AUDITOR GENERAL

DAVID W. MARTIN, CPA

UNIVERSITY OF NORTH FLORIDA

Financial Audit

For the Fiscal Year Ended June 30, 2007

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:

UNIVERSITY OF NORTH FLORIDA

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EXECUTIVE SUMMARY

The audit of the financial statements of the University of North Florida for the fiscal year ended June 30, 2007, 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, 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 results of our operational audit of the University are included in our report No. 2008-166.

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

- **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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended.**
- **No significant deficiencies are noted in our report on the University's internal control over financial reporting.**
- **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 and other audit reports prepared by the Auditor General can be obtained on our Web site (http://www.myflorida.com/audgen); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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, 2007, as shown on pages 14 through 49. 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 represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, effective for the 2006-07 fiscal year, there was a change in the University's reporting entity to reclassify the University of North Florida Financing Corporation, Inc. (Financing Corporation), from a discretely presented component unit to a blended component unit for purposes of including the Financing Corporation's financial activities in the University's financial statements. This change affects the comparability of amounts reported for the 2006-07 fiscal year with amounts reported for the 2005-06 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of North Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

David W. Martin, CPA
March 31, 2008

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 have audited the financial statements of the University of North Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2007, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to 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. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to University management in our operational report No. 2008-166, dated March 2008. We also noted the University had taken adequate corrective action for the finding included in our report No. 2007-175.

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,

David W. Martin, CPA
March 31, 2008

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, 2007, 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 $463.8 million at June 30, 2007. This balance reflects a $171.2 million, or 58.5 percent, increase from the 2005-06 fiscal year resulting primarily from assets totaling $102 million related to the University of North Florida Financing Corporation, Inc., issuing Capital Improvement Revenue Bonds, Series 2007 (Housing and Student Union projects); from increases in due from the State of $28.8 million; and net depreciable and nondepreciable capital assets, which now include the Housing System, of $31.1 million.

While assets grew, liabilities increased by $126.7 million and totaled $177 million at June 30, 2007, compared to $50.3 million at June 30, 2006. As a result, the University's net assets increased by $44.5 million, reaching a year end balance of $286.8 million.

The increase in the amount of 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 2006-07 fiscal year. Some of the major additions included $12 million for the Education Building and $14 million for land acquisition.

The University's operating revenues totaled $59.5 million for the 2006-07 fiscal year, representing a 1.7 percent increase over the 2005-06 fiscal year due mainly to net tuition and fees, which increased by $2 million. Operating expenses totaled $178.3 million for the 2006-07 fiscal year representing an increase of 10.5 percent over the 2005-06 fiscal year. The majority of the increase related to increases in employee compensation and benefits, services and supplies, and depreciation expenses.

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 component units. These component units include: 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). The Foundation and TSI are legally separate, not-for-profit corporations reported as discretely presented component units. The Financing Corporation, although legally separate, was formed to facilitate the financing and acquisition of University capital assets and is included within the University reporting entity as a blended component unit because the Financing Corporation provides services exclusively for the University. Information regarding these component units, including various summaries from their separately issued financial statements, is presented in the notes to the financial statements. This MD&A focuses on the University and its blended component unit. MD&A information is included in the separately issued audit reports for each of the discretely presented component units.

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)

	2007	2006
Assets		
Current Assets	$ 131,615	$ 112,470
Capital Assets, Net	196,687	165,551
Other Noncurrent Assets	135,539	14,618
Total Assets	463,841	292,639
Liabilities		
Current Liabilities	23,408	32,173
Noncurrent Liabilities	153,631	18,121
Total Liabilities	177,039	50,294
Net Assets		
Invested in Capital Assets, Net of Related Debt	143,376	155,493
Restricted	100,350	43,520
Unrestricted	43,076	43,332
Total Net Assets	$ 286,802	$ 242,345

The University's financial position, as a whole, improved during the fiscal year June 30, 2007; with an increase in net assets of $44.5 million, or 18.4 percent, over the 2005-06 fiscal year. This is an indicator of the sound overall financial condition and health of the University.

The total assets increased by $171.2 million, primarily from assets totaling $102 million related to the Financing Corporation's issuance of Capital Improvement Revenue Bonds, Series 2007 (Housing and Student Union projects), and from increases in due from State of $28.8 million and net capital assets of $31.1 million. On

June 1, 2007, the housing system operating lease and ground leases between the University and the Foundation were terminated. The Financing Corporation borrowed sufficient funds to retire, by defeasance, the Foundation's outstanding housing bonds and on June 29, 2007, the Housing System became part of the University's auxiliary operations and included the Foundation's transfer of Housing net capital assets to the University. As previously stated, the Financing Corporation is now a blended component unit within the University. The University's liabilities increased $126.7 million resulting from the debt issued in June 2007 by the Financing Corporation, and increases in accounts payable and construction contracts payable.

In summary, the University's net assets of $286.8 million at June 30, 2007, included $143.4 million invested in capital assets, net of related debt, $100.4 million in restricted expendable net assets, and $43.1 million in unrestricted net assets.

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 2006-07 and 2005-06 fiscal years:

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

	2006-07	2005-06
Operating Revenues	$ 59,490	$ 58,502
Operating Expenses	178,272	161,342
Operating Loss	(118,782)	(102,840)
Net Nonoperating Revenues	117,487	100,432
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,295)	(2,408)
Other Revenues, Expenses, Gains, or Losses	45,752	29,950
Net Increase in Net Assets	44,457	27,542
Net Assets, Beginning of Year	242,345	214,803
Net Assets, End of Year	$ 286,802	$ 242,345

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 2006-07 and 2005-06 fiscal years:

Operating Revenues
(In Thousands)

	2006-07	2005-06
Net Tuition and Fees	$ 33,577	$ 31,553
Grants and Contracts	16,390	16,689
Sales and Services of Auxiliary Enterprises	8,946	10,260
Other	577	
Total Operating Revenues	$ 59,490	$ 58,502

Net tuition and fees increased $2 million due to a 3.9 percent increase in student enrollment and an approximately 2 percent increase in tuition. The $1.3 million decrease in sales and services of auxiliary enterprises relates primarily to a decrease in continuing education revenue.

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 2006-07 and 2005-06 fiscal years:

Operating Expenses
(In Thousands)

	2006-07	2005-06
Compensation and Employee Benefits	$ 113,738	$ 104,417
Services and Supplies	38,577	34,194
Utilities and Communications	4,090	4,599
Scholarships and Fellowships	7,508	6,444
Depreciation	14,359	11,688
Total Operating Expenses	$ 178,272	$ 161,342

As previously mentioned, operating expenses increased mainly due to increases in compensation and benefits, services and supplies, and depreciation expenses. Additionally, scholarships and fellowships also increased.

