REPORT NO. 2009-077
DECEMBER 2008

UNIVERSITY OF NORTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2008

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2007-08 fiscal year are listed below:

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

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Donald D. Hemmingway, CPA, and the audit was supervised by John P. Duffy, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site 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.

UNIVERSITY OF NORTH FLORIDA
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the University's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Audit Objectives and Scope

Our audit objectives were to determine whether University of North Florida and its officers with administrative and stewardship responsibilities for University operations had:

- **Presented the University's financial statements in accordance with generally accepted accounting principles;**
- **Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and**
- **Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.**

The scope of this audit included an examination of the University's financial statements as of and for the fiscal year ended June 30, 2008. We obtained an understanding of the University's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the financial statements. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

AUDITOR GENERAL
STATE OF FLORIDA

DAVID W. MARTIN, CPA
AUDITOR GENERAL

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

**INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of 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, 2008, which collectively comprise the University's basic financial statements as shown on pages 11 through 45. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which 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 the aggregate discretely presented component units, 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 University of North Florida and of its aggregate discretely presented component units as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of 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 3 through 10 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
December 12, 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, 2008, 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 $529.7 million at June 30, 2008. This balance reflects a $65.8 million, or 14.2 percent, increase from the 2006-07 fiscal year resulting primarily from increases of net depreciable and nondepreciable capital assets, including the Parking System assets of $11.3 million; and from increases in accounts receivable and a note receivable from a component unit. Although total assets increased overall, current assets decreased primarily due to a decrease in amounts due from the State, and noncurrent assets (excluding net depreciable and nondepreciable capital assets) decreased primarily due to the use of restricted investments (unspent bond proceeds) to pay for construction costs associated with the Housing and Student Union projects.

While assets grew, liabilities increased by $16.8 million and totaled $193.8 million at June 30, 2008, compared to $177 million at June 30, 2007. As a result, the University's net assets increased by $49.1 million, reaching a year-end balance of $335.9 million.

The amount due from the State consists of capital appropriations awarded in current and prior years that have not been received from the State. New appropriations added for the 2007-08 fiscal year included $11 million for acquisition of the land and building referred to as UNF Hall and $10 million for other capital improvements.

The University's operating revenues totaled $69.5 million for the 2007-08 fiscal year, representing a 16.9 percent increase over the 2006-07 fiscal year due mainly to revenues from parking and housing operations that were transferred from the Foundation and are now reported in the University's financial statements and an increase in student tuition and fees. Operating expenses totaled $189.6 million for the 2007-08 fiscal year, increasing by 6.3 percent over the 2006-07 fiscal year. The majority of the increase was for compensation and employee benefits, utilities and communications, and scholarships and fellowships.

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

(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 the discretely presented 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)

	2008	2007
Assets		
Current Assets	$ 115,048	$ 131,615
Capital Assets, Net	307,957	196,687
Other Noncurrent Assets	106,682	135,539
Total Assets	529,687	463,841
Liabilities		
Current Liabilities	32,341	23,408
Noncurrent Liabilities	161,473	153,631
Total Liabilities	193,814	177,039
Net Assets		
Invested in Capital Assets, Net of Related Debt	227,382	143,376
Restricted	65,504	100,350
Unrestricted	42,987	43,076
Total Net Assets	$ 335,873	$ 286,802

The University's financial position, as a whole, improved during the fiscal year June 30, 2008; with an increase in net assets in the amount of $49.1 million, or 17.1 percent, over the 2006-07 fiscal year. This is an indicator of the sound overall financial condition and health of the University.

The total assets increased by $65.8 million, primarily from increases of net depreciable and nondepreciable capital assets, including the Parking System assets of $11.3 million; and from increases in accounts receivable and a note receivable from the component unit. Although total assets increased overall, current assets decreased primarily due to a decrease in amounts due from the State, and noncurrent assets (excluding net depreciable and nondepreciable capital assets) decreased primarily due to the use of restricted investments (unspent bond proceeds) to pay for construction costs associated with the Housing and Student Union projects. The University's liabilities increased $16.8 million primarily from the transfer of the Parking System bonds from the Foundation, increases in construction contracts payable, deferred revenue, and initial year recording of the Postemployment Health Care Benefits obligations.

In summary, the University's net assets of $335.9 million at June 30, 2008, included $227.4 million invested in capital assets, net of related debt, $65.5 million in restricted net assets, and $43 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 2007-08 and 2006-07 fiscal years:

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

	2007-08	2006-07
Operating Revenues	$ 69,544	$ 59,490
Operating Expenses	189,576	178,272
Operating Loss	(120,032)	(118,782)
Net Nonoperating Revenues	124,764	117,487
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	4,732	(1,295)
Other Revenues, Expenses, Gains, or Losses	46,589	45,752
Net Increase in Net Assets	51,321	44,457
Net Assets, Beginning of Year	286,802	242,345
Adjustment to Beginning Net Assets (1)	(2,250)	
Net Assets, Beginning of Year, as Restated	284,552	242,345
Net Assets, End of Year	$ 335,873	$ 286,802

Note: (1) The University corrected prior year accounting errors relating to the Parking and Housing Systems' net capital assets, see notes 3 and 9 to the financial statement for details.

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 2007-08 and 2006-07 fiscal years:

Operating Revenues
(In Thousands)

	2007-08	2006-07
Net Tuition and Fees	$ 36,352	$ 33,577
Grants and Contracts	12,592	16,390
Sales and Services of Auxiliary Enterprises	20,352	8,946
Other	248	577
Total Operating Revenues	$ 69,544	$ 59,490

Net tuition and fees increased $2.8 million mainly from a mid-year tuition increase. The $11.4 million increase in sales and services of auxiliary enterprises was from inclusions of a full year of student housing revenues and ten months of parking revenues (these enterprises were reported in the Foundation in previous years) and a new transportation fee.

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 2007-08 and 2006-07 fiscal years:

Operating Expenses
(In Thousands)

	2007-08	2006-07
Compensation and Employee Benefits	$ 122,483	$ 113,738
Services and Supplies	35,787	38,577
Utilities and Communications	6,428	4,090
Scholarships and Fellowships	9,943	7,508
Depreciation	14,935	14,359
Total Operating Expenses	$ 189,576	$ 178,272

As previously mentioned, operating expenses increased mainly in compensation and employee benefits, utilities and communications, and scholarships and fellowships.

