



AUDITOR GENERAL
WILLIAM O. MONROE, CPA



UNIVERSITY OF WEST FLORIDA

Financial Audit

For the Fiscal Year Ended June 30, 2006

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

Board Member

Kenneth C. Clark, Chair
Honor Bell, Sr., Vice Chair
Dr. Lornetta Taylor Epps to 1-6-06 (1)
Nancy Fetterman
Christina Genualdi from 5-6-06 (2)
Martha "Marny" Alice Gilluly
Jeanne Godwin from 1-24-06 (1)
Dr. Jay Gould (3)
Sharon Hess Herrick
Retired General Charles A. Horner
Catherine Kelly from 1-24-06 (1)
J. Collier Merrill
JoAnn H. Morgan to 1-6-06 (1)
Timothy Roberts to 5-5-06 (2)
Roy W. Smith, Jr.
J. T. Young

Notes: (1) Position was vacant from
January 7, 2006, to January
23, 2006.
(2) Student body president.
(3) Faculty senate chair.

UNIVERSITY OF WEST FLORIDA

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EXECUTIVE SUMMARY

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

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

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

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

This audit was coordinated by Edward H. Brewton, CPA, and supervised by James W. Kiedinger, Jr., CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

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



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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the University of West Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2006, as shown on pages 13 through 35. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

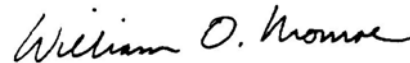
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of West Florida and of its aggregate discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the University of West Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, administrative rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Respectfully submitted,



William O. Monroe, CPA
March 19, 2007



WILLIAM O. MONROE, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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Tallahassee, Florida 32399-1450



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

We audited the financial statements of the University of West Florida, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2006, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report on the financial statements included disclosures regarding our reference to the reports of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the University's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to University management in our report No. 2007-047, dated November 2006.

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

Respectfully submitted,



William O. Monroe, CPA
March 19, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

The University's assets totaled \$187.5 million at June 30, 2006. This balance reflects a \$6 million, or 3 percent, increase from the 2004-05 fiscal year, due primarily to an increase in the amount due from State for proceeds on the new State University System Revenue Bonds, Series 2006A issue and an increase in Public Education Capital Outlay (PECO) appropriations due from the State for the construction of the Science and Technology Building and various other construction projects. While assets grew, liabilities increased by a lesser amount of \$4.4 million, or 19 percent, totaling \$27.7 million at June 30, 2006, compared to \$23.3 million at June 30, 2005. As a result, the University's net assets increased by \$1.6 million, reaching a year end balance of \$160 million.

The University's revenues totaled \$147.7 million for the 2005-06 fiscal year, representing a 7.5 percent increase over the 2004-05 fiscal year due mainly to an increase in State appropriations for current operations and an increase in State appropriations and in Federal grant revenues for the repair of hurricane damage which occurred in the prior fiscal year. Operating expenses totaled \$145 million for the 2005-06 fiscal year, representing an increase of 9 percent over the 2004-05 fiscal year due mainly to an increase in services and supplies expenses incurred for the repair of hurricane damage, increase in the cost of utilities resulting from rate increases, and an increase in depreciation expense resulting from adjustments made to correct prior year accumulated depreciation.

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:

- University of West Florida Foundation, Inc.
- Research Foundation of the University of West Florida, Inc.
- West Florida Historic Preservation, Inc.

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

THE STATEMENT OF NET ASSETS

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

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

Condensed Statement of Net Assets		
(In Thousands)		
	2006	2005
Assets		
Current Assets	\$ 48,997	\$ 33,201
Capital Assets, Net	135,391	138,979
Other Noncurrent Assets	3,126	9,346
Total Assets	187,514	181,526
Liabilities		
Current Liabilities	10,410	8,879
Noncurrent Liabilities	17,275	14,385
Total Liabilities	27,685	23,264
Net Assets		
Invested in Capital Assets, Net of Related Debt	128,566	133,787
Restricted	13,738	11,156
Unrestricted	17,525	13,319
Total Net Assets	\$ 159,829	\$ 158,262

The increase in total assets was primarily attributable to \$3.5 million of Series 2006A bond proceeds due from the State and \$1.6 million of Public Education Capital Outlay appropriations due from the State for the construction of the Science and Technology Building and various other construction projects.