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 2006-07 and 2005-06 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2006-07	2005-06
State Appropriations	$ 88,955	$ 76,529
Federal and State Student Financial Aid	21,685	20,122
Investment Income	4,981	1,735
Other Nonoperating Revenues	4,632	3,673
Loss on Disposal of Capital Assets	(1,378)	(757)
Interest on Capital Asset-Related Debt	(534)	(523)
Other Nonoperating Expenses	(854)	(347)
Net Nonoperating Revenues	$ 117,487	$ 100,432

Net nonoperating revenues increase is mainly attributable to increases in State appropriations of $12.4 million and investment income of $3.2 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 2006-07 and 2005-06 fiscal years:

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

	2006-07	2005-06
Capital Appropriations	$ 36,263	$ 26,449
Capital Grants, Contracts, Donations, and Transfers	9,489	3,514
Other Expenses		(13)
Total	$ 45,752	$ 29,950

Capital Appropriations increased $9.8 million which will allow the University to continue on the aggressive capital projects implementation (see listing of projects in the Capital Expenses and Commitments section below). The increase in capital grants, contracts, donations, and transfers was primarily the result of support from the University's component units, including the Foundation's $5.9 million transfer of housing system net assets and TSI's $1.5 million transfer of land acquired in a prior fiscal year.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from 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 2006-07 and 2005-06 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2006-07	2005-06
Cash Provided (Used) by:		
Operating Activities	$ (98,699)	$ (95,201)
Noncapital Financing Activities	98,033	106,509
Capital and Related Financing Activities	113,539	(7,931)
Investing Activities	(112,991)	(4,460)
Net Decrease in Cash and Cash Equivalents	(118)	(1,083)
Cash and Cash Equivalents, Beginning of Year	(1,493)	(410)
Cash and Cash Equivalents, End of Year	$ (1,611)	$ (1,493)

Major sources of funds came from State appropriations ($89 million), net student tuition and fees ($35.5 million), grants and contracts ($16.9 million), capital appropriations ($7.5 million), and sales and services of auxiliary enterprises ($8.9 million). The increases in funds provided by and funds used by Capital and Related Financing Activities and Investing Activities, respectively, were primarily due to the issuance of the Financing Corporation Capital Improvement Revenue Bonds, the use of $34.2 million of those funds to refund the outstanding Foundation Housing bonds, and the subsequent investment of the remaining proceeds from the bond issue.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2007, the University had $328.7 million in capital assets, less accumulated depreciation of $132 million, for net capital assets of $196.7 million. Depreciation charges for the current fiscal year totaled $14.4 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Thousands)

	2007	2006
Land	$ 8,959	$ 7,452
Buildings	139,855	108,458
Construction in Progress	10,541	11,284
Infrastructure and Other Improvements	14,734	15,515
Furniture and Equipment	12,439	12,079
Library Resources	6,964	6,736
Property Under Capital Lease	286	573
Computer Software	2,909	3,454
Total Capital Assets, Net	$ 196,687	$ 165,551

Most of the increase in capital assets is related to the transfer of Housing System assets (dormitory buildings, other improvements, and furniture and equipment), with a net book value of approximately $24.2 million to the University from the Foundation. Additional information about the University's capital assets is presented in the notes to the financial statements.

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2007, were incurred on the following projects: University Housing, Student Union, Education Building, Allied Health, and Multi-Purpose Classrooms. A summary of the University's capital commitments at June 30, 2007, is as follows:

	Amount (In Thousands)
Total Commitment	$ 171,139
Completed to Date	(10,541)
Balance Committed	$ 160,598

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

DEBT ADMINISTRATION

As of June 30, 2007, the University had $145.6 million in outstanding bonds and a capital lease, representing an increase of $135.5 million 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)

	2007	2006
Bonds	$ 145,346	$ 9,548
Capital Lease	242	555
Total	$ 145,588	$ 10,103

The significant increase in bonds payable related to Capital Improvement Revenue Bonds issued by the Financing Corporation to refinance the Foundation's Housing System with fixed rate bonds and to finance the University Housing and Student Union construction projects. Additional information about the University's long-term debt and the recent debt financing 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 2007-08 fiscal year provided a 7.4 percent increase for State universities. Regarding the University's legislative priorities, the Legislature provided a one time bonus of $1,000 for State university employees; and provided $60.56 million for enrollment growth at State universities (the University's share is 5.06 percent). The University expects an increase in revenue from student tuition and fees because of increased enrollment and increased student tuition and fees. Additionally, the University intends to implement a 5 percent tuition increase in January of 2008.

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on its financial position or operations during the 2007-08 fiscal year. The University's financial outlook for the future continues to be positive. The level of State support, compensation and benefit increases, and limited student tuition and fee increases impact the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. General State appropriations as a percentage of operating revenues and nonoperating revenues represent approximately 52 percent of total revenues. The level of State support is, therefore, one of the key factors influencing the University's activities.

The budget that the State adopted for the 2007-08 fiscal year provided for an approximately 4.5 percent increase in State appropriations for the University. Financial and political support from State government is expected to remain fairly stable with moderate growth over the long-term. With the current downturn in the economy, consideration is being given to cost saving strategies, including a 20 percent reduction in University department budgets. Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2007 enrollment of 16,561 represents an increase of approximately 2.9 percent over the Fall 2006 enrollment of 16,091, and a 7.4 percent increase over the Fall 2005 enrollment of 15,420. Efforts to improve retention, including an aggressive marketing plan to recruit qualified students and enhanced intervention to improve academic success, will help assure this positive trend.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice-President for Financial Services, University of North Florida, 1 UNF Drive, Building 53, Jacksonville, Florida 32224.

FINANCIAL SECTION

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2007

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	$ 1,667,726.00
Investments	70,319,797.19	3,573,460.00
Accounts Receivable, Net	1,821,945.49	833,978.00
Pledges Receivable, Net		1,007,717.00
Due from State	58,760,024.00	
Due from University		7,808,011.00
Inventories	244,982.72	132,842.00
Other Current Assets	468,250.78	133,485.00
Total Current Assets	131,615,000.18	15,157,219.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		5,313,221.00
Restricted Investments	133,953,863.08	95,024,456.00
Loans and Notes Receivable, Net		550,000.00
Pledges Receivable, Net		1,282,395.00
Depreciable Capital Assets, Net	177,186,705.12	8,858,810.00
Nondepreciable Capital Assets	19,500,560.21	2,145,057.00
Deferred Bond Issuance Costs, Net	1,585,512.16	
Other Noncurrent Assets		99,962.00
Total Noncurrent Assets	332,226,640.57	113,273,901.00
TOTAL ASSETS	$ 463,841,640.75	$ 128,431,120.00
LIABILITIES		
Current Liabilities:		
Temporary Cash Overdraft	$ 1,610,806.21	$
Accounts Payable	4,713,795.66	1,080,106.00
Construction Contracts Payable	3,654,875.14	
Salaries and Wages Payable	2,316,951.79	
Deposits Payable	463,208.24	
Due to Component Unit	7,808,011.00	
Deferred Revenue	194,482.85	202,165.00
Other Current Liabilities		16,148.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,869,379.97	300,000.00
Capital Lease Payable	242,143.03	
Compensated Absences Payable	534,471.34	
Total Current Liabilities	23,408,125.23	1,598,419.00