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 2007-08 and 2006-07 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2007-08	2006-07
State Appropriations	$ 90,871	$ 88,955
Federal and State Student Financial Aid	24,258	21,685
Investment Income	7,104	4,981
Other Nonoperating Revenues	5,231	4,632
Loss on Disposal of Capital Assets	(359)	(1,378)
Interest on Capital Asset-Related Debt	(1,862)	(534)
Other Nonoperating Expenses	(479)	(854)
Net Nonoperating Revenues	$ 124,764	$ 117,487

Net nonoperating revenues increase is mainly attributable to the increases in State appropriations of $1.9 million, Federal and State student financial aid of $2.6 million, and investment income of $2.1 million.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations; capital grants, contracts, donations, and fees; and component unit transfer of assets. The following summarizes the University's other revenues, expenses, gains, or losses for the 2007-08 and 2006-07 fiscal years:

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

	2007-08	2006-07
Capital Appropriations	$ 30,524	$ 36,263
Capital Grants, Contracts, Donations, and Fees	5,546	3,551
Component Unit Assets, Transferred, Net of Related Debt	10,519	5,938
Total	$ 46,589	$ 45,752

Capital appropriations decreased $5.7 million from the prior year, but will still allow the University to continue on its aggressive capital projects implementation (see listing of projects in the Capital Expenses and Commitments section below.) The increase in capital grants, contracts, donations, and fees was primarily the result of the Foundation's $1.75 million contribution for the purchase of land and building referred to as Alumni Hall. This year's Foundation transfer of the Parking System net assets and last year's transfer of the Housing System net assets have achieved the planned objectives of getting both of these auxiliary service enterprise segments moved within University's operations and allowed the Financing Corporation to replace or remarket bonded debt that was previously an obligation of the Foundation.

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 2007-08 and 2006-07 fiscal years:

Condensed Statement of Cash Flows
(In Thousands)

	2007-08	2006-07
Cash Provided (Used) by:		
Operating Activities	$ (105,154)	$ (98,699)
Noncapital Financing Activities	109,044	98,033
Capital and Related Financing Activities	(46,788)	113,539
Investing Activities	44,509	(112,991)
Net Increase (Decrease) in Cash and Cash Equivalents	1,611	(118)
Cash and Cash Equivalents, Beginning of Year	(1,611)	(1,493)
Cash and Cash Equivalents, End of Year	$	$ (1,611)

Major sources of funds came from State appropriations ($90.9 million); net student tuition and fees ($36.3 million); grants and contracts ($12.1 million); capital appropriations ($30.5 million); capital grants, contracts, donations, and fees ($3.2 million); and sales and services of auxiliary enterprises ($19.4 million). The change in Capital and Related Financing Activities and Investing Activities resulted from the use of funds received in the prior fiscal year from the issuance of the Financing Corporation Capital Improvement Revenue Bonds to construct capital assets during the current fiscal year.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2008, the University had $449.5 million in capital assets, less accumulated depreciation of $141.5 million, for net capital assets of $308 million. Depreciation charges for the current fiscal year totaled $14.9 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)

	2008	2007
Land	$ 12,863	$ 8,959
Buildings	159,746	139,855
Construction in Progress	90,880	10,541
Infrastructure and Other Improvements	22,243	14,734
Furniture and Equipment	12,666	12,439
Library Resources	7,058	6,964
Property Under Capital Lease		286
Computer Software	2,501	2,909
Total Capital Assets, Net	$ 307,957	$ 196,687

Most of the increase in capital assets is related to the significant increase in construction in progress, the purchases of UNF Hall and Alumni Hall, and the transfer of Parking System assets 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, 2008, were incurred on the following projects: University Housing, Student Union, Education Building, Allied Health Facility, Founder's Hall, and Multi-Purpose Classrooms. The University's major capital commitments at June 30, 2008, are as follows:

	Amount (In Thousands)
Total Commitment	$ 188,729
Completed to Date	(90,880)
Balance Committed	$ 97,849

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

DEBT ADMINISTRATION

As of June 30, 2008, the University had $152.6 million in outstanding debt representing an increase of $7 million, or 4.8 percent, from the prior fiscal year. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

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

	2008	2007
Bonds Payable	$ 152,634	$ 145,346
Capital Leases		242
Total	$ 152,634	$ 145,588

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Due to the continued decline in the State's general revenue, the budget that the Florida Legislature adopted for the 2008-09 fiscal year included a base budget reduction of approximately $128 million, or 5 percent, for State universities. In addition, no funding was provided for enrollment growth and employee salary increases. To help mitigate the impact of the budget reductions for 2008-09, the Legislature approved a 6 percent increase in undergraduate student tuition. The net decrease in revenues as a result of the State budget adopted for the 2008-09 fiscal year resulted in approximately a 4.7 percent decrease in general revenue appropriations for the University. While political support from State Government is expected to remain strong and allow for moderate growth over the long-term, the State is experiencing serious budget shortfall issues with the current economic downturn and we expect that to continue to impact the University. Given the current situation, the University has positioned itself very well and has taken appropriate steps to safeguard and preserve the University's financial condition to remain strong. The University has taken a serious approach to expenditures and hiring practices and is carefully reviewing these areas to conserve University resources while searching for other ways to lessen the economic impact while maintaining sound academic programs.

Another significant factor in the University's academic and economic position relates to its ability to recruit and retain high quality students. During this difficult economic situation, the University's Fall 2008 enrollment of 15,433 was down from the 16,561 students enrolled for the 2007 term, a decrease of approximately 6.8 percent. Our efforts to improve retention and the quality of students, such as an aggressive marketing plan, reduced class sizes, lowered student to teacher ratios, and enhanced intervention to assist academic success. These efforts should contribute to this positive trend, even with slightly declining enrollments due to the current economic situation.