The increase in total liabilities was primarily a result of the University's participation in the new State University System Revenue Bonds, Series 2006A, issued on May 25, 2006. The par value of the bonds allocated to the University totaled \$3.4 million.

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

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

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

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Operating Revenues	\$ 49,002	\$ 51,262
Operating Expenses	<u>145,067</u>	<u>133,123</u>
Operating Loss	(96,065)	(81,861)
Net Nonoperating Revenues	<u>90,486</u>	<u>71,818</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(5,579)	(10,043)
Other Revenues, Expenses, Gains, or Losses	<u>7,146</u>	<u>12,164</u>
Net Increase in Net Assets	1,567	2,121
Net Assets, Beginning of Year	<u>158,262</u>	<u>156,141</u>
Net Assets, End of Year	<u><u>\$ 159,829</u></u>	<u><u>\$ 158,262</u></u>

Operating Revenues

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

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

Operating Revenues (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Net Tuition and Fees	\$ 24,619	\$ 23,354
Grants and Contracts	16,346	21,818
Sales and Services of Auxiliary Operations	6,067	4,812
Sales and Services of Educational Departments	195	155
Other	<u>1,775</u>	<u>1,123</u>
Total Operating Revenues	<u><u>\$ 49,002</u></u>	<u><u>\$ 51,262</u></u>

University operating revenue changes were the result of the following factors:

- There was a decrease of \$5.4 million in Federal grants and contracts revenues which primarily resulted from the loss of Federal grants previously received by the University's Institute for Human and Machine Cognition (IHMC). Pursuant to Section 1004.447, Florida Statutes, the IHMC transitioned from a University department to a private not-for-profit corporation resulting in a loss of Federal grant revenues to the University.

- Revenues from sales and services of auxiliary operations increased \$1.3 million due in part to the reclassification of continuing education (unfunded) student fees from tuition and fee revenues to auxiliary operations.

Operating Expenses

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

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

Operating Expenses (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Compensation and Employee Benefits	\$ 81,940	\$ 82,428
Services and Supplies	36,857	29,090
Utilities	4,377	3,238
Scholarships and Fellowships	11,144	10,084
Depreciation	<u>10,749</u>	<u>8,283</u>
Total Operating Expenses	<u>\$ 145,067</u>	<u>\$ 133,123</u>

The increase in University operating expenses was the result of the following factors:

- The \$7.8 million increase in services and supplies expenses was attributable primarily to hurricane recovery costs.
- The \$1.1 million increase in utilities expenses was the result of rising energy costs.
- The \$1.1 million increase in scholarships and fellowships was primarily the result of a \$766,000 increase in Bright Futures scholarships.
- The \$2.5 million increase in depreciation expenses resulted in part from adjustments made by the University during the 2005-06 fiscal year to correct the prior year accumulated depreciation balance.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University’s nonoperating revenues and expenses for the 2005-06 and 2004-05 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
State Appropriations	\$ 71,270	\$ 60,817
Federal and State Student Financial Aid	13,099	11,662
Noncapital Grants, Contracts, and Donations	5,042	
Investment Income	603	1,241
Interest on Capital Asset-Related Debt	(295)	(323)
Other Nonoperating Revenues (Expenses)	<u>767</u>	<u>(1,579)</u>
Net Nonoperating Revenues	<u>\$ 90,486</u>	<u>\$ 71,818</u>

Nonoperating revenue changes were the result of the following factors:

- State appropriations increased \$10.4 million as a result of the University receiving a \$4.9 million nonrecurring appropriation for hurricane recovery, and a \$4.5 million increase in general revenue appropriations.
- Federal and State student financial aid increases resulted from additional funding for Bright Futures Scholarships and Florida Student Assistance Grants.
- The \$5 million increase in noncapital grants, contracts, and donations resulted from the receipt of Federal grant funds for use in hurricane recovery.