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2007

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$ 143,476,325.45	$ 9,300,000.00
Compensated Absences Payable	10,154,955.36	286,387.00
Other Noncurrent Liabilities		250,133.00
Total Noncurrent Liabilities	153,631,280.81	9,836,520.00
TOTAL LIABILITIES	177,039,406.04	11,434,939.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	143,375,648.33	1,403,808.00
Restricted for Nonexpendable:		
Endowment		88,785,081.00
Other		289,742.00
Restricted for Expendable:		
Debt Service	9,833,649.71	
Loans	299,142.45	
Capital Projects	85,557,728.84	7,948,196.00
Other	4,660,269.47	12,007,839.00
Unrestricted	43,075,795.91	6,561,515.00
TOTAL NET ASSETS	286,802,234.71	116,996,181.00
TOTAL LIABILITIES AND NET ASSETS	$ 463,841,640.75	$ 128,431,120.00

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, 2007

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $18,786,209.48	$ 33,576,561.76	$
Federal Grants and Contracts	9,561,067.15	
State and Local Grants and Contracts	2,868,090.23	
Nongovernmental Grants and Contracts	3,961,536.38	
Sales and Services of Auxiliary Enterprises	8,945,751.10	
Other Operating Revenues	576,943.72	24,908,180.00
Total Operating Revenues	59,489,950.34	24,908,180.00
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	113,738,359.31	
Services and Supplies	38,576,448.68	27,133,789.00
Utilities and Communications	4,089,611.31	
Scholarships and Fellowships	7,507,890.77	
Depreciation	14,359,350.78	2,516,866.00
Other Operating Expenses		3,063,808.00
Total Operating Expenses	178,271,660.85	32,714,463.00
Operating Loss	(118,781,710.51)	(7,806,283.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	88,955,430.00	
Federal and State Student Financial Aid	21,685,096.23	
Investment Income	4,981,350.55	15,945,801.00
Other Nonoperating Revenues	4,632,022.74	
Loss on Disposal of Capital Assets	(1,378,029.34)	
Loss on Debt Defeasance of Bonds Payable		(271,044.00)
Interest on Capital Asset-Related Debt	(534,587.50)	
Other Nonoperating Expenses	(853,947.43)	
Net Nonoperating Revenues	117,487,335.25	15,674,757.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(1,294,375.26)	7,868,474.00
Capital Appropriations	36,262,492.00	
Capital Grants, Contracts, and Donations	3,551,085.26	1,107,796.00
Additions to Permanent Endowments		2,201,368.00
Housing Assets Transferred, Net of Debt	5,938,301.00	(5,938,301.00)
Increase in Net Assets	44,457,503.00	5,239,337.00
Net Assets, Beginning of Year	242,344,731.71	111,761,140.00
Adjustment to Beginning Net Assets		(4,296.00)
Net Assets, Beginning of Year, As Restated	242,344,731.71	111,756,844.00
Net Assets, End of Year	$ 286,802,234.71	$ 116,996,181.00

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 35,473,994.34
Grants and Contracts	16,883,548.43
Sales and Services of Auxiliary Enterprises	8,937,684.56
Other Operating Receipts	3,250,030.89
Payments to Employees	(112,344,840.20)
Payments to Suppliers for Goods and Services	(43,391,376.63)
Payments to Students for Scholarships	(7,507,890.77)
Net Cash Used by Operating Activities	(98,698,849.38)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	88,955,430.00
Federal and State Student Financial Aid	21,685,096.23
Other Nonoperating Receipts	5,253,894.67
Net Change in Funds Held for Others	(17,861,207.27)
Net Cash Provided by Noncapital Financing Activities	98,033,213.63
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	7,469,769.00
Capital Grants, Contracts, Donations, and Fees	6,104,845.53
Capital Subsidies and Transfers	8,033,274.24
Proceeds from Capital Debt	102,037,221.00
Purchase or Construction of Capital Assets	(8,819,142.66)
Principal Paid on Capital Debt and Leases	(752,872.47)
Interest Paid on Capital Debt and Leases	(534,587.50)
Net Cash Provided by Capital and Related Financing Activities	113,538,507.14
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(116,990,925.44)
Investment Income	3,999,956.20
Net Cash Used by Investing Activities	(112,990,969.24)
Net Decrease in Cash and Cash Equivalents	(118,097.85)
Cash and Cash Equivalents, Beginning of Year	(1,492,708.36)
Cash and Cash Equivalents, End of Year	$ (1,610,806.21)

A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2007

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (118,781,710.51)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	14,359,350.78
Change in Assets and Liabilities:	
Receivables, Net	2,963,692.45
Inventories	(30,002.86)
Accounts Payable	2,672,636.74
Salaries and Wages Payable	45,319.67
Deposits Payable	(1,194,741.03)
Compensated Absences Payable	1,332,563.93
Temporary Cash Overdraft	118,097.85
Deferred Revenue	(184,056.40)
NET CASH USED BY OPERATING ACTIVITIES	$ (98,698,849.38)

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITY

During the 2006-07 fiscal year, the University of North Florida Financing Corporation, Inc., a blended component unit of the University, issued capital improvement revenue bonds and used $34.2 million to refund and defease the Housing debt issued by the University of North Florida Foundation, Inc. (Foundation), in 1994, 1997, and 2000. The University also acquired approximately $24.2 million in Housing System net capital assets from the Foundation as part of this transaction.

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, 2007

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 chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with 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.

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 are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Based on the application of the criteria for determining component units, the University of North Florida Financing Corporation, Inc. (Financing Corporation), is included within the University reporting entity as a blended component unit. The Financing Corporation was created in October 2005 as a not-for-profit entity organized to receive, hold, invest, 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 the Financing Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Financing Corporation, including copies of its audit reports, is available by contacting the University Controller's Office.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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:

- 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.

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 Foundation and the TSI, 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 entitywide reporting including the following components:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of 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 capital assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net 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,

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

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 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 – Deposits. Custodial credit risk for deposits is the risk that, in the event of a depository financial institution's failure, an entity'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, 2007, the component units cash deposits with banks and financial institutions totaled $1,348,620 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, construction in progress, infrastructure and other improvements, furniture and equipment, property under capital lease, library resources, 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 new 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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

- Furniture and Equipment:
  - Equipment (Nonoffice) – 5 to 15 years
  - Computer Equipment – 2 to 10 years
  - Moveable Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Lease – 5 years
- Computer Software – 5 to 15 years

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

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

The University capitalizes interest on new construction during the construction period. Interest is capitalized using an interest rate which is equivalent to the average borrowing rate on the University's long-term debt issued for the assets to be constructed.

