Revenue Refunding Bonds, Series 2003A. The University’s portion of the refunding bonds (\$2,003,620) was used to defease \$2,112,631 of outstanding University System Improvement Revenue Bonds, Series 1993. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University’s statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$227,514.13 over the next 10 years and obtained an economic gain of \$203,759.66.

Bonds payable at June 30, 2003, are shown in the following table:

Bond Type	Amount of Original Issue	Total Retired	Amount Outstanding		Interest Rates (Percent)	Annual Maturity To
			Principal	Interest		
University System Revenue Certificates:						
Series 1997	\$ 3,836,631.04	\$ 660,776.31	\$ 3,175,854.73	\$2,009,007.07	5.00 - 7.00	2022
Series 1997A	2,264,354.71	123,383.75	2,140,970.96	903,220.48	4.20 - 7.00	2016
Series 1998	4,178,965.95	561,341.08	3,617,624.87	2,035,302.66	4.00 - 5.00	2023
Series 2003	2,202,500.94	34,758.49	2,167,742.45	539,334.43	4.00 - 5.00	2013
Total Bonds Payable	\$ 12,482,452.64	\$ 1,380,259.63	\$ 11,102,193.01	\$ 5,486,864.64		

Annual requirements to amortize all bonded debt outstanding as of June 30, 2003, are shown in the following table:

**UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2003**

Fiscal Year Ending June 30	University System Revenue Certificates		
	Principal	Interest	Total
2004	\$ 480,366.47	\$ 544,152.12	\$ 1,024,518.59
2005	505,038.27	521,441.96	1,026,480.23
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
2009-2013	3,437,300.55	1,769,150.47	5,206,451.02
2014-2018	2,701,673.96	929,741.95	3,631,415.91
2019-2023	2,215,187.58	305,210.48	2,520,398.06
Total	11,027,084.56	5,486,864.64	16,513,949.20
Plus: Net Bond Discount, Premiums, and Gain on Bond Refunding	75,108.45		75,108.45
Total	\$ 11,102,193.01	\$ 5,486,864.64	\$ 16,589,057.65

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. At June 30, 2003, the estimated liability for compensated absences, which includes the employer's share of the Florida Retirement System and FICA contributions, totaled \$8,819,226.01. The current portion of the compensated absences liability of \$264,576.78 at June 30, 2003, 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

Under operating leases, 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 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

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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 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 letters 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, providing an overview of these bond issues, is presented in the Foundation's audit report for the fiscal year ended June 30, 2003 (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, 2003, is \$12,900,000.

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, 2003, is \$9,000,000.

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, 2003, is \$15,500,000.

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, 2003, the variable rate for the Series 2000, Series 1997, and Series 1994 Bonds is 1.1 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.

Principal repayments on all Capital Improvement Revenue Bonds during the next five years and thereafter are shown in the following table:

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Foundation Housing System Revenue Bonds - Variable Rate

<u>Fiscal Year Ending June 30</u>	<u>Series 1994</u>	<u>Series 1997</u>	<u>Series 2000</u>	<u>Total Principal</u>
2004	\$ 300,000	\$ 200,000	\$ 100,000	\$ 600,000
2005	300,000	200,000	300,000	800,000
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
2009-2013	2,400,000	1,200,000	2,000,000	5,600,000
2014-2018	3,600,000	1,600,000	1,700,000	6,900,000
2019-2023	5,200,000	1,300,000	1,400,000	7,900,000
2024-2028	2,700,000	3,900,000	1,400,000	8,000,000
2029-2030			4,800,000	4,800,000
Total Housing Related Principal	\$ 15,500,000	\$ 9,000,000	\$ 12,900,000	\$ 37,400,000

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 2003, net of operating costs, represented debt service coverage of 309 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 1.1 percent at June 30, 2003. Interest payments are made monthly. Principal is payable in 28 annual installments from May 1, 2002, through May 1, 2028.

Principal repayments on the Parking System Improvement Revenue Bonds during the next five years and thereafter are shown in the following table:

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

Fiscal Year Ending June 30	Principal
2004	\$ 300,000
2005	300,000
2006	300,000
2007	300,000
2008	300,000
2009-2013	1,900,000
2014-2018	2,400,000
2019-2023	2,500,000
2024-2028	2,500,000
Total Parking Related Principal	\$ 10,800,000

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 2003, net of operating costs, represented debt service coverage of 330 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 departments consists of instructional program elements, all expenses of the departments are reported under the instruction classification. The functional classification of expenses are summarized in the following table:

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<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 41,724,337.16
Research	4,832,613.95
Public Services	9,203,919.26
Academic Support	10,534,848.04
Student Services	10,782,004.33
Institutional Support	10,695,936.31
Operation and Maintenance of Plant	8,293,466.76
Scholarships and Fellowships	9,584,321.99
Auxiliary Operations	11,463,491.72
Loan Operating Expenses	829,143.53
Total Functional Expenses	117,944,083.05
Depreciation Expenses	9,043,500.36
Total Operating Expenses	\$ 126,987,583.41

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.