Other Revenues, Expenses, Gains, or Losses

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

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Capital Appropriations	\$ 6,543	\$ 11,730
Capital Grants, Contracts, and Donations	736	695
Loss on Disposal of Capital Assets	<u>(133)</u>	<u>(262)</u>
Total	<u>\$ 7,146</u>	<u>\$ 12,163</u>

The decrease in capital appropriations revenue was the result of a decline in Public Education Capital Outlay appropriations.

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. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows

from operating activities show the net cash used by the operating activities of the University. Cash flows from the capital financing activities include all plant funds and related long-term debt activities. Cash flows from the investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from the noncapital financing activities include those activities not covered in other sections.

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

Condensed Statement of Cash Flows (In Thousands)		
	<u>2005-06</u>	<u>2004-05</u>
Cash Provided (Used) by:		
Operating Activities	\$ (84,343)	\$ (73,379)
Noncapital Financing Activities	90,487	71,317
Capital and Related Financing Activities	(2,834)	112
Investing Activities	<u>(3,344)</u>	<u>(14,976)</u>
Net Decrease in Cash and Cash Equivalents	(34)	(16,926)
Cash and Cash Equivalents, Beginning of Year	<u>4,544</u>	<u>21,470</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,510</u></u>	<u><u>\$ 4,544</u></u>

Major sources of funds came from State appropriations (\$71.3 million), net student tuition and fees (\$24.8 million), grants and contracts (\$15.7 million), and sales and services of auxiliary enterprises (\$6 million). There was no significant change in the University’s liquidity during the 2005-06 fiscal year.

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,
AND DEBT ADMINISTRATION**

CAPITAL ASSETS

At June 30, 2006, the University had \$238.8 million in capital assets, less accumulated depreciation of \$103.4 million, for net capital assets of \$135.4 million. Depreciation charges for the current fiscal year totaled \$10.7 million. The following table summarizes the University’s capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net (In Thousands)		
	2006	2005
Land	\$ 9,606	\$ 9,606
Works of Art and Historical Treasures	9,439	9,335
Buildings	79,092	67,492
Infrastructure and Other Improvements	18,860	19,796
Furniture, Equipment, and Software	11,616	11,219
Library Resources	5,715	5,869
Property Under Capital Lease and Leasehold Improvements	754	1,137
Construction in Progress	309	14,525
Total Capital Assets, Net	\$ 135,391	\$ 138,979

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

CAPITAL EXPENSES AND COMMITMENTS

During the current fiscal year, the University completed construction of the new \$14.2 million Health and Leisure Sports Facility. The following table summarizes the University's major capital commitments as of June 30, 2006:

Capital Expense Commitments (In Thousands)			
	Current Commitment	Expenses	Commitment Balance
Utilities and Infrastructure Projects	\$ 14,750	\$ 11,281	\$ 3,469
Repair and Maintenance Projects	3,038	1,657	1,381
Child Care Center	2,820		2,820
Science and Technology Building	1,356		1,356
Field House Renovations - Phase I	679		679
Total	\$ 22,643	\$ 12,938	\$ 9,705

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

DEBT ADMINISTRATION

As of June 30, 2006, the University had \$10.4 million in outstanding bonds and revenue certificates and capital leases, representing an increase of \$2.4 million, or 30 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)		
	<u>2006</u>	<u>2005</u>
Bonds and Revenue Certificates	\$ 8,258	\$ 4,975
Capital Leases	<u>2,119</u>	<u>2,974</u>
Total	<u>\$ 10,377</u>	<u>\$ 7,949</u>

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University of West Florida's economic position is closely tied to that of the State of Florida. State appropriations comprise approximately 49 percent of the University's total operating and nonoperating revenues and are the largest source of funding. The University is not aware of any currently known facts, decisions or conditions that are expected to have a significant effect on the University's overall financial position or results of operations during the 2006-07 fiscal year.

