AUDITOR GENERAL

WILLIAM O. MONROE, CPA

UNIVERSITY OF NORTH FLORIDA

Financial Audit

For the Fiscal Year Ended June 30, 2006

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

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

UNIVERSITY OF NORTH FLORIDA

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The audit of the financial statements of the University of North Florida for the fiscal year ended June 30, 2006, was conducted pursuant to Section 11.45, Florida Statutes, and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

- **We found that the University's financial statements presented fairly, in all material respects, the financial positions of the University and its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.**
- **We noted no matters involving the University's internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted a certain matter that we consider to be a reportable condition as discussed in the Finding and Recommendation section of this report.**
- **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

This audit was coordinated by Donald D. Hemmingway, CPA, and supervised by John P. Duffy, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

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

FINDING AND RECOMMENDATION

REPORTABLE CONDITION

Finding No. 1: Financial Reporting

Section 11.45(2)(c), Florida Statutes, requires that the Auditor General conduct an annual financial audit of the University in order to express an opinion on the fairness with which the financial statements are presented in conformity with generally accepted accounting principles (GAAP). The University's financial statements provide information about the University's finances, demonstrate the University's accountability for public resources, and provide users a basis for evaluating the University's operations and financial condition. To be useful, the financial statements must be timely prepared, accurate, and fairly presented in accordance with GAAP. We noted certain errors, misstatements, and omissions in the University's financial statements that were not timely detected and corrected by management, including the following:

- Nonoperating revenues of $76,528,538 were classified as other nonoperating revenues instead of nonoperating revenues – State appropriations.
- Net assets of $18,797,770 were classified as invested in capital assets instead of restricted for capital projects.
- The University did not recognize a $1,691,085 decrease in fair market value of its investments in the State Treasury Special Purpose Investment Account, necessary to report investments at fair value at June 30, 2006.
- The University incorrectly reported $3,623,227 as accounts receivable and deferred revenue related to student housing that was billed for rentals subsequent to June 30, 2006, but not collected. Since housing rental revenues are billed on behalf of, and pledged to, the University of North Florida Foundation, Inc., for payment of debt on the assets, the amounts should not have been reported on the University's financial statements.
- The University incorrectly made adjusting entries that, at June 30, 2006, overstated cash and cash equivalents and deposits payable by $2,597,862. The overstatement resulted from the University's implementation of the student module in its enterprise resource planning system during the 2005-06 fiscal year.
- The University made an error in calculating its compensated absences liability at June 30, 2006, resulting in an understatement of the liability and expense of $2,586,405.

We expanded our audit procedures to determine the adjustments to the account balances and the related disclosures necessary for fair presentation of the University's financial statements. Adjustments were accepted by University personnel to properly report account balances and related disclosures in the accompanying financial statements. However, our audit procedures cannot substitute for effective internal controls over the financial reporting process. When the annual financial statements or required supplementary information are not timely and accurately prepared, the University's Board of Trustees, management, and other users of the financial statements are without a proper basis for evaluating University operations and for assessing the University's financial condition.

Also, the University's management discussion and analysis (MD&A), required supplementary information under GAAP, was not prepared until March 2007. Earlier preparation of the MD&A may have allowed University personnel to detect and reduce the number of financial statement errors and misclassifications disclosed by our audit.

In addition to preparing financial statements, the University, as a component unit of the State of Florida, is required by Section 216.102(2)(a), Florida Statutes, to provide the State's Chief Financial Officer (CFO) financial and other information necessary for the preparation of annual financial statements for the State of Florida. The financial information provided is converted from accounts reported by the University on its financial statements to accounts used by the CFO to prepare the State's financial statements. Our audit disclosed instances in which the University's financial information submitted to the CFO for inclusion in the State's financial statements was incorrect and required adjustment. Most of these instances could have been avoided if the University had timely prepared the MD&A and improved management oversight and review during the process of preparing the financial and other information.

Recommendation: The University should improve its financial reporting process to ensure that its financial statements and MD&A are timely prepared, accurate, and fairly presented in accordance with GAAP. The University should also enhance its procedures to ensure that information submitted for inclusion in the State's financial statements is accurate prior to submission to the CFO.

PRIOR AUDIT FINDING

As part of our audit, we determined that the University had taken adequate corrective action for the finding included in our report No. 2006-146.

MANAGEMENT RESPONSE

The University's response is included as Appendix A of this report.

AUDITOR GENERAL
STATE OF FLORIDA

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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, 2006, as shown on pages 14 through 41. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Florida and of its aggregate discretely presented component units as of June 30, 2006, 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 grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 7 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

William O. Monroe

William O. Monroe, CPA
March 21, 2007, except for Note 20,
as to which the date is April 2, 2007.

AUDITOR GENERAL
STATE OF FLORIDA

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

We 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, 2006, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Internal Control Over Financial Reporting

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

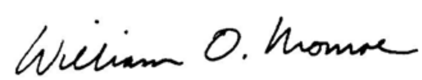
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition referred to above is not a material weakness.

Compliance and Other Matters

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

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

Respectfully submitted,



William O. Monroe, CPA
March 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2006, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities,* as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

FINANCIAL HIGHLIGHTS

The University's assets totaled $292.6 million at June 30, 2006. This balance reflects a $26.2 million, or 9.8 percent, increase from the 2004-05 fiscal year. This increase is mainly attributable to the following two items: amount due from the State increased by $11.2 million and taken in total, the net of both depreciable and nondepreciable capital assets increased by $9.7 million.

While assets grew, liabilities decreased by the amount of $1.3 million, or 2.6 percent, totaling $50.3 million at June 30, 2006, compared to $51.6 million at June 30, 2005. As a result, the University's net assets increased by $27.5 million, reaching a year-end balance of $242.3 million.