Noncurrent Liabilities. Noncurrent liabilities include any 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. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) 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. REPORTING CHANGE/PRIOR PERIOD ADJUSTMENT

In prior fiscal years the University did not report any blended component units. Effective for the 2006-07 fiscal year, there was a change in the University's reporting entity to reclassify the University of North Florida Financing Corporation, Inc. (Financing Corporation), from a discretely presented component unit to a blended component unit for purposes of including the Financing Corporation's financial activities in the University's financial statements. This change was made to recognize that the Financing Corporation was organized to provide financing services exclusively for the University and, therefore, should be blended.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

This change, which affects the comparability of amounts reported for the 2006-07 fiscal year with amounts reported for the 2005-06 fiscal year, resulted in a $4,296 adjustment to beginning net assets.

3. 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 account and money market funds subject to immediate withdrawal. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, to purchase or construct capital or other restricted assets, or for endowment purposes are classified as restricted.

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds 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.

During the 2006-07 fiscal year, the University hired a firm to perform investment advisory and consulting services, and arranged for third-party custody and safekeeping for nonpooled local investments. In June 2007, the University's Financing Corporation issued Capital Improvement Revenue Bonds, Series 2007, for the Housing and Student Union Projects. The available bond moneys held are required to be invested by the Trustee pursuant to the written instruction of the issuer.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

The University's investments at June 30, 2007, are reported at fair value, as follows:

Investment Type	Amount
External Investment Pools:	
State Treasury Special Purpose Investment Account	$ 35,633,499.66
State Board of Administration Local Government Surplus Funds Trust Fund	42,596,733.35
Total External Investment Pools	78,230,233.01
Other Investments:	
U.S. Government Obligations	4,956,846.10
Federal Agency Obligations	11,347,469.50
Bonds and Notes	8,870,052.81
Money Market Mutual Funds	100,869,058.85
Total Other Investments	126,043,427.26
Total University Investments	$ 204,273,660.27

External Investment Pools

The University reported investments at fair value totaling $35,633,499.66 at June 30, 2007, 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 3.21 years at June 30, 2007. 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.

The University reported investments at fair value totaling $42,596,733.35 at June 30, 2007, in the Local Government Surplus Funds Trust Fund administered by State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The University's investments in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a-7 like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the actual underlying investments. The SBA has taken the position that participants in the pool are not required to disclose information related to interest rate risk, custodial credit risk, concentration of credit risk, and foreign currency risk. The investment pool was not rated by a nationally recognized statistical rating agency as of June 30, 2007.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

Other Investments

In addition to external investment pools, the University's investments (which include those of its blended component unit, the University of North Florida Financing Corporation) consisted of various debt securities and money market mutual funds totaling $126,043,427.26 at June 30, 2007. The following risks apply to those University investments:

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The University's investment policy generally requires that the investment portfolio be maintained with short-term maturities to provide sufficient liquidity to pay obligations as they come due, based on anticipated cash-flow requirements, and includes certain restrictions on specific investment durations up to a maximum of five years. The Financing Corporation does not have a written investment policy, although the bond documents provide that funds may be invested in authorized investments provided that the investments mature or are redeemable at not less than par on or before the date the funds are estimated to be needed. Investments maturities at June 30, 2007, were as follows:

Investment Type	Investment Maturities (In Years)		
	Fair Value	Less Than 1	1 - 5
Federal Agency Obligations	$ 11,347,469.50	$ 959,390.35	$ 10,388,079.15
U.S. Government Obligations	4,956,846.10		4,956,846.10
Bonds and Notes	8,870,052.81	1,996,484.87	6,873,567.94
Money Market Mutual Funds	100,869,058.85	100,869,058.85	
Total	$ 126,043,427.26	$ 103,824,934.07	$ 22,218,493.19

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires that the portfolio provides specific types of investments that may be purchased, including credit quality guidelines, where applicable, and maintain a total average quality rating of "AA" or higher. The Financing Corporation is authorized to invest in obligations permitted by law. At June 30, 2007, the University and the Financing Corporation had United States government and Federal Agency Obligations, bonds and notes, and money market mutual funds with quality ratings by nationally recognized rating agencies, as follows:

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

Investment Type	Fair Value	Credit Quality Rating (1) AAA/Aaa	AA/Aa	A
Federal Agency Obligations	$ 11,347,469.50	$ 11,347,469.50	$	$
U.S. Government Obligations	4,956,846.10	4,956,846.10		
Bonds and Notes	8,870,052.81	814,506.00	3,272,781.73	4,782,765.08
Money Market Mutual Funds	100,869,058.85	100,869,058.85		
Total	$ 126,043,427.26	$117,987,880.45	$ 3,272,781.73	$ 4,782,765.08

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

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The University policy states that a maximum of 5 percent of the Fund may be invested in securities of any single issuer, except that United States government and Federal Agency Obligations are not subject to the limitations. The Financing Corporation's applicable bond financing documents do not address concentration of credit risk.

Discretely Presented Component Units Investments

Investments held by the University's component units are reported at fair value and consist of 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 $94,024,456. The Foundation's investment policy states equity securities will be broadly diversified (e.g., country, economic sector, industry, etc.) to minimize the impact during sudden and severe market downturns, as equity markets have historically displayed a high degree of such correlation during these periods. The role of hedge funds is to reduce the overall volatility of the equity fund performance. Fixed income securities will be diversified among different sectors of the fixed income market. The principal purpose of the fixed income fund will be to reduce risk by reducing the overall volatility of the investment returns and to serve as a partial hedge against periods of prolonged economic contraction. The fixed income objective is to

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

preserve principal during periods of deflation, provide a source of current income and reduce overall portfolio volatility. These portfolios are primarily domestically focused, but do include exposure to international and emerging markets debt as well. Decisions as to individual security selection, security size and quality, etc., will be left to broad manager discretion.

The University of North Florida Training and Service Institute, Inc. (TSI), reported investments totaling $4,573,460. 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 fixed income portfolio be invested in foreign companies; and that no more than 20 percent of the fair value of the portfolio may be invested in Collateralized Mortgage Obligations (CMOs) that consist of Government National Mortgage Association (GNMA)s, Federal National Mortgage Association (FNMA)s, and Federal Home Loan Mortgage Corporation (FHLMC)s. There is no limit on investments in securities issued directly by the United States 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. TSI does not have a formal policy on limiting the duration of mid-term and long-term investments.