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The Plan's financial statements and other supplemental information are included in the State's Comprehensive Annual Financial Report, 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 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 2002-03 fiscal year, contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	5.76
Florida Retirement System, Senior Management Service	0.00	6.06
Florida Retirement System, Special Risk	0.00	16.01
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	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 and .15 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 (including employee contributions) for the fiscal years ended June 30, 2001, June 30, 2002, and June 30, 2003, totaled \$2,335,663.07, \$2,318,167.22, and \$1,912,839.97, 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

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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, an amount not to exceed the percentage contributed by the University to the participant's annuity account. There were 423 University participants during the 2002-03 fiscal year. Required contributions made to the Program totaled \$4,059,188.64, including \$1,191,184.08 from employee contributions.

13. 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 2002-03 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. This assessment is included in the Florida Retirement System rate contributions discussed in note 12.

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 2002-03 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. Financial data reported for the University's component units in the 2001-02 fiscal year financial statements was actually 2000-01 fiscal year financial data since the component units' 2001-02 fiscal year financial data was not available when the University completed its financial statements. Accordingly, the beginning net assets of \$63,324,355 reported in the component units column in the accompanying financial statements differ from prior year ending net assets by \$4,526,485.

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Summary financial information from the most recent audited component units' financial statements containing 100 percent of the total component units' assets and revenues reported in the component units column of the University's financial statements is shown in the following tables.

CONDENSED STATEMENT OF NET ASSETS
ALL COMPONENT UNITS

	University of North Florida Foundation, Inc. 6-30-03	University of North Florida Training and Service Institute, Inc. 6-30-03	Total Component Units
ASSETS			
Current Assets	\$ 7,034,443	\$ 3,671,378	\$ 10,705,821
Due from University	17,302,606		17,302,606
Capital Assets, Net	40,300,496	26,288	40,326,784
All Other Noncurrent Assets	48,855,924	6,010,590	54,866,514
TOTAL ASSETS	\$ 113,493,469	\$ 9,708,256	\$ 123,201,725
LIABILITIES AND NET ASSETS			
Liabilities:			
Current Liabilities	\$ 1,004,914	\$ 636,456	\$ 1,641,370
Noncurrent Liabilities	47,557,360	242,752	47,800,112
Total Liabilities	48,562,274	879,208	49,441,482
Net Assets:			
Invested in Capital Assets, Net of Related Debt	(7,899,503)	26,288	(7,873,215)
Endowment	43,778,717		43,778,717
Restricted	27,714,172	1,350,000	29,064,172
Unrestricted	1,187,809	7,602,760	8,790,569
Total Net Assets	64,781,195	8,979,048	73,760,243
TOTAL LIABILITIES AND NET ASSETS	\$ 113,343,469	\$ 9,858,256	\$ 123,201,725

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CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ALL COMPONENT UNITS

	University of North Florida Foundation, Inc. 6-30-03	University of North Florida Training and Service Institute, Inc. 6-30-03	Total Component Units
Operating Revenue	\$ 13,417,847	\$ 8,370,482	\$ 21,788,329
Depreciation Expense	(2,430,990)	(6,763)	(2,437,753)
Other Operating Expenses	(12,176,355)	(8,103,067)	(20,279,422)
Operating Income (Loss)	(1,189,498)	260,652	(928,846)
Nonoperating Revenues:			
Investment Income, Net	3,943,925	263,689	4,207,614
Capital Grants and Gifts	50,000		50,000
Additions to Permanent Endowments	7,107,120		7,107,120
Change in Net Assets	9,911,547	524,341	10,435,888
Beginning Net Assets	54,869,648	8,454,707	63,324,355
ENDING NET ASSETS	\$ 64,781,195	\$ 8,979,048	\$ 73,760,243

15. CONSTRUCTION CONTRACT COMMITMENTS

A summary of major construction contract commitments remaining at June 30, 2003, is shown in the following table:

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Project	Contract Amount	Completed to Date	Balance Committed
Science and Engineering Building:			
Architect/Engineer	\$ 1,609,594.47	\$ 1,529,856.63	\$ 79,737.84
Contractor	16,401,382.00	15,364,353.00	1,037,029.00
New 400 Meter Track/Soccer Stadium:			
Architect/Engineer	231,204.50	205,303.53	25,900.97
Contractor	2,062,701.68	1,510,029.91	552,671.77
Library Addition:			
Architect/Engineer	991,900.00	335,990.32	655,909.68
Contractor			
North Parking Roadway and Recreation Fields:			
Architect/Engineer	22,810.50	10,388.50	12,422.00
Contractor	743,729.00	311,000.00	432,729.00
New 1000 Space Parking Lot:			
Architect/Engineer	126,080.00	79,546.71	46,533.29
Contractor	1,643,619.51	126,219.51	1,517,400.00
Eastern Ridge Conceptual Permit:			
Architect/Engineer	139,860.00	59,816.40	80,043.60
Total	\$ 23,972,881.66	\$ 19,532,504.51	\$ 4,440,377.15

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.

State Self-Insurance Trust Funds. In accordance with a program for central insurance purchases adopted by the Florida Cabinet in 1969, the Department of Management Services has authority to purchase insurance on behalf of all state agencies. This authority was granted with the enactment of Section 287.022, Florida Statutes. Other actions by the Legislature have resulted in the development of State self-insurance funds providing hazard insurance for property and casualty insurance for state employees workers' compensation, general liability, fleet automotive liability. The University participates in these programs. Property losses in excess of \$4 million are commercially insured up to \$300 million per loss event. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence pursuant to Section 768.28, Florida Statutes. Calculations of premiums consider the cash needs of the program and the amount of risk exposure for each entity. 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.

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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 State of Florida, Department of Management Services, Division of Group Insurance.

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.