The increase in the amount due from the State consists of capital appropriations awarded in prior years that have not been received from the State as well as new appropriations added for the 2005-06 fiscal year. Some of the major additions included $11.8 million on the Education Building, $5.2 million on the Student Union, and $5 million on the Allied Health Facility.

The University's operating revenues totaled $58.5 million for the 2005-06 fiscal year, representing a 2.7 percent increase over the 2004-05 fiscal year due mainly to increase in State and local grants and contracts of $3 million. Operating expenses totaled $161.3 million for the 2005-06 fiscal year, representing an increase of 8.7 percent over the 2004-05 fiscal year due mainly to an $11.5 million increase in compensation and employee benefits, a $6.4 million increase in services and supplies, and a $2.1 million increase in utilities.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its three component units. The components units are the University of North Florida Foundation, Inc. (Foundation); the University of North Florida Training and Services Institute, Inc. (TSI); and the University of North Florida Financing Corporation, Inc. (Financing Corporation). All component units report financial activities for a fiscal year ended June 30. These 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.

Information regarding these component units, including summaries of their separately issued financial statements, is presented in the notes to the financial statements. This MD&A focuses on the University, excluding the component units. MD&A information regarding component units is included in their separately issued audit reports.

THE STATEMENT OF NET ASSETS

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

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

Condensed Statement of Net Assets
(In Thousands)

	2006	2005
Assets		
Current Assets	$112,469	$ 95,574
Capital Assets, Net	165,551	155,847
Other Noncurrent Assets	14,618	14,994
Total Assets	292,638	266,415
Liabilities		
Current Liabilities	32,173	33,484
Noncurrent Liabilities	18,121	18,128
Total Liabilities	50,294	51,612
Net Assets		
Invested in Capital Assets Net of Related Debt	155,492	145,409
Restricted	43,520	28,967
Unrestricted	43,332	40,427
Total Net Assets	$242,344	$214,803

The combination of the increase in total assets of $26.2 million and the decrease of total liabilities of $1.3 million resulted in a net increase of total assets of $27.5 million. This increase in total net assets is mainly attributable to increases in restricted net assets for capital projects of $14.6 million; invested in capital assets, net of related debt of $10 million; and an increase of $2.9 million in unrestricted assets.

Net assets are reported in three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. Restricted net assets are another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net assets represent funds that have been donated to the University and are required to be invested in perpetuity. These net assets are primarily maintained by the University of North Florida's Foundation, Inc. Restricted expendable net assets are available for use by the University, but must be spent for purposes as determined by donors 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.

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

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

The following summarizes the University's activity for the 2005-06 and 2004-05 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Thousands)

	2005-06	2004-05
Operating Revenues	$ 58,502	$ 56,968
Operating Expenses	161,342	148,432
Operating Loss	(102,840)	(91,464)
Net Nonoperating Revenues	100,432	92,760
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,408)	1,296
Other Revenues, Expenses, Gains, or Losses	29,949	29,913
Net Increase in Net Assets	27,541	31,209
Net Assets, Beginning of Year	214,803	183,594
Net Assets, End of Year	$ 242,344	$ 214,803

Operating Revenues

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

The following summarizes the operating revenues by source that were used to fund operating activities during the 2005-06 and 2004-05 fiscal years:

Operating Revenues
(In Thousands)

	2005-06	2004-05
Net Tuition and Fees	$ 31,553	$ 27,140
Grants and Contracts	16,689	17,449
Sales and Services of Auxiliary Enterprises	10,260	12,379
Total Operating Revenues	$ 58,502	$ 56,968

Net tuition and fees increased by $4.4 million due to increases in per credit hour fees and actual full-time equivalent (FTE) student enrollment, which was 9,610, up from 9,144 FTE in the prior fiscal year.

Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2005-06 and 2004-05 fiscal years:

Operating Expenses
(In Thousands)

	2005-06	2004-05
Compensation and Employee Benefits	$ 104,417	$ 92,880
Services and Supplies	34,194	27,764
Utilities	4,599	2,483
Scholarships and Fellowships	6,444	14,334
Depreciation	11,688	10,971
Total Operating Expenses	$ 161,342	$ 148,432

As previously mentioned, operating expenses increased due to increases in compensation and benefits, services and supplies, and utilities. Scholarships and fellowships expense decreased because of an increase in scholarship allowances due to an increase in the amount of Federal and State student financial aid used to pay tuition and fees for student aid recipients.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating.

Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2005-06 and 2004-05 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2005-06	2004-05
State Appropriations	$ 76,529	$ 72,058
Federal and State Student Financial Aid	20,122	18,085
Investment Income	3,309	2,247
Other Nonoperating Revenues	3,673	2,706
Unrealized Losses on Investments	(1,574)	
Loss on Disposal of Capital Assets	(757)	
Interest on Capital Asset-Related Debt	(523)	(557)
Other Nonoperating Expenses	(347)	(1,779)
Net Nonoperating Revenues	$ 100,432	$ 92,760

Net nonoperating revenues increase is mainly attributable to the increase in State appropriations of $4.5 million and Federal and State student financial aid increase of $2 million.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2005-06 and 2004-05 fiscal years:

Other Revenues, Expenses, Gains, or Losses
(In Thousands)

	2005-06	2004-05
Capital Appropriations	$ 26,449	$ 29,395
Capital Grants, Contracts, and Donations	3,513	518
Other Expenses and Transfers	(13)	
Total	$ 29,949	$ 29,913

THE STATEMENT OF CASH FLOWS

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

The following summarizes cash flows for the 2005-06 and 2004-05 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2005-06	2004-05
Cash Provided (Used) by:		
Operating Activities	$ (95,201)	$ (81,141)
Noncapital Financing Activities	106,509	96,587
Capital and Related Financing Activities	(7,931)	(5,956)
Investing Activities	(4,460)	(38,674)
Net Decrease in Cash and Cash Equivalents	(1,083)	(29,184)
Cash and Cash Equivalents, Beginning of Year	(410)	28,774
Cash and Cash Equivalents, End of Year	$ (1,493)	$ (410)

Major sources of funds came from State appropriations ($76.5 million), net student tuition and fees ($29.5 million), Federal and State student financial aid ($20.1 million), grants and contracts ($17 million), and sales and services of auxiliary enterprises ($10.3 million).