The estimated fair value of the component units' investments was based on valuations provided by external investment managers at June 30, 2007, and consisted of the following:

Investment Type	Component Units
U.S. Government Bonds and Federal Agency Securities	$ 10,129,539
Fixed Income Mutual Funds	1,759,189
Corporate Bonds	1,976,438
Equity Mutual Funds	12,030,745
Hedge Funds	68,114,575
Private Equity	4,587,430
Total Component Units Investments	**$ 98,597,916**

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 investments policies that limit the duration of investments. However, the University component units manage exposure to declines in fair value occurring from increasing interest rates through the specific identification method and maintaining

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007

diversification of investments and investment maturities so as to minimize the impact of downturns in the market. Debt investments of these component units by investment type and their future maturities at June 30, 2007, are as follows:

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1 - 5	6 - 10
University of North Florida Foundation, Inc.				
U.S. Government and Federal Agencies	$ 2,849,326	$ 525,935	$ 870,448	$ 887,793
Mortgage Backed Securities	7,280,213	2,000,670	3,441,479	200,261
Corporate Bonds	1,976,438		893,920	95,024
Fixed Income Mutual Funds	81,889	81,889		
Total	$12,187,866	$2,608,494	$5,205,847	$1,183,078
Training and Services Institute, Inc.				
Fixed Income Mutual Funds	$ 1,677,300	$	$	$1,677,300

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 Standard and Poor's or Moody's rating services. At June 30, 2007, the credit quality ratings of the component units' debt securities, money market funds, bond mutual funds, and other pooled investments of fixed income are as follows:

Investment Type	Fair Value	Credit Quality Rating (1) AAA	AA	Aaa	A
U.S. Government and Federal Agencies	$ 2,849,326	$ 1,532,399	$	$ 1,316,927	$
Mortgage Backed Securities	7,280,213			1,852,174	5,428,039
Corporate Bonds	1,976,438		521,313		1,455,125
Fixed Income Mutual Funds	1,759,189	1,299,581	377,719		
Total	$ 13,865,166	$ 2,831,980	$ 899,032	$ 3,169,101	$ 6,883,164

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investment securities that are held by someone other than the University or its component units and are not registered in the University's or its component units' name. The Foundation and 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 United States 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. TSI's investment

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policy provides for investments in equity securities of not more than 5 percent (at cost) in one corporate issuer, and investments in fixed income securities of not more than 10 percent (at cost) in one corporate issuer.

5. RECEIVABLES

Accounts Receivable. The University's accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third-parties, various sales and services provided to students and third-parties, student fee deferments, and interest accrued on investments.

Description	Amount
Student Tuition and Fees	$ 1,036,565.75
Contracts and Grants	390,586.03
Other	394,793.71
Total Accounts Receivable, Net	$ 1,821,945.49

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts 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 are reported net of allowances of $81,759.22 at June 30, 2007.

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

Pledges Receivable, Net. The Foundation accounts for its pledges in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. GASB Statement No. 33 establishes reporting standards for nonexchange transactions, which in the case of the Foundation, are restricted pledges to be contributed in the future. 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 $1,065,598.

6. DUE FROM STATE

This amount consists of Public Education Capital Outlay, Alec P. Courtelis Capital Facility Matching Trust Fund, and other allocations due from the State to the University for construction of University facilities.

7. DUE FROM UNIVERSITY/TO COMPONENT UNIT

The $7,808,011 reported as due from University and due to component unit is related to parking facilities financed by the Foundation in support of the University, and represent the amount of moneys accumulated

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under the University's operating lease for parking facilities owned by the Foundation and held by the University at June 30, 2007. 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 lease for parking.

8. INVENTORIES

Inventories have been categorized into the following two types:

- Departmental Inventories – Those inventories maintained by departments and not available for resale. Departmental inventories are comprised of such items as classroom and laboratory supplies, teaching materials, and office supply items, which are consumed in the teaching and work process. These inventories are normally expensed when purchased and therefore are not reported on the statement of net assets.
- Merchandise Inventory – Those inventories maintained which are available for resale to individuals and other University departments, and are not expensed at the time of purchase. These inventories are reported on the statement of net assets, and are valued at cost using the last invoice cost method, which approximates the first-in, first-out, method of inventory valuation.

9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, is shown below:

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Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 7,451,525.50	$ 1,507,771.00	$	$ 8,959,296.50
Construction in Progress	11,284,495.43	10,185,558.23	10,928,789.95	10,541,263.71
Total Nondepreciable Capital Assets	$ 18,736,020.93	$ 11,693,329.23	$ 10,928,789.95	$ 19,500,560.21
Depreciable Capital Assets:				
Buildings	$ 165,011,043.88	$ 53,702,040.97	$ 1,889,283.82	$ 216,823,801.03
Infrastructure and Other Improvements	21,379,696.83	413,758.33		21,793,455.16
Furniture and Equipment	31,530,931.80	8,868,223.68	8,547,188.15	31,851,967.33
Library Resources	29,476,641.64	1,714,400.68		31,191,042.32
Property Under Capital Lease	1,431,627.76			1,431,627.76
Computer Software	5,828,975.57	280,045.22		6,109,020.79
Total Depreciable Capital Assets	254,658,917.48	64,978,468.88	10,436,471.97	309,200,914.39
Less, Accumulated Depreciation:				
Buildings (1)	56,553,419.53	22,197,750.59	1,782,287.40	76,968,882.72
Infrastructure and Other Improvements (1)	5,864,500.03	1,195,084.22		7,059,584.25
Furniture and Equipment (1)	19,451,744.23	7,237,998.48	7,276,155.23	19,413,587.48
Library Resources	22,740,169.97	1,486,889.63		24,227,059.60
Property Under Capital Lease	858,976.66	286,325.50		1,145,302.16
Computer Software	2,374,828.72	824,964.34		3,199,793.06
Total Accumulated Depreciation	107,843,639.14	33,229,012.76	9,058,442.63	132,014,209.27
Total Depreciable Capital Assets, Net	$ 146,815,278.34	$ 31,749,456.12	$ 1,378,029.34	$ 177,186,705.12

Note: (1) Addtions in accumulated depreciation include $18,869,661.98 of accumulated depreciation on Housing System assets acquired from the Foundation. This amount is comprised of $17,200,830.36, $48,835.20, and $1,619,996.42 added to Buildings, Infrastructure and Other Improvements, and Furniture and Equipment, respectively.

In June 2007, approximately $24.2 million in net capital assets related to the University's Housing System were acquired from the Foundation. Depreciation expense related to the Housing System for the 2006-07 fiscal year was reported by the Foundation; however, in future years Housing System depreciation expense will be reported by the University. Losses on disposal of capital assets include $106,996.43 for building demolition and $1,271,032.92 for related furniture and equipment.

10. TEMPORARY CASH OVERDRAFT

The University maintained an account with a local bank to process general operating expenses and payroll transactions. Funds in excess of current need, including float, were invested. As a result, the University's records showed a temporary cash overdraft for the amount of outstanding checks not presented as of June 30, 2007. This did not, however, represent an overdraft in the University's depository account.

11. DEFERRED REVENUE

Deferred revenue includes auxiliary contract commissions received prior to fiscal year end related to subsequent accounting periods.