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 Administration and Finance, University of North Florida, 1 UNF Drive, Building 53, Jacksonville, Florida 32224.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2008

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	$ 1,371,684.00
Investments	63,018,205.30	
Accounts Receivable, Net	9,425,197.90	1,283,707.00
Note Receivable from Component Unit	200,000.00	
Pledges Receivable, Net		1,079,749.00
Due from State	42,026,377.56	
Inventories	271,665.30	114,406.00
Other Current Assets	106,367.60	106,698.00
Total Current Assets	115,047,813.66	3,956,244.00
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		11,574,306.00
Investments	2,962,071.88	3,104,243.00
Restricted Investments	101,202,695.06	96,297,768.00
Note Receivable from Component Unit	800,000.00	
Loans and Notes Receivable, Net		550,000.00
Pledges Receivable, Net		2,568,598.00
Depreciable Capital Assets, Net	204,213,245.59	
Nondepreciable Capital Assets	103,743,384.29	
Deferred Bond Issuance Costs, Net	1,717,696.55	
Other Noncurrent Assets		99,962.00
Total Noncurrent Assets	414,639,093.37	114,194,877.00
TOTAL ASSETS	$529,686,907.03	$118,151,121.00
LIABILITIES		
Current Liabilities:		
Temporary Cash Overdraft	$ 958,467.57	$
Accounts Payable	4,056,678.01	1,003,400.00
Construction Contracts Payable	14,725,853.09	
Salaries and Wages Payable	2,772,827.32	
Deposits Payable	2,529,932.49	
Deferred Revenue	4,799,627.41	205,065.00
Other Current Liabilities		30,435.00
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,979,322.42	
Note Payable to University		200,000.00
Compensated Absences Payable	518,124.26	56,655.00
Total Current Liabilities	32,340,832.57	1,495,555.00

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2008

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	$150,654,316.06	$
Note Payable to University		800,000.00
Compensated Absences Payable	9,844,360.99	276,141.00
Postemployment Health Care Benefits Payable	974,000.00	
Other Noncurrent Liabilities		203,581.00
Total Noncurrent Liabilities	161,472,677.05	1,279,722.00
TOTAL LIABILITIES	193,813,509.62	2,775,277.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	227,382,436.60	
Restricted for Nonexpendable:		
Endowment		95,209,237.00
Other		289,742.00
Restricted for Expendable:		
Debt Service	9,635,973.42	
Capital Projects	50,205,769.56	
Other	5,662,062.32	14,761,800.00
Unrestricted	42,987,155.51	5,115,065.00
TOTAL NET ASSETS	335,873,397.41	115,375,844.00
TOTAL LIABILITIES AND NET ASSETS	$529,686,907.03	$118,151,121.00

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, 2008

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of $20,817,099.88 ($1,807,389.73 Pledged for the Student Union Revenue Bonds)	$ 36,351,749.56	$
Federal Grants and Contracts	7,494,472.65	
State and Local Grants and Contracts	2,250,061.05	
Nongovernmental Grants and Contracts	2,847,175.57	
Sales and Services of Auxiliary Enterprises ($8,881,011.21 Pledged for the Housing System Revenue Bonds and $3,508,511.29 Pledged for the Parking System Revenue Bonds)	20,352,536.38	
Other Operating Revenues	248,674.60	14,944,468.00
Total Operating Revenues	69,544,669.81	14,944,468.00
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	122,483,560.64	
Services and Supplies	35,786,745.26	17,214,289.00
Utilities and Communications	6,427,818.59	
Scholarships and Fellowships	9,942,900.35	
Depreciation	14,935,141.20	175,420.00
Total Operating Expenses	189,576,166.04	17,389,709.00
Operating Loss	(120,031,496.23)	(2,445,241.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	90,870,816.00	
Federal and State Student Financial Aid	24,258,389.16	
Investment Income	7,103,771.80	4,738,103.00
Other Nonoperating Revenues	5,231,348.85	
Loss on Disposal of Capital Assets	(358,985.48)	
Interest on Capital Asset-Related Debt	(1,862,063.87)	
Other Nonoperating Expenses	(479,521.79)	(956,731.00)
Net Nonoperating Revenues	124,763,754.67	3,781,372.00
Income Before Other Revenues, Expenses, Gains, or Losses	4,732,258.44	1,336,131.00
Capital Appropriations	30,524,263.00	
Capital Grants, Contracts, Donations, and Fees	5,545,942.26	4,455,758.00
Additions to Permanent Endowments		3,106,289.00
Parking Assets, Transferred, Net of Debt	10,518,515.00	(10,518,515.00)
Increase (Decrease) in Net Assets	51,320,978.70	(1,620,337.00)
Net Assets, Beginning of Year	286,802,234.71	116,996,181.00
Adjustment to Beginning Net Assets	(2,249,816.00)	
Net Assets, Beginning of Year, as Restated	284,552,418.71	116,996,181.00
Net Assets, End of Year	$335,873,397.41	$115,375,844.00

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	$ 36,293,020.22
Grants and Contracts	12,102,695.44
Sales and Services of Auxiliary Enterprises	19,351,638.52
Other Operating Receipts	276,401.55
Payments to Employees	(121,860,928.93)
Payments to Suppliers for Goods and Services	(41,374,245.07)
Payments to Students for Scholarships	(9,942,900.35)
Net Cash Used by Operating Activities	(105,154,318.62)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	90,870,816.00
Federal and State Student Financial Aid	24,258,389.16
Net Change in Funds Held for Others	5,649,194.19
Capital Subsidies and Transfers	1,901,635.16
Other Nonoperating Expenses	(13,635,945.50)
Net Cash Provided by Noncapital Financing Activities	109,044,089.01
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	30,524,263.00
Capital Grants, Contracts, Donations, and Fees	3,165,472.18
Capital Subsidies and Transfers	8,016,484.43
Purchase or Construction of Capital Assets	(81,004,101.97)
Principal Paid on Capital Debt and Leases	(2,312,066.94)
Interest Paid on Capital Debt and Leases	(5,177,706.71)
Net Cash Used by Capital and Related Financing Activities	(46,787,656.01)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of Investments, Net	37,501,688.28
Investment Income	7,007,003.55
Net Cash Provided by Investing Activities	44,508,691.83
Net Increase in Cash and Cash Equivalents	1,610,806.21
Cash and Cash Equivalents, Beginning of Year	(1,610,806.21)
Cash and Cash Equivalents, End of Year	$

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2008

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (120,031,496.23)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	14,935,141.20
Change in Assets and Liabilities:	
Receivables, Net	(5,403,642.46)
Inventories	(26,332.58)
Other Assets	364,880.36
Accounts Payable	(1,035,645.00)
Salaries and Wages Payable	(24,426.84)
Deposits Payable	817,997.00
Compensated Absences Payable	(326,941.45)
Deferred Revenue	4,602,147.38
Postemployment Health Care Benefits Payable	974,000.00
NET CASH USED BY OPERATING ACTIVITIES	$ (105,154,318.62)

SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITY

During the 2007-08 fiscal year, the outstanding debt on the Parking System issued by the University of North Florida Foundation, Inc. (Foundation), was transferred to the University. In connection with the transfer, the $9.6 million in outstanding Parking System bonds were remarketed to revise certain debt covenant terms and conditions, and to record the debt in the name of the University's Financing Corporation. The University also acquired approximately $11.3 million in Parking 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, 2008

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, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The 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 State law and Board of Governors' Regulations. The Board of Governors, or the Trustees if designated by the Board of Governors, selects the University President. 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 (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, 2008

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 reports are submitted to the Auditor General and the University Board of Trustees. Additional information on the University's discretely presented component units, including copies of audit reports, is available by contacting the University Controller's Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

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

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

the adoption of the accrual basis of accounting and entitywide reporting including the following components:

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

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of 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.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by a student or a third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship 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, 2008, the component units cash deposits with banks and financial institutions totaled $1,330,049 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, 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 building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – Up to 40 years, depending on construction

UNIVERSITY OF NORTH FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

- Infrastructure and Other Improvements – 10 to 20 years
- Furniture and Equipment:
  - Equipment (Nonoffice) – 5 to 15 years
  - Computer Equipment – 2 to 10 years
  - Moveable Equipment – 3 to 20 years
- Library Resources – 10 years
- Computer Software – 5 to 15 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 principal amounts of bonds payable, compensated absences payable, and postemployment health care benefits payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Issuance cost paid from the debt proceeds are deferred charges and are reported as Deferred Bond Issuance Costs, Net, on the Statement of Net Assets. These costs are amortized over the life of the bonds using the straight-line method.

2. REPORTING CHANGE

In prior fiscal years, the University reported a Loan Fund; however, the University is no longer making loans to students and the University determined that the remaining net assets totaling $300,522.43 were institutional funds. Accordingly, for the 2007-08 fiscal year, the University transferred these assets to the Current Funds – Unrestricted, resulting in these assets being reported as unrestricted net assets rather than net assets restricted for loans.

3. PRIOR PERIOD ADJUSTMENT

Adjustments to beginning net assets are reported in accordance with Accounting Principles Board Opinions Nos. 9 and 20, and FASB Statement No. 16. An adjustment of $2,249,816 to beginning net assets is reported in the University's statement of revenues, expenses, and changes in net assets to correct prior year accounting errors relating to the Parking and Housing Systems' net capital assets. The University determined that $2,249,816 of the Parking and Housing Systems' net capital assets acquired from the

UNIVERSITY OF NORTH FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Foundation were overstated in the University's general ledger. See note 9 for additional information regarding this adjustment.

4. 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.

5. 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. In June 2007, the University's Financing Corporation issued Capital Improvement Revenue Bonds, Series 2007, for the Housing and Student Union projects. The available 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, 2008

During the 2007-08 fiscal year, as in prior years, the University contracted for investment advisory and consulting services, and arranged for third-party custody and safekeeping for its nonpooled local investments.

The University's investments at June 30, 2008, are reported at fair value, as follows:

Investment Type	Amount
External Investment Pool - State Board of Administration Fund B Surplus Funds Trust Fund	$ 5,267,806.32
Other Investments:	
United States Government Obligations	6,302,908.58
Federal Agency Obligations	15,087,290.72
Bonds and Notes	14,200,492.27
Money Market Mutual Funds	126,324,474.35
Total Other Investments	161,915,165.92
Total University Investments	$ 167,182,972.24

External Investment Pools

On December 4, 2007, the State Board of Administration (SBA) restructured the Local Government Surplus Funds Trust Fund (LGIP) to also establish the Fund B Surplus Trust Fund. The Fund B, which is administered by the SBA pursuant to Sections 218.405 and 218.417, Florida Statutes, is not subject to participant withdrawal requests. Distributions from Fund B, as determined by the SBA, are effected by transferring eligible cash or securities to the LGIP, consistent with the pro rata allocation of pool shareholders of record at the creation of Fund B. One hundred percent of such distributions from Fund B are available as liquid balance within the LGIP.

On December 5, 2007, University and Financing Corporation investments of $7,296,416.37 and $9,503,510.60, respectively, in LGIP were transferred to Fund B. On December 21, 2007, the University and Financing Corporation withdrew all remaining funds invested in the LGIP and paid early redemption penalties of $738,280.34 and $960,763.19, respectively.

At June 30, 2008, the University reported investments at fair value of $5,267,806.32 for amounts held in Fund B. The University's investments in Fund B are accounted for as a fluctuating net asset value pool, with a fair value factor of 0.923331 at June 30, 2008. The weighted-average life (WAL) of Fund B at June 30, 2008, was 9.22 years. A portfolio's WAL is the dollar-weighted average length of time until securities held reach maturity and is based on legal final maturity dates for Fund B as of June 30, 2008.

UNIVERSITY OF NORTH FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

Other Investments

In addition to external investment pools, the University's investments (including the Financing Corporation) consisted of various debt securities and money market mutual funds totaling $161,915,165.92 at June 30, 2008. The following risks apply to these 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, 2008, were as follows:

Investment Type	Investment Maturities (In Years)		
	Fair Value	Less Than 1	1 - 5
United States Government Obligations	$ 6,302,908.58	$ 743,235.00	$ 5,559,673.58
Federal Agency Obligations	15,087,290.72	1,256,562.50	13,830,728.22
Bonds and Notes	14,200,492.26	756,973.13	13,443,519.13
Money Market Mutual Funds	126,324,474.36	126,324,474.36	
Total	$ 161,915,165.92	$ 129,081,244.99	$ 32,833,920.93

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk and do not require disclosure of credit quality. At June 30, 2008, the University had $6,302,908.58 of these investments. 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, 2008, the University and the Financing Corporation had 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, 2008

Investment Type	Fair Value	Credit Quality Rating (1)		
		AAA/Aaa	AA/Aa	A
Federal Agency Obligations	$ 15,087,290.72	$ 15,087,290.72	$	$
Bonds and Notes	14,200,492.26	1,145,452.49	4,779,185.91	8,275,853.86
Money Market Mutual Funds	126,324,474.36	126,324,474.36		
Total	$ 155,612,257.34	$ 142,557,217.57	$ 4,779,185.91	$ 8,275,853.86

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

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investment securities that are held by someone other than the 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 United States government and Federal agency securities, fixed income securities, equity mutual funds, hedge funds, and private equity funds.