CAPITAL ASSETS, CAPITAL PROJECT COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2006, the University had $273.4 million in capital assets, less accumulated depreciation of $107.8 million, for net capital assets of $165.6 million. Depreciation charges for the current fiscal year totaled $11.7 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net
(In Thousands)

	2006	2005
Land	$ 7,452	$ 7,452
Buildings	108,458	92,030
Infrastructure and Other Improvements	15,515	15,424
Furniture and Equipment	12,079	10,693
Library Resources	6,736	6,410
Property Under Capital Lease	573	865
Computer Software	3,454	3,398
Construction in Progress	11,284	19,575
Total Capital Assets, Net	$ 165,551	$ 155,847

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

CAPITAL PROJECT COMMITMENTS

During the 2005-06 fiscal year, the Social Science Building was the major project under construction. The following table summarizes the University's major capital project commitments as of June 30, 2006:

Capital Project Commitments (In Thousands)

Project Name	Total Commitment	Completed to Date	Balance Committed
Education Building	$ 12,000	$ 46	$ 11,954
Student Affairs	9,406	260	9,146
Social Science Building	12,961	9,634	3,327
Allied Health	2,315	50	2,265
Total	$ 36,682	$ 9,990	$ 26,692

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

DEBT ADMINISTRATION

As of June 30, 2006, the University had $10.1 million in outstanding bonds and a capital lease, representing a decrease of $0.8 million, or 7.7 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt, at June 30 (In Thousands)

	2006	2005
Bonds Payable	$ 9,548	$ 10,091
Capital Lease Payable	555	858
Total	$ 10,103	$ 10,949

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The budget that the Florida Legislature adopted for the 2006-07 fiscal year provided approximately an 8 percent increase in the education portion of the budget. The Legislature provided a salary increase of 3 percent for State university employees, and provided $54.5 million for enrollment growth at State universities (the University's share is $6.7 million, or 12.4 percent). The University expects an increase in revenue from student tuition and fees because of increased enrollment and increased student tuition and fees.

FINANCIAL SECTION

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2006

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	$ 1,399,527.00
Investments	78,195,242.01	
Accounts Receivable, Net	2,842,721.24	354,994.00
Contracts and Grants Receivable	882,081.70	231,424.00
Interest Receivable	291,007.00	
Loans and Notes Receivable, Net	75,816.92	
Pledges Receivable, Net		580,175.00
Due from State	29,967,301.00	
Due from University		22,485,613.00
Inventories	214,979.86	137,084.00
Other Current Assets		167,774.00
Total Current Assets	112,469,149.73	25,356,591.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		11,660,751.00
Investments		4,976,289.00
Restricted Investments	14,587,712.32	76,527,502.00
Loans and Notes Receivable, Net		450,840.00
Pledges Receivable, Net		1,808,717.00
Depreciable Capital Assets, Net	146,815,278.34	35,396,652.00
Nondepreciable Capital Assets	18,736,020.93	1,647,748.00
Other Noncurrent Assets	30,364.86	510,248.00
Total Noncurrent Assets	180,169,376.45	132,978,747.00
TOTAL ASSETS	$ 292,638,526.18	$ 158,335,338.00
LIABILITIES		
Current Liabilities:		
Temporary Cash Overdraft	$ 1,492,708.36	$
Accounts Payable	2,041,158.92	810,049.00
Construction Contracts Payable	505,830.85	
Salaries and Wages Payable	2,271,632.12	
Deposits Payable	1,657,949.27	
Due to Component Units	22,485,613.00	
Deferred Revenue	378,539.25	238,245.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	558,144.16	1,200,000.00
Capital Lease Payable	313,409.64	
Compensated Absences Payable	467,843.14	
Total Current Liabilities	32,172,828.71	2,248,294.00

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2006

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$ 8,989,803.10	$ 43,800,000.00
Capital Lease Payable	242,143.03	
Compensated Absences Payable	8,889,019.63	273,875.00
Other Noncurrent Liabilities		252,029.00
Total Noncurrent Liabilities	18,120,965.76	44,325,904.00
TOTAL LIABILITIES	50,293,794.47	46,574,198.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	155,492,421.06	(9,463,371.00)
Restricted for Nonexpendable:		
Endowment		76,126,891.00
Other		1,289,741.00
Restricted for Expendable:		
Loans	611,306.20	
Capital Projects	39,014,759.46	22,940,249.00
Other	3,894,345.10	12,513,323.00
Unrestricted	43,331,899.89	8,354,307.00
TOTAL NET ASSETS	242,344,731.71	111,761,140.00
TOTAL LIABILITIES AND NET ASSETS	$ 292,638,526.18	$ 158,335,338.00