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12. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2007, include bonds and revenue certificates, a capital lease, and compensated absences. Long-term liabilities activity for the fiscal year ended June 30, 2007, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 9,547,947.26	$ 136,237,221.00	$ 439,462.84	$ 145,345,705.42	$ 1,869,379.97
Capital Lease Payable	555,552.67		313,409.64	242,143.03	242,143.03
Compensated Absences Payable	9,356,862.77	1,878,219.80	545,655.87	10,689,426.70	534,471.34
Total Long-Term Liabilities	$ 19,460,362.70	$ 138,115,440.80	$ 1,298,528.35	$ 156,277,275.15	$ 2,645,994.34

Revenue Bonds Payable. State University revenue bonds were issued to acquire and construct various University facilities. These bonds are secured and payable from capital improvement and building fees, which are remitted to the State Board of Education to be used to retire the bonds. 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.

On June 29, 2007, the Financing Corporation, on behalf of the University, issued Capital Improvement Revenue Bonds, Series 2007, in the amounts of $111,185,000 for the Student Housing project and $21,235,000 for the Student Union project. The bonds were issued to: (1) finance the acquisition, construction, and equipping of a student union and housing facilities; (2) acquire existing housing facilities from the Foundation and refund the existing debt on housing facilities (see below under Component Unit Bonds Payable); (3) purchase reserve products (bond insurance); (4) pay capitalized interest; and (5) pay the costs of issuance of the Series 2007 bonds. At inception, $8,524,267.29 and $1,309,382.42 were reserved for capitalized interest and restricted for debt service for the Series 2007 Housing and Student Union bonds, respectively.

As a condition of the financing arrangements, the University entered into Ground Sublease and Operating Lease Agreements, dated June 1, 2007, with the Financing Corporation. Under the Ground Sublease Agreements, the University leases the land and facilities to the Financing Corporation in exchange for prepaid rent of approximately $90.5 million (the net proceeds of the bonds available for construction). The land covered by the Ground Sublease Agreement, together with the improvements thereon, are leased back to the University to manage and operate under the separate Operating Lease Agreements. The Operating Lease Agreements require that the University pay all debt payments, including principal, interest, fees, and charges over the lease term in accordance with the related bond documents (base rent), and all other

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operating costs of the premises (additional rent). The agreements terminate on of November 1, 2037, or the date on which the bonds are fully paid or cancelled. Net revenues from the student residence facilities are pledged to pay the Student Housing project rents, and a portion of the University's activity and service fees revenues are pledged to pay the Student Union project rents. The Series 2007 bonds were issued with interest rates ranging from 4 percent to 5 percent and mature November 1, 2037.

The University had the following bonds payable outstanding at June 30, 2007:

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
State University System				
Revenue Bonds:				
1997A Series	$ 2,264,354.71	$ 1,858,138.40	4.50 - 5.00	2016
1998 Series	4,178,965.95	3,114,447.62	4.10 - 5.00	2023
2003A Series	2,202,500.94	1,262,669.95	5.00	2013
2005A Series	2,950,888.82	2,873,228.45	3.625 - 4.125	2022
Capital Improvement Revenue Bonds:				
Student Union Project, Series 2007	21,602,573.95	21,602,573.95	4.00 - 5.00	2037
Housing Project, Series 2007	114,634,647.05	114,634,647.05	4.00 - 5.00	2037
Total	$147,833,931.42	$145,345,705.42		

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

Annual requirements to amortize all bonded debt outstanding as of June 30, 2007, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	$ 1,869,379.97	$ 5,858,530.69	$ 7,727,910.66
2009	1,679,322.42	6,834,832.65	8,514,155.07
2010	2,111,274.07	6,755,733.91	8,867,007.98
2011	2,202,389.75	6,664,571.57	8,866,961.32
2012	2,318,745.89	6,569,684.91	8,888,430.80
2013-2017	18,266,103.19	30,593,039.59	48,859,142.78
2018-2022	24,728,594.42	25,271,982.19	50,000,576.61
2023-2027	26,566,532.14	18,687,593.95	45,254,126.09
2028-2032	26,070,000.00	12,157,000.00	38,227,000.00
2033-2037	28,945,000.00	5,438,625.00	34,383,625.00
2038	6,705,000.00	167,625.00	6,872,625.00
Subtotal	141,462,341.85	124,999,219.46	266,461,561.31
Net Bond Premiums and Discounts	3,883,363.57		3,883,363.57
Total	$ 145,345,705.42	$ 124,999,219.46	$ 270,344,924.88

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Component Unit Bonds Payable. The University of North Florida Foundation, Inc. (Foundation), borrowed moneys for the construction of 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 were 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 housing and parking facilities, and pledges all the related revenue from the Housing and Parking Systems 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, 2007 (additional information can be obtained from the Foundation):

- Housing System Capital Improvement Revenue Bonds:

  On June 29, 2007, the Foundation's outstanding student housing capital improvement revenue bonds were refunded by the Financing Corporation and the Housing System's net assets were transferred to the University. Funds from the University's Financing Corporation bond proceeds necessary to refund and retire outstanding Foundation housing bonds were placed in an irrevocable escrow account with a trust agent to provide for redemption on July 30, 2007. As a result, $34,200,000 of the Foundation's bonds, Series 1994, 1997, and 2000, are considered to be in-substance defeased and the liability for these bonds has been removed from the Foundation's financial statements. The refunding resulted in an economic loss of $271,044 which was reported as a nonoperating expense in the Foundation's financial statements. A full-year of Housing System operational activity is included in the Foundation's financial statements for the fiscal year ending June 30, 2007.

- Parking System Capital Improvement Revenue Bonds:

  On April 30, 1998, the Foundation issued $11,700,000 of Parking System Improvement Revenue Bonds (the Parking Bonds) 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 3.73 percent at June 30, 2007. Interest payments are made monthly. Principal is payable in 28 annual installments from May 1, 2001, through May 1, 2028.

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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
2008	$ 300,000
2009	300,000
2010	400,000
2011	400,000
2012	400,000
2013-2017	2,300,000
2018-2022	2,500,000
2023-2027	2,500,000
2027	500,000
Total Parking Related Principal	$ 9,600,000

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.

Subsequent to June 30, 2007, on September 4, 2007, the Foundation assigned the Parking System's capital assets and other related assets, the related Parking System Improvement Revenue bonds long-term debt, and the operating and ground leases to the Financing Corporation (see note 23).

Capital Lease Payable. During the 2003-04 fiscal year, the University acquired a telephone system for $1,431,627.76 under a capital lease. The stated interest rate was 3.41 percent. The University's final payments under the capital lease will be made in three separate payments totaling $246,284.58, comprised of principal and interest totaling $242,143.03 and $4,141.56, respectively. The final payment is due on April 1, 2008.

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, 2007, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $10,689,426.70. The current portion of the compensated absences liability of $534,471.34 is the amount expected to be paid in

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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.

13. 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.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with a 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.