The University of North Florida Foundation, Inc. (Foundation), reported investments totaling $95,297,768. 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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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.

As of June 30, 2008, the Foundation had approximately 93.3 percent ($88,959,128) of their total portfolio invested in hedge funds and private equity funds. The fund's investments are subject to various risk factors including market, credit, custodial credit risk, and currency risk, which are discussed in the following paragraphs. Additional information is contained in the Foundation's audit reports for the years ended June 30, 2008, and 2007, and may be obtained from the Director, University of North Florida TSI/Foundation Accounting, J.J. Daniel Hall, Room 1802, 1 UNF Drive, Jacksonville, Florida 32224-2648.

The University of North Florida Training and Service Institute, Inc. (TSI), reported investments totaling $4,104,243. 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), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). 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, 2008, and consisted of the following:

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JUNE 30, 2008

Investment Type	Component Units
United States Government and Federal Agency Securities	$ 41,650
Fixed Income Securities	7,897,754
Equity Mutual Funds	2,503,479
Hedge Funds	77,439,161
Private Equity Funds	11,519,967
Total Component Units Investments	$ 99,402,011

Interest Rate Risk: Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Foundation and TSI do not have formal investment policies that limit the duration of investments. However, the University component units manage exposure to declines in fair value occurring from increasing interest rates through the specific identification method and by maintaining diversification of investments and investment maturities so as to minimize the impact of downturns in the market. Investments of these component units by investment type and their future maturities at June 30, 2008, are as follows:

Investment Type	Investment Maturities (In Years)			
	Fair Value	Less Than 1	1 - 5	6 - 10
University of North Florida Foundation, Inc.				
United States Government and Federal Agency Securities	$ 41,650	$ 41,650	$	$
Fixed Income Securities	6,203,406	841,451	5,343,729	18,226
Total	$ 6,245,056	$ 883,101	$ 5,343,729	$ 18,226
Training and Services Institute, Inc.				
Fixed Income Securities	$ 1,694,348	$	$	$ 1,694,348

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation has no formal investment policy on credit risk. The TSI's investment policy provides that fixed income securities shall be rated "A" or higher by Moody's or Standard and Poor's rating services. At June 30, 2008, the credit quality ratings of the component units' investments are as follows:

UNIVERSITY OF NORTH FLORIDA
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Investment Type	Fair Value	Credit Quality Rating (1)				
		AAA	AA	Aaa	A	Unrated
United States Government and Federal Agency Securities	$ 41,650	$	$	$ 41,650	$	$
Fixed Income Securities	7,897,754	1,313,904	380,443	197,788	5,692,945	312,674
Equity Mutual Funds	2,503,479					2,503,479
Hedge Funds	77,439,161					77,439,161
Private Equity Funds	11,519,967					11,519,967
Total	$99,402,011	$1,313,904	$380,443	$239,438	$5,692,945	$91,775,281

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' names. 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 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.

6. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student housing rentals, Student Union Project (auxiliary services contractors' facility build-out obligations and other support), student tuition and fees, contract and grant reimbursements due from third-parties, and other amounts comprised of sales and services provided to students and third-parties, student fee deferments, and interest accrued on investments. As of June 30, 2008, the University reported the following amounts as accounts receivable:

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JUNE 30, 2008

Description	Amount
Student Housing Rentals	$ 3,501,979.20
Student Union Project	3,000,000.00
Student Tuition and Fees	1,564,976.85
Contracts and Grants	878,240.86
Other	480,000.99
Total Accounts Receivable	$ 9,425,197.90

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 $3,288.82 at June 30, 2008. No allowance has been accrued for student housing, student union project, and contracts and grants receivables. University management considers these to be fully collectible.

Note Receivable from Component Unit. At June 30, 2008, the University held a note receivable from the University of North Florida Foundation, Inc. (Foundation). In December 2007, the University acquired the Alumni Hall building ($3.875 million) with the Foundation providing funding of $1.75 million, which was partially financed with a $1 million note receivable from the Foundation. The note terms provide for no interest to be paid, and the note is due and payable on December 31, 2012. The note may also be prepaid in full or in part at any time without penalty; however, the University anticipates that the note will be repaid within five years in annual installments of $200,000.

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 $1,295,926.

7. DUE FROM STATE

This amount consists of Public Education Capital Outlay and other allocations due from the State to the University for construction of University facilities.

8. INVENTORIES

Inventories have been categorized into the following two types:

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- 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 either the moving average method or the first-in, first-out, method.

9. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2008, is shown below:

Description	Beginning Balance	Adjustments and Reclassifications	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	$ 8,959,296.50	$	$ 3,903,972.11	$	$ 12,863,268.61
Construction in Progress	10,541,263.71		87,362,674.92	7,023,822.95	90,880,115.68
Total Nondepreciable Capital Assets	$ 19,500,560.21	$	$ 91,266,647.03	$ 7,023,822.95	$ 103,743,384.29
Depreciable Capital Assets:					
Buildings (1)(2)	$ 216,823,801.03	$ (9,332,445.50)	$ 33,680,642.52	$ 298,473.67	$ 240,873,524.38
Infrastructure and Other Improvements (1)(2)	21,793,455.16	(3,516,084.13)	12,440,482.42		30,717,853.45
Furniture and Equipment (1)(2)(3)	31,851,967.33	1,240,569.89	4,697,841.58	3,090,060.25	34,700,318.55
Library Resources	31,191,042.32		1,616,059.07		32,807,101.39
Property Under Capital Lease (3)	1,431,627.76	(1,431,627.76)			
Computer Software	6,109,020.79		498,975.20		6,607,995.99
Total Depreciable Capital Assets	309,200,914.39	(13,039,587.50)	52,934,000.79	3,388,533.92	345,706,793.76
Less, Accumulated Depreciation:					
Buildings (1)(2)	76,968,882.72	(9,032,720.94)	13,338,981.76	147,519.38	81,127,624.16
Infrastructure and Other Improvements (1)(2)	7,059,584.25	(1,592,438.50)	3,008,079.62		8,475,225.37
Furniture and Equipment (1)(2)(3)	19,413,587.48	1,267,015.70	4,236,195.78	2,882,029.06	22,034,769.90
Library Resources	24,227,059.60		1,521,717.32		25,748,776.92
Property Under Capital Lease (3)	1,145,302.16	(1,431,627.76)	286,325.60		
Computer Software	3,199,793.06		907,358.76		4,107,151.82
Total Accumulated Depreciation	132,014,209.27	(10,789,771.50)	23,298,658.84	3,029,548.44	141,493,548.17
Total Depreciable Capital Assets, Net	$ 177,186,705.12	$ (2,249,816.00)	$ 29,635,341.95	$ 358,985.48	$ 204,213,245.59