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2006

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $18,030,788.87	$ 31,552,598.02	$
Federal Grants and Contracts	6,827,743.24	
State and Local Grants and Contracts	5,601,351.74	
Nongovernmental Grants and Contracts	4,260,438.98	
Sales and Services of Auxiliary Enterprises	10,259,727.15	
Other Operating Revenues		26,086,878.00
Total Operating Revenues	58,501,859.13	26,086,878.00
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	104,417,454.31	
Services and Supplies	34,193,839.98	22,772,079.00
Utilities	4,598,793.92	
Scholarships and Fellowships	6,443,895.57	
Depreciation	11,688,011.93	2,773,013.00
Other Operating Expenses		2,840,372.00
Total Operating Expenses	161,341,995.71	28,385,464.00
Operating Loss	(102,840,136.58)	(2,298,586.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	76,528,538.00	
Federal and State Student Financial Aid	20,122,451.26	
Investment Income	3,309,021.02	6,882,208.00
Other Nonoperating Revenues	3,673,435.13	5,000.00
Unrealized Losses on Investments	(1,574,089.50)	
Loss on Disposal of Capital Assets	(756,993.71)	
Interest on Capital Asset-Related Debt	(523,053.75)	
Other Nonoperating Expenses	(347,067.31)	(12,379.00)
Net Nonoperating Revenues	100,432,241.14	6,874,829.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(2,407,895.44)	4,576,243.00
Capital Appropriations	26,449,254.00	
Capital Grants, Contracts, and Donations	3,513,508.35	4,033,973.00
Additions to Permanent Endowments		6,324,909.00
Other Expenses and Transfers	(12,726.32)	
Increase in Net Assets	27,542,140.59	14,935,125.00
Net Assets, Beginning of Year	214,802,591.12	96,826,015.00
Net Assets, End of Year	$ 242,344,731.71	$ 111,761,140.00

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2006

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 29,486,456.41
Grants and Contracts	17,044,229.19
Sales and Services of Auxiliary Enterprises	10,259,727.15
Other Operating Receipts	3,198,084.48
Payments to Employees	(106,664,493.66)
Payments to Suppliers for Goods and Services	(41,905,309.36)
Payments to Students for Scholarships	(6,443,895.57)
Net Loans Issued to Students	(175,863.69)
Net Cash Used by Operating Activities	(95,201,065.05)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	76,528,538.00
Federal and State Student Financial Aid	20,122,451.26
Net Change in Funds Held for Others	279,291.77
Operating Subsidies and Transfers	3,447,100.32
Other Nonoperating Receipts	6,131,339.78
Net Cash Provided by Noncapital Financing Activities	106,508,721.13
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	13,413,694.52
Capital Subsidies and Transfers	2,941,490.45
Purchases of Capital Assets	(22,688,653.20)
Principal Paid on Capital Debt and Leases	(1,074,350.37)
Interest Paid on Capital Debt and Leases	(523,053.75)
Net Cash Used by Capital and Related Financing Activities	(7,930,872.35)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(7,782,854.59)
Investment Income	3,323,265.33
Net Cash Used by Investing Activities	(4,459,589.26)
Net Decrease in Cash and Cash Equivalents	(1,082,805.53)
Cash and Cash Equivalents, Beginning of Year	(409,902.83)
Cash and Cash Equivalents, End of Year	$ (1,492,708.36)

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2006

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (102,840,136.58)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	11,688,011.93
Change in Assets and Liabilities:	
Receivables, Net	796,803.84
Inventories	(57,454.49)
Accounts Payable	(3,453,822.26)
Salaries and Wages Payable	(995,883.18)
Deposits Payable	(2,561,788.49)
Compensated Absences Payable	1,010,192.73
Deferred Revenue	130,205.92
Temporary Cash Overdraft	1,082,805.53
NET CASH USED BY OPERATING ACTIVITIES	$ (95,201,065.05)

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, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, and is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the State's Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The Faculty Association President and the Student Body President of the University are also members. The State's Board of Education is responsible for overseeing kindergarten through graduate school education in the State. The State's Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with Florida law, State Board of Education rules, and Board of Governors regulations. The Trustees select the University President and the State Board of Education ratifies the candidate selected. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees for the University.

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

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 6C-9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

- 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.
- The University of North Florida Financing Corporation, Inc. (Financing Corporation), was created in October 2005 as a not-for-profit entity organized to receive, hold, invest, and administer property and to issue revenue bonds or other forms of indebtedness (finance or refinance capital projects), with the associated expenditures and debt service, exclusively for the University.

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

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

- 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.

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

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

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

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by a student or a third-party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

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

Custodial Credit Risk – Component Units Deposits. Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, a component unit's deposits may not be returned to it. All University and component unit deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. At June 30, 2006, the component units cash deposits with banks and financial institutions totaled $964,947 and all of these amounts were insured by Federal depository insurance or fully collateralized pursuant to Chapter 280, Florida Statutes.

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

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires that the carrying amount of assets that have been impaired not be overstated in the financial statements. Accordingly, the carrying amounts of impaired capital assets are subject to write-down when certain conditions are met. A capital asset is considered impaired when its service utility or function has declined significantly and unexpectedly. The service utility of a capital asset refers to the usable capacity that was available to provide a continuing service at the time of acquisition. The usable capacity of a capital asset may decline due to various reasons. For the 2005-06 fiscal year, the University identified and recorded an impairment loss of $376,813.56 as shown in a subsequent note.

Capital assets of the University's component units are stated at cost. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets as follows:

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

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds payable, a capital lease payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. The University's component units reported as unrestricted cash and cash equivalents amounts in bank demand accounts and money market funds subject to immediate withdrawal. Cash and cash equivalents that are externally restricted to

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

make debt service payments, to purchase or construct capital or other restricted assets, or for endowment purposes are classified as restricted.

3. INVESTMENTS

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

The University reported investments at fair value totaling $92,782,954.33 at June 30, 2006, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 2.72 years at June 30, 2006. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

Component Units Investments

Investments held by the University's component units are reported at fair value and consist of government and agency mortgage backed securities, corporate bonds, equity mutual funds, bond mutual funds, and hedge funds.