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The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2006-07 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
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, 2005, June 30, 2006, and June 30, 2007, totaled $2,382,278.62, $2,739,761.10, and $3,428,243.94, 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 were 126 University participants during the 2006-07 fiscal year. Required contributions made to the PEORP totaled $416,701.50.

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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, less a small amount used to cover 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 824 University participants during the 2006-07 fiscal year. Required employer contributions made to the Program totaled $4,430,250.45 and employee contributions totaled $2,074,745.03.

14. 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 2006-07 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 13.

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 2006-07 fiscal year, participants received an extra $5 per month for each year of creditable service completed at the time of

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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.

15. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2007, are as follows:

Project Name	Total Commitment	Completed to Date	Balance Committed
University Housing	$ 86,000,000.00	$ 1,563,064.62	$ 84,436,935.38
Student Union	50,000,000.00	2,864,094.34	47,135,905.66
Education Building	12,000,000.00	938,768.67	11,061,231.33
Allied Health Facility	11,486,630.00	496,243.60	10,990,386.40
Multi-purpose Classrooms	4,500,000.00	113,147.72	4,386,852.28
Subtotal	163,986,630.00	5,975,318.95	158,011,311.05
Other Projects	7,152,251.34	4,565,944.76	2,586,306.58
Total	$ 171,138,881.34	$ 10,541,263.71	$ 160,597,617.63

16. OPERATING LEASE COMMITMENT

On April 2, 2007, the University entered into a 10-year operating lease for a building (and parking areas) with an option to purchase. The leased asset and the related commitment are not reported on the University's statement of net assets and operating lease payments are recorded as expenses when paid or incurred. Commitments resulting from this lease agreement are contingent upon future appropriations. During the 2006-07 fiscal year, the University paid rental fees totaling $584,045.23 under the lease. If the University concludes that its operating budget is not capable of paying scheduled rent payments, then such amounts will be treated as deferred rent and assessed interest at an annual rate of 8.5 percent until paid. The lease payments are scheduled to increase 3.5 percent annually. Future minimum operating lease commitments for the noncancelable operating lease as of June 30, 2007, are as follows:

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Fiscal Year Ending June 30	Building Operating Lease
2008	$ 1,639,218.75
2009	1,696,591.41
2010	1,755,972.11
2011	1,817,431.13
2012	1,881,041.22
2013-2017	9,867,009.28
Total Minimum Scheduled Payments	$ 18,657,263.90

The purchase option provides for an initial purchase price of $16,640,061.70 plus $3,875.08 per day through April 2, 2008, and $2,473.21 per day from April 2, 2008, through April 1, 2017, in calculating the final purchase price. However, the final purchase price is subject to adjustment should the Florida Department of Environmental Protection, Division of State Lands (Division), determine that the value of the property is less than the calculated purchase price. Additionally, the purchase option agreement may be terminated under certain circumstances, and contains a provision for a third-party to provide a written commitment under certain conditions to pay the difference between the initial purchase and the final purchase price.

The University Board of Trustees approved the purchase of the leased property and, subsequently, on February 12, 2008, the purchase of the leased property was approved by the Board of Trustees of the Internal Improvement Trust Fund, which is responsible for the acquisition and disposition of State lands administered by the Division (see note 23).

17. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(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 2006-07 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

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considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three 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 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.

18. 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.

19. 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:

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Functional Classification	Amount
Instruction	$ 60,537,038.38
Research	9,166,966.97
Public Service	5,088,458.94
Academic Support	13,615,682.71
Student Services	17,529,648.00
Institutional Support	27,086,611.88
Operation and Maintenance of Plant	15,061,924.90
Scholarships and Fellowships	4,746,325.86
Depreciation	14,359,350.78
Auxiliary Enterprises	10,984,925.81
Loan Operations	94,726.62
Total Operating Expenses	$ 178,271,660.85

20. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The University's operations that are identifiable activities, including those of its component units, for which revenues have been pledged for payment of debt and the related segment information for the 2006-07 fiscal year is show below:

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Condensed Statement of Net Assets

	Foundation	University	
	Parking System	Housing System	Student Union
Assets			
Current Assets	$7,865,440	$ 5,911,847	$
Capital Assets, Net	11,003,336	24,231,169	2,604,096
Due From Other Funds		2,000,000	
Other Noncurrent Assets	77,923	90,456,880	48,300,929
Total Assets	18,946,699	122,599,896	50,905,025
Liabilities			
Current Liabilities	300,000	2,715,714	61,238
Due To Other Funds	2,000,000		
Noncurrent Liabilities	9,300,000	112,134,647	21,602,573
Total Liabilities	11,600,000	114,850,361	21,663,811
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,403,277	(18,480,398)	2,604,096
Restricted - Capital Outlay	5,943,422	12,004,715	26,692,724
Restricted - Debt Service (Capitalized Interest)		8,521,873	1,309,015
Unrestricted		5,703,345	(1,364,621)
Total Net Assets	$7,346,699	$ 7,749,535	$29,241,214

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

	Foundation	University	
	Parking System	Housing System	Student Union
Operating Revenues	$ 3,515,160	$ 9,040,269	$
Depreciation Expense	(1,048,015)	(1,413,046)	
Other Operating Expenses	(762,344)	(2,771,951)	(55,613)
Operating Income (Loss)	1,704,801	4,855,272	(55,613)
Nonoperating Revenues (Expenses):			
Nonoperating Revenues	511,654	1,058,261	2,604,103
Nonoperating Expenses	(676,708)	(5,550,543)	
Loss on Debt Defeasance		(271,044)	
Net Nonoperating Revenues (Expenses)	(165,054)	(4,763,326)	2,604,103
Income Before Other Revenues, Expenses, Gains, or Losses	1,539,747	91,946	2,548,490
Transfers to Housing System	(2,000,000)		
Transfers from Other Sources		2,000,000	26,692,724
Increase (Decrease) in Net Assets	(460,253)	2,091,946	29,241,214
Net Assets, Beginning of Year	7,806,952	5,657,589	
Net Assets, End of Year	$ 7,346,699	$ 7,749,535	$ 29,241,214

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Condensed Statement of Cash Flows

	Foundation	University	
	Parking System	Housing System	Student Union
Net Cash Provided (Used) by:			
Operating Activities	$ 2,444,690	$ 900,000	$
Capital and Related Financing Activities		78,146,704	21,330,002
Investing Activities	(2,444,690)	(79,046,704)	(21,330,002)
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	$	$

21. COMPONENT UNITS

The University has three component units as discussed in note 1. Two component units represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' column of the financial statements. The other component unit, the Financing Corporation, became a "blended" component unit effective for the 2006-07 fiscal year, and its financial position and the results of operations are blended with the University. The following financial information is from the most recently available audited financial statements for the discretely presented component units:

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	Direct-Support Organizations		Total
	University of North Florida Foundation, Inc., 6-30-07	University of North Florida Training and Service Institute, Inc., 6-30-07	
Condensed Statement of Net Assets			
Assets:			
Current Assets	$ 9,898,418	$ 5,258,801	$ 15,157,219
Capital Assets, Net	11,003,336	531	11,003,867
Other Noncurrent Assets	100,720,034	1,550,000	102,270,034
Total Assets	121,621,788	6,809,332	128,431,120
Liabilities:			
Current Liabilities	1,059,832	538,587	1,598,419
Noncurrent Liabilities	9,547,455	289,065	9,836,520
Total Liabilities	10,607,287	827,652	11,434,939
Net Assets:			
Investment in Capital Assets, Net of Related Debt	1,403,277	531	1,403,808
Restricted	108,030,858	1,000,000	109,030,858
Unrestricted	1,580,366	4,981,149	6,561,515
Total Net Assets	$ 111,014,501	$ 5,981,680	$ 116,996,181
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	$ 16,369,496	$ 8,538,684	$ 24,908,180
Operating Expenses	21,050,018	11,664,445	32,714,463
Operating Loss	(4,680,522)	(3,125,761)	(7,806,283)
Net Nonoperating Revenues	12,256,198	789,422	13,045,620
Increase (Decrease) in Net Assets	7,575,676	(2,336,339)	5,239,337
Net Assets, Beginning of Year (1)	103,438,825	8,318,019	111,756,844
Net Assets, End of Year	$ 111,014,501	$ 5,981,680	$ 116,996,181

Note: (1) The total beginning net assets amount is different from the prior year ending net assets by $4,296 because the University of North Florida Financing Corporation was reclassifed from a discretely presented to a blended component unit (see note 2).

22. CURRENT UNRESTRICTED FUNDS

The Southern Association of Colleges and Schools, Commission on Colleges, which establishes the accreditation requirements for institutions of higher education, requires a disclosure of the financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets. To meet this requirement, statements of net assets and revenues, expenses, and changes in net assets for the current unrestricted funds are presented, as follows:

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Statement of Current Unrestricted Funds Net Assets

Assets	
Current Assets:	
Investments	$ 70,319,797.19
Accounts Receivables, Net	323,147.03
Inventories	244,982.72
Other Assets	468,250.78
Total Assets	71,356,177.72
Liabilities	
Current Liabilities:	
Temporary Cash Overdraft	1,610,806.21
Accounts Payable	2,591,706.97
Salary and Wages Payable	2,316,951.79
Due to Component Unit	7,808,011.00
Due to Other Funds	3,068,996.29
Deferred Revenue	194,482.85
Compensated Absences Payable	534,471.34
Total Current Liabilities	18,125,426.45
Noncurrent Liabilities:	
Compensated Absences Payable	10,154,955.36
Total Liabilities	28,280,381.81
Total Net Assets	$ 43,075,795.91

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Statement of Current Unrestricted Funds Revenues, Expenses, and Changes in Net Assets

Revenues	
Operating Revenues:	
Student Tuition and Fees, Net of Scholarship Allowances of $18,786,209.48	$ 33,576,561.76
Sales and Services of Auxiliary Enterprises	8,945,751.10
Total Operating Revenues	42,522,312.86
Expenses	
Operating Expenses:	
Compensation and Employee Benefits	105,021,497.81
Services and Supplies	34,465,010.14
Utilities	4,034,937.03
Scholarships and Fellowships	3,527,054.70
Total Operating Expenses	147,048,499.68
Operating Loss	(104,526,186.82)
Nonoperating Revenues (Expenses)	
State Appropriations	88,955,430.00
Investment Income	4,202,176.77
Other Nonoperating Revenues	4,588,037.51
Other Nonoperating Expenses	(853,947.43)
Net Nonoperating Revenues	96,891,696.85
Loss Before Other Revenues, Expenses, Gains, or Losses	(7,634,489.97)
Capital Appropriations	7,000.00
Transfers to/from Other Funds, Net	7,371,385.99
Decrease in Net Assets	(256,103.98)
Net Assets, Beginning of Year	43,331,899.89
Net Assets, End of Year	$ 43,075,795.91

23. SUBSEQUENT EVENTS

Investments with State Board of Administration. As discussed in note 4, at June 30, 2007, the University had $42,596,733.35 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool (Pool). On July 17, 2007, the Financing Corporation invested $65 million of its existing funds in the Pool. On December 4, 2007, the State Board of Administration restructured the Pool into two separate investment pools, Pool A and Pool B. Pool A had temporary restrictions on the withdrawal of funds that were on deposit while investments in Pool B are not subject to redemption and must be held until maturity. Additional information regarding the restructuring and withdrawal restrictions is available from the University and the State Board of Administration. On December 5, 2007, $7,296,416.37 and $9,503,510.60 of the University's and Financing Corporation's investments, respectively,

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were transferred from Pool A to Pool B. On December 21, 2007, the University and the Financing Corporation withdrew all remaining funds invested at that date from Pool A. As of March 31, 2008, the University and Financing Corporation had no funds invested in Pool A and $4,469,463.98 and $5,821,432.91, respectively, invested in Pool B.

Transfer of Parking System Assets and Revenue Bonds from UNF Foundation. As discussed in note 12, on September 4, 2007, the Foundation assigned the Parking System's capital assets and other related assets, the related Parking System Improvement Revenue bonds long-term debt, and the operating and ground leases to the Financing Corporation. The transfer included approximately $7.8 million of funds on deposit with the University; capital assets with a net book value of $11,003,000; $9.6 million of Parking System Improvement Revenue Bonds; and $78,000 of unamortized deferred bond issuance costs associated with those bonds.

Effective July 10, 2007, the Financing Corporation entered into a certain interest rate swap agreement for $9.6 million of bonds payable, primarily as a hedge against interest exposure of its variable rate bonds. This agreement effectively limits the interest rate exposure to a fixed 5.35 percent. The interest rate swap agreement matures on July 1, 2008. The Financing Corporation will be exposed to credit loss in the event of nonperformance by the bank; however, the Financing Corporation does not anticipate nonperformance. Interest rate swap transactions generally involve exchanges of fixed and floating interest payment obligations without exchanges of underlying principal amounts. Consequently, the Financing Corporation's exposure to credit loss is significantly less than the bond principal amounts. In 2007, the Financing Corporation may adopt Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Under SFAS No. 133, the Financing Corporation is required to report the fair market value of its interest rate swap agreement on its statement of financial position. Gains and losses resulting from changes in fair market value will be recognized directly in the statement of activities.

Capital Asset Acquisitions. As discussed in note 16, the University Board of Trustees approved exercising an option to purchase a building (and parking areas) currently being acquired through an operating lease, and on February 12, 2008, the Board of Trustees of the Internal Improvement Trust Fund approved the purchase of the leased property, which included a targeted closing date within 60 days after approval. Additionally, on December 31, 2007, the University acquired another property (building and land) adjacent to campus for $3.9 million.