Notes: (1) Adjustments were made to correct prior year accounting errors as discussed in note 3 to the financial statements.
(2) Additions in accumulated depreciation include $8,363,517,64 of accumulated depreciation on Parking System assets acquired from the Foundation. This amount is comprised of $6,540,668.42, $1,664,306.53, and $158,542.69 added to Buildings, Infrastructure and Other Improvements, and Furniture and Equipment, respectively.
(3) The final payment on the property under capital lease was made during the 2007-08 fiscal year and the asset and related accumulated depreciation were reclassified to furniture and equipment.

In September 2007, approximately $11.3 million in net capital assets related to the University's Parking System were acquired from the Foundation. Depreciation expense related to the Parking System for the two months of 2007-08 fiscal year was reported by the Foundation; however, for the remainder of 2007-08 fiscal year and in future years, Parking System depreciation expense will be reported by the University.

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Losses on disposal of capital assets include $150,954.29 for building demolition and $208,031.19 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, 2008. This did not, however, represent an overdraft in the University's depository account.

11. DEFERRED REVENUE

Deferred revenue consists primarily of housing rentals, student tuitions and fees, and auxiliary contract commissions collected or contracted prior to fiscal year-end and related to subsequent accounting periods. As of June 30, 2008, the University reported the following amounts as deferred revenue:

Description	Amount
Student Housing Rentals	$ 4,485,990.00
Other Student Fees	227,307.23
Auxiliary Commissions	83,333.00
Other	2,997.18
Total Deferred Revenue	$ 4,799,627.41

12. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2008, include bonds, compensated absences, and postemployment health care benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2008, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	$ 145,345,705.42	$ 9,600,000.00	$ 2,312,066.94	$ 152,633,638.48	$ 1,979,322.42
Capital Leases Payable	242,143.03		242,143.03		
Compensated Absences Payable	10,689,426.70	174,358.01	501,299.46	10,362,485.25	518,124.26
Postemployment Health Care Benefits Payable		974,000.00		974,000.00	
Total Long-Term Liabilities	$ 156,277,275.15	$ 10,748,358.01	$ 3,055,509.43	$ 163,970,123.73	$ 2,497,446.68

13. REVENUE BONDS PAYABLE

The University had the following bonds payable outstanding at June 30, 2008:

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Bond Type and Series	Amount of Original Issue	Amount Outstanding	Interest Rates (Percent)	Maturity Date To
State University System (SUS)				
Revenue Bonds:				
1997A Series	$ 2,180,342.87	$ 1,695,849.77	4.63 - 5.00	2016
1998 Series	3,776,391.83	3,011,090.18	4.40 - 5.00	2023
2003A Series	2,003,620.48	990,611.84	5.00	2013
2005A Series	2,949,009.43	2,725,410.09	3.700 - 4.125	2022
Total SUS Revenue Bonds	10,909,364.61	8,422,961.88		
Capital Improvement Revenue Bonds:				
Student Union Project, Series 2007	21,235,000.00	21,235,000.00	4.00 - 5.00	2037
Housing Project, Series 2007	111,185,000.00	109,935,000.00	4.00 - 5.00	2037
Parking System, Series 1998, Remarketed	9,600,000.00	9,300,000.00	(1)	2028
Total Capital Improvement Revenue Bonds	142,020,000.00	140,470,000.00		
Less: Unamortized Bond Discounts		(47,290.13)		
Add: Unamortized Bond Premiums		3,787,966.73		
Total Bonds Payable	$152,929,364.61	$ 152,633,638.48		

Note: (1) The Parking System, Series 1998, Remarketed Bonds have a variable interest rate, which was 2.9 percent as of June 30, 2008.

State University System 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; (3) purchase reserve products (bond insurance); (4) pay capitalized interest; and (5) pay the costs of issuance of the Series 2007 bonds.

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

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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 operating costs of the premises (additional rent). The agreements terminate on 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.

During the 2007-08 fiscal year, the University provided $9,613,000 to the Financing Corporation to satisfy the reserve requirement for the Capital Improvement Revenue Bonds, Series 2007, Housing and Student Union Projects. Pursuant to applicable bond covenants, the University elected to fund the reserve requirement when the firm that issued the reserve products (bond insurance) had its credit rating downgraded by Standard and Poor's and Moody's below A. The $9,613,000 provided by the University, along with interest earnings, is reported as Noncurrent Restricted Investments and Net Assets Restricted for Debt Service on the University's Statement of Net Assets.

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 University parking facility. As part of the transfer of the parking system to the University, on September 4, 2007, the Parking Bonds along with the related operating ground leases were assigned to, and subsequently remarketed by, the Financing Corporation. The Parking Bonds are collateralized by the revenue stream from the University parking system. The interest rate is a variable rate not to exceed 12 percent and was 2.9 percent at June 30, 2008. Interest payments are made monthly and principal is payable annually through May 1, 2028.