The University of North Florida Foundation, Inc. (Foundation), reported investments totaling $75,527,502. The Foundation's investment policy states equity securities will be broadly diversified (e.g., country,

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

economic sector, industry, etc.) to minimize the impact during sudden and severe market downturns, as equity markets have historically displayed a high degree of such correlation during these periods. The role of hedge funds is to reduce the overall volatility of the equity fund performance. Fixed income securities will be diversified among different sectors and the fixed income market. The principal purpose of the fixed income fund will be to reduce risk by reducing the overall volatility of the investment returns and to serve as a partial hedge against periods of prolonged economic contraction. The fixed income objective is to obtain an average annual real total return (net of investment management fees and expenses) in excess of 2.75 percent. Decisions as to individual security selection, security size and quality, etc., will be left to broad manager discretion. In July 2006, the Foundation began implementation of the changes for investment advisory and consulting services and a new asset allocation mix for endowed investments and hired a firm to perform investment advisory and consulting services. The Foundation also approved new asset classes for endowed investments. As of August 31, 2006, Foundation operations had completed endowed investment account closures and transfers of $39,723,097 to the new funds.

The University of North Florida Training and Service Institute, Inc. (TSI), reported investments totaling $5,976,289. TSI's investment policy requires equity securities to be limited to investments in publicly traded securities on a major stock exchange or NASDAQ and provides that not more than 25 percent of the total equity portfolio be invested in foreign companies. For fixed income securities, the investment policy provides that not more than 25 percent of the total equity portfolio may be invested in foreign companies and no more than 20 percent of the fair value of the portfolio may be invested in Collateralized Mortgage Obligations (CMOs) that consist of GNMAs, FNMAs, and FHLMCs. There is no limit on investments in securities issued directly by the U.S. Government or any agency or instrumentality thereof. TSI's investment policy prohibits investments in interest only or principal only CMOs, interest rate swaps, precious metals, limited partnerships of any kind, real estate, venture capital, futures contracts, or options contracts in individually managed portfolios. Trading on margin and short selling are also prohibited.

The University of North Florida Financing Corporation, Inc., reported no investments and had not established a formal investment policy.

The estimated fair value of the component units' investments was based on valuations provided by external investment managers at June 30, 2006, and consisted of the following:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Investment Type	Component Units
U.S. Government Bonds and Agency Securities	$25,875,208
Fixed Income Mutual Funds	2,494,758
Equity Mutual Funds	42,881,370
Hedge Funds	10,252,455
Total Component Units Investments	$81,503,791

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Foundation and TSI do not have formal investment policies that limit the duration of investments. However, the University component units manage exposure to declines in fair value occurring from increasing interest rates through the specific identification method and maintaining diversification of investments and investment maturities so as to minimize the impact of downturns in the market. Investments of the component units in debt securities, and bond and fixed income mutual funds, and their future maturities at June 30, 2006, are as follows:

Investment Type	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
University of North Florida Foundation, Inc.					
U.S. Government and Agency Securities	$ 6,526,538	$ 531,552	$ 3,221,489	$ 935,888	$ 1,837,609
Mortgage Backed Securities	9,880,850	1,024,910	4,277,847	69,825	4,508,268
Corporate Bond Funds	9,237,563	1,360,230	4,237,565	1,340,453	2,299,315
Fixed Income Mutual Funds	101,138	101,138			
Total	$25,746,089	$3,017,830	$11,736,901	$2,346,166	$ 8,645,192
Training and Service Institute, Inc.					
Fixed Income Mutual Funds	$ 2,393,620	$	$	$2,393,620	$

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has no formal investment policy on credit risk. The TSI's investment policy provides that fixed income securities shall be rated "A" or higher by Moody's or Standard and Poor's rating services. At June 30, 2006, component unit debt securities' credit quality ratings are as follows:

Investment Type	Fair Value	Credit Quality Rating (1)				
		AAA	AA	Aaa	A	Unrated
U.S. Government Bonds and Agency Securities	$ 6,526,538	$ 4,302,946	$	$ 2,125,972	$	$ 97,620
Mortgage Backed Securities	9,880,850	5,166,727		4,714,123		
Corporate Bond Funds	9,237,563		2,072,065		7,165,498	
Other Fixed Income Mutual Funds	2,494,758	1,598,834	794,786			101,138
Total	$ 28,139,709	$ 11,068,507	$ 2,866,851	$ 6,840,095	$ 7,165,498	$ 198,758

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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

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

4. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student fee deferments, various student services provided by the University, various auxiliary services provided to students and third-parties, and student tuition and fees.

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on financial aid advances from debtors made under the University's short-term loan program.

Contracts and Grants Receivable. Contracts and grants receivable represent grant reimbursements due from third parties.

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 of $1,224,665.

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based upon management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of $81,759.22 and $2,344.86, respectively, at June 30, 2006.

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

5. DUE FROM STATE

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

6. DUE FROM/TO COMPONENT UNITS/UNIVERSITY

These amounts are related to housing and parking facilities provided and financed by the Foundation in support of the University, and represent the amount of moneys accumulated under the University's operating leases for housing and parking facilities owned by the Foundation and held by the University at June 30, 2006. The University uses accumulated moneys to pay, on behalf of the Foundation, operating and other agreed upon expenses, such as scheduled debt, and any unexpended moneys are obligated to support future operations and costs under the operating leases for housing and parking.