FINANCIAL SECTION

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

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 672,692.53	\$ 2,109,427.00
Restricted Cash and Cash Equivalents	3,837,490.23	6,834,942.00
Investments	30,185,584.28	
Receivables, Net	6,672,514.20	2,245,542.00
Loans and Notes Receivable, Net	263,396.32	4,416,239.00
Due from State	7,365,472.33	
Due from University		299,487.00
Inventories		5,222.00
Other Current Assets		40,520.00
	48,997,149.89	15,951,379.00
Noncurrent Assets:		
Restricted Investments		54,893,773.00
Loans and Notes Receivable, Net	3,073,778.10	
Depreciable Capital Assets, Net	116,037,164.33	26,611,173.00
Nondepreciable Capital Assets	19,353,758.68	2,942,289.00
Other Noncurrent Assets	52,506.16	13,948,588.00
	138,517,207.27	98,395,823.00
	138,517,207.27	98,395,823.00
TOTAL ASSETS	\$ 187,514,357.16	\$ 114,347,202.00
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 2,924,816.18	\$ 496,509.00
Construction Contracts Payable	430,461.27	
Salaries and Wages Payable	3,083,035.37	118,370.00
Deposits Payable	1,175,263.53	
Due to Component Units	299,487.00	
Deferred Revenue	186,282.55	
Long-Term Liabilities - Current Portion:		
Bonds and Revenue Certificates Payable	332,304.24	1,553,065.00
Capital Leases Payable	1,003,596.65	
Compensated Absences Payable	975,274.33	
	10,410,521.12	2,167,944.00
Total Current Liabilities	10,410,521.12	2,167,944.00

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

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds and Revenue Certificates Payable	\$ 7,925,655.19	\$ 43,190,646.00
Capital Leases Payable	1,115,529.49	
Compensated Absences Payable	8,233,872.52	
Other Noncurrent Liabilities		232,336.00
	17,275,057.20	43,422,982.00
Total Noncurrent Liabilities	17,275,057.20	43,422,982.00
TOTAL LIABILITIES	27,685,578.32	45,590,926.00
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	128,565,777.86	517,132.00
Restricted for Nonexpendable:		
Endowment		38,971,875.00
Restricted for Expendable:		
Loans	3,664,762.81	
Capital Projects	5,769,373.44	
Other	4,303,866.38	21,912,523.00
Unrestricted	17,524,998.35	7,354,746.00
	159,828,778.84	68,756,276.00
TOTAL NET ASSETS	159,828,778.84	68,756,276.00
TOTAL LIABILITIES AND NET ASSETS	\$ 187,514,357.16	\$ 114,347,202.00

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

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

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$8,673,787.83	\$ 24,619,455.74	\$
Federal Grants and Contracts	11,502,058.03	
State and Local Grants and Contracts	2,422,536.18	
Nongovernmental Grants and Contracts	2,421,092.91	
Sales and Services of Auxiliary Enterprises	6,066,525.20	
Sales and Services of Educational Departments	195,284.71	
Sales and Services of Component Units		32,197.00
Gifts and Donations		1,710,771.00
Interest on Loans Receivable	56,722.57	
Other Operating Revenues	1,717,893.29	6,406,739.00
Total Operating Revenues	49,001,568.63	8,149,707.00
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	81,940,575.49	8,356,279.00
Services and Supplies	36,856,623.07	1,096,976.00
Utilities	4,377,031.53	
Scholarships and Fellowships	11,143,716.73	
Depreciation	10,748,973.58	1,349,451.00
Total Operating Expenses	145,066,920.40	10,802,706.00
Operating Loss	(96,065,351.77)	(2,652,999.00)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	71,269,733.00	
Federal and State Student Financial Aid	13,098,617.81	
Non-Capital Grants, Contracts, and Donations	5,042,530.98	
Investment Income	1,257,595.38	1,804,351.00
Unrealized Gains and Losses	(654,201.61)	4,883,860.00
Other Nonoperating Revenues	771,485.74	
Interest on Capital Asset-Related Debt	(294,592.51)	
Other Nonoperating Expenses	(4,761.44)	
Net Nonoperating Revenues	90,486,407.35	6,688,211.00
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(5,578,944.42)	4,035,212.00
Capital Appropriations	6,543,276.00	
Capital Grants, Contracts, and Donations	735,677.40	
Additions to Permanent Endowments		1,022,813.00
Gain (Loss) on Disposal of Capital Assets	(132,978.15)	275,490.00
Increase in Net Assets	1,567,030.83	5,333,515.00
Net Assets, Beginning of Year	158,261,748.01	63,422,761.00
Net Assets, End of Year	\$ 159,828,778.84	\$ 68,756,276.00