During the 2007-08 fiscal year, the Financing Corporation entered into an interest rate swap agreement for the $9.6 million of Parking System Bonds Payable, primarily as a hedge against interest rate exposure of its variable rate bonds. Interest rate swap transactions generally involve exchanges of fixed and floating interest payment obligations without exchanges of underlying principal amounts. This agreement effectively limited the variable interest rate exposure to a maximum of 5.35 percent. The interest rate swap agreement matured on July 1, 2008, and was not renewed.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2008, are as follows:

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Fiscal Year Ending June 30	Principal	Interest	Total
2009	$ 1,979,322.42	$ 7,104,532.65	$ 9,083,855.07
2010	2,511,274.07	7,016,733.91	9,528,007.98
2011	2,602,389.75	6,913,971.57	9,516,361.32
2012	2,718,745.89	6,807,484.91	9,526,230.80
2013	3,212,398.48	6,681,653.37	9,894,051.85
2014-2018	22,331,692.07	30,601,424.64	52,933,116.71
2019-2023	28,212,139.20	24,610,962.71	52,823,101.91
2024-2028	28,950,000.00	17,574,250.00	46,524,250.00
2029-2033	25,950,000.00	10,859,500.00	36,809,500.00
2034-2038	30,425,000.00	3,954,375.00	34,379,375.00
Subtotal	148,892,961.88	122,124,888.76	271,017,850.64
Net Bond Premiums and Discounts	3,740,676.60		3,740,676.60
Total	$ 152,633,638.48	$ 122,124,888.76	$ 274,758,527.24

14. 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, 2008, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled $10,362,485.25. The current portion of the compensated absences liability of $518,124.26 is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

15. POSTEMPLOYMENT HEALTH CARE BENEFITS

Effective for the 2007-08 fiscal year, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits administered by the State Group Health Insurance Program. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of $20,966,000 at the July 1, 2007, the date of transition amortized over

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30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University or its component units, the University of North Florida Foundation, Inc., and the University of North Florida Training and Services Institute, Inc., are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined-benefit plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Funding Policy. Benefit provisions are pursuant to provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For the 2007-08 fiscal year, 122 retirees received postemployment health care benefits. The University provided required contributions of $563,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums, and net of retiree contributions totaling $843,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

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Description	Amount
Normal Cost (Service Cost for One Year)	$ 755,000
Amortization of Unfunded Actuarial Accrued Liability	723,000
Interest on Normal Cost and Amortization	59,000
Annual Required Contribution	1,537,000
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	1,537,000
Contribution Toward the OPEB Cost	(563,000)
Increase in Net OPEB Obligation	974,000
Net OPEB Obligation, Beginning of Year	-
Net OPEB Obligation, End of Year	$ 974,000

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2008 (the year of implementation), was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	$		$
2007-08	1,537,000	36.6%	974,000

Funded Status and Funding Progress. As of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $20,966,000, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability of $20,966,000. The covered payroll (annual payroll of active participating employees) was $83,863,055 for the 2007-08 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 25 percent.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating

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members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's initial OPEB actuarial valuation as of July 1, 2007, used the entry age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2008, and the estimated 2007-08 fiscal year annual required contribution. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for employees not covered by Medicare of 9.6 percent, grading to 5.5 percent in half percent steps after nine years and for employees covered by Medicare of 9.1 percent grading to 5.5 percent in half percent steps after eight years were used. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 29 years.

16. RETIREMENT PROGRAMS

Florida Retirement System. The Florida Retirement System (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 six 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 four years of credit for military service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of 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.

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A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2007-08 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 for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled $2,739,761.10, $3,428,243.94, and $3,333,883.18, 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

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investment choices. Benefits in the PEORP vest after one year of service. There were 140 University participants during the 2007-08 fiscal year. Required contributions made to the PEORP totaled $513,888.13.

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 820 University participants during the 2007-08 fiscal year. Required employer contributions made to the Program totaled $4,928,904.43 and employee contributions totaled $2,331,838.63.

17. CONSTRUCTION COMMITMENTS

The University's major construction commitments at June 30, 2008, are as follows:

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Project Description	Total Commitment	Completed to Date	Balance Committed
University Housing	$ 86,140,000.00	$ 33,037,173.81	$ 53,102,826.19
Student Union	50,000,000.00	29,295,644.07	20,704,355.93
Education Building	27,390,000.00	12,664,000.42	14,725,999.58
Allied Health Facility	11,736,630.00	10,660,127.57	1,076,502.43
Founder's Hall	5,000,000.00	48,844.74	4,951,155.26
Multi-Purpose Classrooms	4,580,000.00	3,881,467.15	698,532.85
Total Major Projects	184,846,630.00	89,587,257.76	95,259,372.24
Other Projects	3,882,472.62	1,292,857.92	2,589,614.70
Total Construction in Progress	$ 188,729,102.62	$ 90,880,115.68	$ 97,848,986.94

18. 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 2007-08 fiscal year, for property losses the State retained the first $2 million of losses for each occurrence with an annual aggregate retention of $40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of $2 million per occurrence were commercially insured up to $50 million for named wind and flood. For perils other than named wind and flood, losses in excess of $2 million per occurrence were commercially insured up to $200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal civil rights and employment action coverage. All losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to $100,000 per person and $200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. 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

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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.

19. 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.

20. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

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

Functional Classification	Amount
Instruction	$ 62,319,013.70
Research	5,868,767.26
Public Service	6,002,060.04
Academic Support	15,098,866.92
Student Services	17,178,392.47
Institutional Support	16,639,902.88
Operation and Maintenance of Plant	15,607,272.44
Scholarships and Fellowships	9,942,900.35
Depreciation	14,935,141.20
Auxiliary Enterprises	25,983,848.78
Total Operating Expenses	$ 189,576,166.04

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21. 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 following financial information for the University's Parking System, Housing System, and Student Union represents identifiable activities for which revenue bonds are outstanding:

Condensed Statement of Net Assets

	Parking System	Housing System	Student Union
Assets			
Current Assets	$ 4,856,297.09	$ 3,502,736.08	$ 5,050,559.54
Capital Assets, Net	12,310,796.41	58,680,334.37	29,295,644.07
Other Noncurrent Assets		71,831,235.00	20,270,586.60
Total Assets	17,167,093.50	134,014,305.45	54,616,790.21
Liabilities			
Current Liabilities	345,864.24	15,187,211.02	840,652.75
Noncurrent Liabilities	9,020,253.70	112,229,658.85	21,590,321.47
Total Liabilities	9,366,117.94	127,416,869.87	22,430,974.22
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,970,289.01	(11,891,498.29)	7,705,322.60
Restricted for Debt Service		8,225,610.93	1,410,362.49
Restricted for Capital Projects		10,950,850.70	23,535,864.31
Unrestricted	4,830,686.55	(687,527.76)	(465,733.41)
Total Net Assets	$ 7,800,975.56	$ 6,597,435.58	$ 32,185,815.99