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 for the fiscal year ended June 30, 2006, is shown below:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 7,451,525.50	$	$	$ 7,451,525.50
Construction in Progress	19,575,038.51	10,342,975.61	18,633,518.69	11,284,495.43
Total Nondepreciable Capital Assets	$ 27,026,564.01	$ 10,342,975.61	$ 18,633,518.69	$ 18,736,020.93
Depreciable Capital Assets:				
Buildings	$ 143,979,159.47	$ 21,408,697.97	$ 376,813.56	$ 165,011,043.88
Infrastructure and Other Improvements	19,969,033.11	1,410,663.72		21,379,696.83
Furniture and Equipment	32,578,045.43	5,023,399.89	6,070,513.52	31,530,931.80
Property Under Capital Lease	1,431,627.76			1,431,627.76
Library Resources	27,716,013.83	1,760,627.81		29,476,641.64
Computer Software	4,992,741.34	836,234.23		5,828,975.57
Total Depreciable Capital Assets	230,666,620.94	30,439,623.62	6,447,327.08	254,658,917.48
Less, Accumulated Depreciation:				
Buildings	51,948,615.64	4,604,803.89		56,553,419.53
Infrastructure and Other Improvements	4,544,811.06	1,319,688.97		5,864,500.03
Furniture and Equipment	21,884,509.04	3,257,568.56	5,690,333.37	19,451,744.23
Property Under Capital Lease	566,631.70	292,344.96		858,976.66
Library Resources	21,306,293.97	1,433,876.00		22,740,169.97
Computer Software	1,595,099.17	779,729.55		2,374,828.72
Total Accumulated Depreciation	101,845,960.58	11,688,011.93	5,690,333.37	107,843,639.14
Total Depreciable Capital Assets, Net	$ 128,820,660.36	$ 18,751,611.69	$ 756,993.71	$ 146,815,278.34

The amount reported as loss on disposal of capital assets on the statement of revenues, expenses, and changes in net assets includes a partial building impairment loss of $376,813.56 deducted from the asset value pursuant to GASB Statement No. 42, and net losses on disposition of furniture and equipment and other minor adjustments totaling $380,180.15.

9. TEMPORARY CASH OVERDRAFT

The University maintained an account with a local bank to process general operating expenses and payroll transactions. Funds in excess of current need, including float, were invested. The carrying amount of the University's total cash and cash equivalents was $(1,492,708.36) and the bank balance was $312,038.81, which was insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. As a result, the University's records showed a temporary cash overdraft for the amount of outstanding checks not presented as of June 30, 2006. This did not, however, represent an overdraft in the University's depository account.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

10. DEFERRED REVENUE

Deferred revenue includes auxiliary contract commissions received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2006, the University reported $378,539.25 in commissions as deferred revenue.

11. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2006, include bonds, a capital lease, and compensated absences. Long-term liabilities activity for the fiscal year ended June 30, 2006, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 10,091,455.61	$	$ 543,508.35	$ 9,547,947.26	$ 558,144.16
Capital Lease Payable	858,495.68		302,943.01	555,552.67	313,409.64
Compensated Absences Payable	8,346,670.04	1,550,938.32	540,745.59	9,356,862.77	467,843.14
Total Long-Term Liabilities	$ 19,296,621.33	$ 1,550,938.32	$ 1,387,196.95	$ 19,460,362.70	$ 1,339,396.94

Bonds Payable. Bonds were issued to acquire and construct various University academic and student service facilities. Building and capital improvement fees, collected as part of tuition and remitted to the State Board of Education, are used to retire the bonds payable. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

The University had the following bonds payable outstanding at June 30, 2006:

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
State University System Revenue Bonds:				
1997 Trust Fund	$ 3,836,631.04	$ 2,858,583.34	5.10 - 5.63	2022
1997A Trust Fund	2,264,354.71	1,952,389.69	4.50 - 5.10	2016
1998 Trust Fund	4,178,965.95	3,247,738.85	4.00 - 5.00	2023
2003A Trust Fund	2,202,500.94	1,489,235.38	4.00 - 5.00	2013
Total State University System Revenue Bonds	$12,482,452.64	$ 9,547,947.26		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2006, are as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Fiscal Year Ending June 30	Principal	Interest	Total
2007	$ 558,144.16	$ 472,822.92	$ 1,030,967.08
2008	598,531.55	446,727.42	1,045,258.97
2009	619,516.42	418,693.63	1,038,210.05
2010	653,031.70	387,893.75	1,040,925.45
2011	685,711.01	355,138.02	1,040,849.03
2012-2016	3,344,502.62	1,255,399.01	4,599,901.63
2017-2021	2,257,558.83	537,066.50	2,794,625.33
2022-2023	793,841.51	49,911.99	843,753.50
Subtotal	9,510,837.80	3,923,653.24	13,434,491.04
Bond Premiums	134,725.31		134,725.31
Bond Discounts	(97,615.85)		(97,615.85)
Total	$ 9,547,947.26	$ 3,923,653.24	$ 13,471,600.50

Component Units Bonds Payable

The University of North Florida Foundation, Inc. (Foundation), borrowed moneys for the construction of student housing and parking facilities through the issuance of bonds, which pledged anticipated net revenues from operations to retire the debt and, therefore, are accounted for and reported along with the related assets in the Foundation's records. While these bonds are issued by and in the name of the Foundation, they are secured by a revenue stream derived from operating leases executed with the University. Under the terms of the leases, the University acts as an agent to manage day-to-day operations of the Foundation's student housing and parking facilities, and pledges all the related revenue from the housing and parking system to guarantee all debt service payments and further covenants to set rates within each system that will achieve the coverage ratios spelled out in the bond documents. The bonds are also credit enhanced by means of bank letters of credit to provide additional security to the bondholders and enhance the rates at which the bonds trade. These letters of credit are "non-recourse." This means that in the event of a catastrophe which prevents the University from being able to meet its obligations under the terms of the operating leases, the bank would step in to meet the terms of the bonds under the provisions of the letter of credit. By virtue of their nonrecourse provisions, the bank would not be able to look to the Foundation's other assets to recover its loss.

The following summary, providing an overview of these bond issues, is presented in the Foundation's audit report for the fiscal year ended June 30, 2006 (additional information can be obtained from the Foundation):

- Capital Improvement Revenue Bonds:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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, 2006, is $12,100,000.