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

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

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 24,850,429.05
Grants and Contracts	15,724,405.32
Sales and Services of Auxiliary Enterprises	6,066,525.20
Sales and Services of Educational Departments	195,284.71
Interest on Loans and Notes Receivable	36,332.96
Other Operating Receipts	1,735,577.03
Payments to Employees	(80,816,445.81)
Payments to Suppliers for Goods and Services	(41,041,468.94)
Payments to Students for Scholarships and Fellowships	(11,143,716.73)
Net Loans Issued to Students	49,949.78
	<hr/>
Net Cash Used by Operating Activities	(84,343,127.43)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	71,269,733.00
Noncapital Grants, Contracts, and Donations	5,042,530.98
Federal and State Student Financial Aid	13,098,617.81
Federal Direct Loan Receipts	17,475,362.46
Federal Direct Loan Disbursements	(17,475,362.46)
PLUS Loan Receipts	1,128,003.00
PLUS Loan Disbursements	(1,128,003.00)
Net Change in Funds Held for Others	309,781.71
Other Nonoperating Receipts	771,485.74
Other Nonoperating Expenses	(4,761.44)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	90,487,387.80
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	6,543,276.00
Proceeds from Issuance of Capital Debt	4,239,400.33
Capital Grants and Contracts	735,677.40
Capital Subsidies and Transfers	(5,134,250.12)
Purchases of Capital Assets	(7,077,435.14)
Principal Paid on Capital Debt and Leases	(1,846,467.45)
Interest Paid on Capital Debt and Leases	(294,592.51)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(2,834,391.49)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(77,126,939.36)
Sale of Investments	72,529,779.86
Investment Income	1,253,023.93
	<hr/>
Net Cash Used by Investing Activities	(3,344,135.57)
Net Decrease in Cash and Cash Equivalents	(34,266.69)
Cash and Cash Equivalents, Beginning of Year	4,544,449.45
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Cash and Cash Equivalents, End of Year	\$ 4,510,182.76
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**UNIVERSITY OF WEST FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2006**

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (96,065,351.77)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	10,748,973.58
Change in Assets and Liabilities:	
Receivables, Net	(360,728.36)
Loans and Notes Receivable, Net	(12,860.16)
Accounts Payable	254,995.60
Salaries and Wages Payable	469,304.96
Deposits Payable	(31,223.01)
Compensated Absences Payable	654,824.72
Deferred Revenue	(1,062.99)
NET CASH USED BY OPERATING ACTIVITIES	\$ (84,343,127.43)

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

UNIVERSITY OF WEST FLORIDA
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 6C-9.011) are included within the University's 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 West Florida Foundation, Inc. (Foundation), provides funding and services to support and foster the pursuit of higher education at the University, and operates solely for the benefit of the University and its mission of teaching, research, and service. The Foundation serves as

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

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 Research Foundation of the University of West Florida, Inc. (Research Foundation), was organized for the purpose of promotion and encouragement of and assistance to the research activities of the University's faculty, staff, and students. The Research Foundation provides a means by which inventions and copyrightable materials may be developed, patented, applied, and utilized so that the results of University research are made available to the public and funds from inventions and copyrightable materials are made available to support education and research of the University.
- The West Florida Historic Preservation, Inc., was established to engage in the restoration and exhibition of historical landmarks in the Pensacola, Florida vicinity. This organization conducts certain activities and programs that assist and promote the purposes of the University.

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 component units, including copies of audit reports, is available by contacting the University Financial Services Office. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

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

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

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

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. The University of West Florida Foundation, Inc., and the West Florida Historic Preservation, Inc., follow FASB standards of accounting and financial reporting for not-for-profit organizations. The Research Foundation of the University of West Florida, Inc., follows GASB standards of accounting and financial reporting.