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

	Parking System	Housing System	Student Union
Operating Revenues	$ 3,508,511.29	$ 8,881,011.21	$ 1,807,389.73
Depreciation Expense	(938,563.68)	(1,361,033.36)	
Other Operating Expenses	(1,523,162.59)	(6,295,470.24)	(10,343.48)
Operating Income	1,046,785.02	1,224,507.61	1,797,046.25
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	282,746.57	1,499,437.63	1,368,627.90
Interest Expense	(258,338.17)	(1,220,385.34)	
Other Nonoperating Expense	(2,567,007.86)	(2,955,384.32)	(221,072.16)
Net Nonoperating Expenses	(2,542,599.46)	(2,676,332.03)	1,147,555.74
Increase (Decrease) in Net Assets	(1,495,814.44)	(1,451,824.42)	2,944,601.99
Net Assets, Beginning of Year (1)	7,346,699.00	7,749,535.00	29,241,214.00
Restatement of Beginning Net Assets	1,950,091.00	299,725.00	
Net Assets, End of Year	$ 7,800,975.56	$ 6,597,435.58	$ 32,185,815.99

Note: (1) The University corrected prior year accounting errors relating to Parking and Housing Systems' net capital assets, see notes 3 and 9 to the financial statements for details.

Condensed Statement of Cash Flows

	Parking System	Housing System	Student Union
Net Cash Provided (Used) by:			
Operating Activities	$ 1,046,785.02	$ 1,224,507.61	$ 1,797,046.25
Capital and Related Financing Activities	(1,261,596.17)	(27,358,731.94)	(25,850,895.32)
Investing Activities	4,677,666.07	26,134,224.33	25,167,558.19
Net Increase in Cash and Cash Equivalents	4,462,854.92		1,113,709.12
Cash and Cash Equivalents, Beginning of Year	55,539.00		
Cash and Cash Equivalents, End of Year	$ 4,518,393.92	$	$ 1,113,709.12

22. COMPONENT UNITS

The University has three component units as discussed in note 1. Two component units, the Foundation and TSI, comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The Financing Corporation's financial position and the results of operations are blended with the University. The following financial information

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is from the most recently available audited financial statements for the discretely presented component units:

	Direct-Support Organizations		Total
	University of North Florida Foundation, Inc. 6-30-08	North Florida Training and Services Institute, Inc. 6-30-08	
Condensed Statement of Net Assets			
Assets:			
Current Assets	$ 2,007,569	$ 1,948,675	$ 3,956,244
Noncurrent Assets	109,540,634	4,654,243	114,194,877
Total Assets	111,548,203	6,602,918	118,151,121
Liabilities:			
Current Liabilities	854,943	640,612	1,495,555
Noncurrent Liabilities	1,013,639	266,083	1,279,722
Total Liabilities	1,868,582	906,695	2,775,277
Net Assets:			
Restricted	109,260,779	1,000,000	110,260,779
Unrestricted	418,842	4,696,223	5,115,065
Total Net Assets	$ 109,679,621	$ 5,696,223	$ 115,375,844
Condensed Statement of Revenues, Expenses, and Changes in Net Assets			
Operating Revenues	$ 6,995,980	$ 7,948,488	$ 14,944,468
Operating Expenses	9,247,472	8,142,237	17,389,709
Operating Loss	(2,251,492)	(193,749)	(2,445,241)
Net Nonoperating Revenues (Expenses)	916,612	(91,708)	824,904
Decrease in Net Assets	(1,334,880)	(285,457)	(1,620,337)
Net Assets, Beginning of Year	111,014,501	5,981,680	116,996,181
Net Assets, End of Year	$ 109,679,621	$ 5,696,223	$ 115,375,844

23. 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	$ 52,960,014.91
Accounts Receivable, Net	5,414,913.64
Due From Other Funds	2,772,827.32
Note Receivable	200,000.00
Inventories	271,665.30
Other Current Assets	85,370.42
Total Current Assets	61,704,791.59
Noncurrent Assets:	
Investments with SBA	2,962,071.88
Note Receivable	800,000.00
Total Noncurrent Assets	3,762,071.88
Total Assets	65,466,863.47
Liabilities	
Current Liabilities:	
Temporary Cash Overdraft	958,467.57
Accounts Payable	2,080,131.29
Salary and Wages Payable	2,772,827.32
Deposits Payable	461,667.42
Deferred Revenue	4,796,630.23
Construction Contracts Payable	13,496.05
Due to Other Funds	60,002.83
Compensated Absences Payable	518,124.26
Total Current Liabilities	11,661,346.97
Noncurrent Liabilities:	
Compensated Absences Payable	9,844,360.99
Postemployment Health Care Benefits Payable	974,000.00
Total Liabilities	22,479,707.96
Total Net Assets	$ 42,987,155.51

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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 $20,817,099.88	$ 36,351,749.56
Sales and Services of Auxiliary Enterprises	20,352,536.38
Grants and Contracts	52,600.99
Other Operating Revenues	239,649.30
Total Operating Revenues	56,996,536.23
Expenses	
Operating Expenses:	
Compensation and Employee Benefits	115,795,976.93
Services and Supplies	29,247,769.93
Utilities and Communications	6,401,114.91
Scholarships and Fellowships	4,731,618.37
Total Operating Expenses	156,176,480.14
Operating Loss	(99,179,943.91)
Nonoperating Revenues (Expenses)	
State Appropriations	90,870,816.00
Investment Income	3,967,005.55
Other Nonoperating Revenues	5,299,827.30
Other Nonoperating Expenses	(479,521.79)
Net Nonoperating Revenues	99,658,127.06
Income Before Other Revenues, Expenses, Gains, or Losses	478,183.15
Transfers from Component Units	9,709,646.16
Transfers to/from Other Funds, Net	(10,276,469.71)
Decrease in Net Assets	(88,640.40)
Net Assets, Beginning of Year	43,075,795.91
Net Assets, End of Year	$ 42,987,155.51

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House of Representatives, and the
Legislative Auditing Committee

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

We audited the financial statements of 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, 2008, which collectively comprise the College's basic financial statements, 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 purposes 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, with which noncompliance 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*.

Pursuant to Section 11.45, Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,

David W. Martin, CPA
December 12, 2008