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, 2006, is $8,400,000.

On November 16, 1994, the Foundation issued $17,000,000 of Capital Improvement Revenue Bonds (Series 1994 Bonds). The proceeds were used to pay-off the outstanding balance of a previously existing $9,200,000 Multi-Modal Interchangeable Rate Industrial Development Revenue Bonds issue, the outstanding balance on a $2,000,000 revenue note previously issued by a financial institution, and to construct and furnish additional student residence facilities at the University. Principal is payable in annual installments beginning November 1, 1996, through 2024. The balance outstanding at June 30, 2006, is $14,600,000.

The Series 2000, 1997, and 1994 Bonds are collateralized by the revenue stream from the student housing system at the University. In addition, the Foundation is required to maintain at least $1 million on deposit with the University.

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, 2006, the variable rate for the Series 2000, Series 1997, and Series 1994 Bonds is 4.01 percent. The interest rates ranged from 2.02 percent to 4.03 percent during the 2006 fiscal year. The Series 2000, Series 1997, and Series 1994 Bonds are parity issues, which are collateralized by all net revenue collections derived from the student residence facilities.

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

UNF Foundation Housing System Revenue Bonds, Variable-Rate

Fiscal Year Ending June 30	Series 1994	Series 1997	Series 2000	Total Principal
2007	$ 300,000	$ 200,000	$ 400,000	$ 900,000
2008	400,000	200,000	400,000	1,000,000
2009	400,000	200,000	400,000	1,000,000
2010	400,000	200,000	500,000	1,100,000
2011	500,000	200,000	400,000	1,100,000
2012-2016	3,100,000	1,500,000	1,800,000	6,400,000
2017-2021	4,500,000	1,700,000	1,400,000	7,600,000
2022-2026	5,000,000	1,500,000	1,500,000	8,000,000
2027-2031		2,700,000	5,300,000	8,000,000
Total Housing Related Principal	$ 14,600,000	$ 8,400,000	$ 12,100,000	$ 35,100,000

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

service during such year. Rental revenues during 2006, net of operating costs, represented debt service coverage of 198 percent.

- Parking System Improvement Revenue Bonds:

  On April 30, 1998, the Foundation issued $11,700,000 of Parking System Improvement Revenue Bonds (the Parking Bonds) in order to retire the outstanding balance of a prior issue and to begin construction of a new parking facility at the University. The Parking Bonds are collateralized by the revenue stream from the parking system at the University. The interest rate is a variable rate not to exceed 12 percent and is 4.01 percent at June 30, 2006. The interest rates ranged from 2.02 percent to 4.03 percent during fiscal year 2006. Interest payments are made monthly. Principal is payable in 28 annual installments from May 1, 2001, through May 1, 2028.

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

UNF Foundation Parking System
Revenue Bonds - Variable Rate

Fiscal Year Ending June 30	Principal
2007	$ 300,000
2008	300,000
2009	300,000
2010	400,000
2011	400,000
2012-2016	2,200,000
2017-2021	2,500,000
2022-2026	2,500,000
2027-2028	1,000,000
Total Parking Related Principal	$ 9,900,000

  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 2006, net of operating costs, represented debt service coverage of 400 percent.

Capital Lease Payable. During the 2003-04 fiscal year, the University acquired a telephone system for $1,431,628 under a capital lease. The stated interest rate was 3.41 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2006, are as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Fiscal Year Ending June 30	Amount
2007	$ 328,379.44
2008	246,284.59
Total Minimum Payments	574,664.03
Less, Amount Representing Interest	19,111.36
Present Value of Minimum Payments	$ 555,552.67

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors Regulation 6C-5.920 and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2006, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $9,356,862.77. The current portion of the compensated absences liability of $467,843.14 is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

12. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS 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 eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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 an FRS 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 FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2005-06 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.83
Florida Retirement System, Senior Management Services	0.00	10.45
Florida Retirement System, Special Risk	0.00	18.53
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	9.33
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 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 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 (none from employees) for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, totaled $2,420,530.54, $2,382,278.62, and $2,739,761.10, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

were 111 University participants during the 2005-06 fiscal year. Required contributions made to the PEORP totaled $255,306.20.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

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

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

There were 686 University participants during the 2005-06 fiscal year. Required employer contributions made to the Program totaled $3,861,517.01 and employee contributions totaled $1,774,805.63.

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 2005-06 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 contribution rates presented in note 12.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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 2005-06 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. CONSTRUCTION COMMITMENTS

The University's major construction commitments at June 30, 2006, are as follows:

Project Name	Total Commitment	Completed to Date	Balance Committed
Education Building	$ 12,000,000.00	$ 46,088.41	$ 11,953,911.59
Student Union	9,406,467.00	259,999.26	9,146,467.74
Social Sciences	12,961,073.00	9,634,030.42	3,327,042.58
Allied Health	2,314,916.00	49,617.81	2,265,298.19
Total	$ 36,682,456.00	$ 9,989,735.90	$ 26,692,720.10

15. RISK MANAGEMENT PROGRAMS

Pursuant to Section 1001.72(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2005-06 fiscal year, the State retained the first $2 million of losses for each occurrence with an annual aggregate retention of $40 million for wind and flood and $5 million for perils other than wind and flood. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $50 million for wind, $50 million for flood, and $200 million for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to $100,000 per person and $200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. The $50 million of wind coverage is $35 million less than the coverage provided for the 2004-05 fiscal year. Settlements have not exceeded insurance coverage during the past three years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain health care services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

16. LITIGATION

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

17. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

Functional Classification	Amount
Instruction	$ 55,533,577.18
Research	6,646,635.71
Public Service	7,659,342.53
Academic Support	12,804,948.82
Student Services	14,188,648.59
Institutional Support	19,945,387.82
Operation and Maintenance of Plant	12,811,122.83
Scholarships and Fellowships	3,667,553.29
Auxiliary Operations	16,293,652.69
Depreciation	11,688,011.93
Loan Operating Expenses	103,114.32
Total Operating Expenses	$ 161,341,995.71

18. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instrument outstanding with a revenue stream pledged in support of that debt. In addition, the

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The Foundation, a component unit, has Parking and Housing Facilities operations that are identifiable activities for which revenues have been pledged for payment of debt and the related segment information for the 2005-06 fiscal year is shown below:

Condensed Statement of Net Assets

	Parking System	Housing System
Assets		
Current Assets	$ 7,751,020	$ 14,958,057
Capital Assets, Net	9,874,269	25,510,413
Other Noncurrent Assets	81,663	289,119
Total Assets	17,706,952	40,757,589
Liabilities		
Current Liabilities	300,000	900,000
Noncurrent Liabilities	9,600,000	34,200,000
Total Liabilities	9,900,000	35,100,000
Net Assets		
Invested in Capital Assets, Net of Related Debt	(25,731)	(9,449,977)
Restricted - Expendable	7,832,683	15,107,566
Total Net Assets	$ 7,806,952	$ 5,657,589

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

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

	Parking System	Housing System
Operating Revenues	$ 3,171,787	$ 9,317,897
Operating Expenses	(1,926,482)	(4,516,907)
Operating Income	1,245,305	4,800,990
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	295,764	752,718
Other Nonoperating Expense	(345,548)	(4,178,311)
Net Nonoperating Expenses	(49,784)	(3,425,593)
Increase in Net Assets	1,195,521	1,375,397
Net Assets, Beginning of Year	6,611,431	4,282,192
Net Assets, End of Year	$ 7,806,952	$ 5,657,589

Condensed Statement of Cash Flows

	Parking System	Housing System
Net Cash Provided (Used) by:		
Operating Activities	$ 300,000	$ 900,000
Capital and Related Financing Activities	(300,000)	(900,000)
Net Increase in Cash and Cash Equivalents		
Cash and Cash Equivalents, Beginning of Year	55,539	
Cash and Cash Equivalents, End of Year	$ 55,539	$

19. COMPONENT UNITS

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

	University of North Florida Foundation, Inc. 6-30-06	University of North Florida Training and Service Institute, Inc. 6-30-06	University of North Florida Financing Corporation, Inc. 6-30-06	Total
Condensed Statement of Net Assets				
Assets:				
Current Assets	$ 23,915,565	$ 1,436,730	$ 4,296	$ 25,356,591
Capital Assets, Net	35,524,292	1,520,108		37,044,400
Other Noncurrent Assets	89,463,219	6,471,128		95,934,347
Total Assets	148,903,076	9,427,966	4,296	158,335,338
Liabilities:				
Current Liabilities	1,396,383	851,911		2,248,294
Noncurrent Liabilities	44,067,868	258,036		44,325,904
Total Liabilities	45,464,251	1,109,947		46,574,198
Net Assets:				
Restricted	102,394,496	1,012,337		103,406,833
Unrestricted	1,044,329	7,305,682	4,296	8,354,307
Total Net Assets	$ 103,438,825	$ 8,318,019	$ 4,296	$ 111,761,140
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	$ 17,914,199	$ 8,172,679	$	$ 26,086,878
Operating Expenses	17,344,606	11,040,154	704	28,385,464
Operating Income (Loss)	569,593	(2,867,475)	(704)	(2,298,586)
Net Nonoperating Revenues	16,432,148	796,563	5,000	17,233,711
Increase (Decrease) in Net Assets	17,001,741	(2,070,912)	4,296	14,935,125
Net Assets, Beginning of Year	86,437,084	10,388,931		96,826,015
Net Assets, End of Year	$ 103,438,825	$ 8,318,019	$ 4,296	$ 111,761,140

20. SUBSEQUENT EVENT

On April 2, 2007, the University entered into an agreement to lease, with an option to purchase, a 125,000 square foot facility recently acquired by the Jacksonville Police and Fire Pension Fund. The base rent under the agreement is $1,625,000 per year, increasing by 3.5 percent annually, for up to ten years. The purchase option provides for the University to purchase the premises any time during the first year of the lease term and annually thereafter on the anniversary date. The purchase price is calculated based on the Pension Fund's cost basis for the premises of $16,640,061.70 plus an additional 8.5 percent during the first year and increasing by 5 percent per year during the remaining lease term.

Appendix A
Management Response

ADMINISTRATION AND FINANCE
Office of the Vice President

UNF
UNIVERSITY of NORTH FLORIDA

April 19, 2007

William O. Monroe, CPA
Auditor General
3974 Woodcock Drive, Suite 101A
Jacksonville, Florida 32207-2732

Dear Mr. Monroe:

We concur that improvement can be made in our financial statement preparation and presentation process. We are committed to making the necessary changes. It should be pointed out however that there were numerous factors during the fiscal year in question that led to the issues noted in the audit.

- This was the first complete year on all aspects of our ERP system. Although this was our second year on the finance system this was our first complete year on the student system and thus the first year all student payments, fees, and accounts receivable were directly incorporated in our system. As a result we were still encountering numerous implementation and conversion issues.

- We experienced significant staff turnover during June 2006. This included our lead staff person responsible for financial statement presentation. This obviously had a negative affect on our year end closing and financial statement preparation.

- Our normal practice has always been, and it has always been advised both from the State and University System level, to not prepare the MD&A until the final financial statement numbers are available. Because the final audited numbers were not available until later than normal, the preparation of the MD&A was delayed.

Sincerely,

Shari Shuman

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Vice President, Administration & Finance

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