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

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

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

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

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charges for goods and services provided by the University and the amounts that are actually paid by students or third parties 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

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

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*.

Capital Assets. University capital assets consist of land; buildings; infrastructure and other improvements; furniture, equipment, and software; capital leasehold improvements; assets under capital leases; library resources; works of art and historical treasures; and construction in progress. 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 \$10,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 12 to 50 years
- Capital Leasehold Improvements – 5 to 20 years or the term of the lease, whichever is greater
- Furniture and Equipment:
 - Equipment (Nonoffice) – 10 to 20 years
 - Computer Equipment – 3 to 7 years
 - Moveable Equipment – 3 to 20 years
- Software – 5 years
- Library Resources – 10 years
- Assets Under Capital Leases – 3 to 20 years

Capital assets of the University of West Florida Foundation, Inc., consist of land, construction in progress, buildings, furniture and equipment, and assets under capital lease. 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 donations. Depreciation is computed on the straight-line basis over 5 to 10 years for furniture and equipment and over 30 years for buildings under capital lease.

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

Capital assets of the West Florida Historic Preservation, Inc., consist of land, buildings, furniture and equipment, and works of art and historical treasures. 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 donations. Expenditures which equal or exceed \$400 that materially increase values, change capacities, or extend useful lives are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on a straight-line basis over 5 to 10 years for furniture and equipment and over 10 to 40 years for buildings.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds and revenue certificates payable, capital leases payable, and compensated absences payable that are not scheduled to be paid within the next fiscal year. Bonds and revenue certificates payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds and revenue certificates using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds and revenue certificates using the straight-line method.

2. CASH AND CASH EQUIVALENTS

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

3. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds awaiting clearing with the State Treasury and State Board of Administration, and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has not adopted a written investment policy. Pursuant to Section 218.415(17), 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

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

States Treasury; and 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.

External Investment Pools

The University reported investments at fair value totaling \$30,185,584.28 at June 30, 2006, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor’s and had an effective duration of 2.72 years at June 30, 2006. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to the financial statements of the State’s Comprehensive Annual Financial Report.

Component Units Investments

Investments held by the University of West Florida Foundation, Inc., at June 30, 2006, are reported at fair value, except for the real estate agreements, which are carried at cost less distributions in excess of earnings, as follows:

<u>Investment Type</u>	<u>Amount</u>
Bonds and Notes	\$14,809,181.00
Stocks and Other Equity Securities	39,891,040.00
Money Market and Mutual Funds	91,519.00
Real Estate Agreements	<u>102,033.00</u>
Total	<u><u>\$ 54,893,773.00</u></u>

4. RECEIVABLES

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

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors including student loans made under the Federal Perkins Loan Program and other loan programs.

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

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based upon management’s best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$860,590.43 and \$128,841.03, respectively, at June 30, 2006.

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

5. DUE FROM STATE

This is the amount of Public Education Capital Outlay allocation and Capital Improvement Bond proceeds due to the University for construction of University facilities.

6. CAPITAL ASSETS

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

Description	Beginning Balance	Adjustments	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 9,605,539.31	\$	\$	\$	\$ 9,605,539.31
Works of Art and Historical Treasures	9,335,480.18		103,804.82		9,439,285.00
Construction in Progress	14,524,764.56	(14,524,056.79)	308,226.60		308,934.37
Total Nondepreciable Capital Assets	\$ 33,465,784.05	\$ (14,524,056.79)	\$ 412,031.42	\$	\$ 19,353,758.68
Depreciable Capital Assets:					
Buildings	\$ 109,611,694.26	\$ 14,306,099.13	\$ 812,333.37	\$	\$ 124,730,126.76
Infrastructure and Other Improvements	26,838,265.25	217,957.66	100,385.34		27,156,608.25
Furniture, Equipment, and Software	35,080,286.81	377,102.37	3,975,065.30	2,249,762.75	37,182,691.73
Library Resources	27,357,464.79		1,780,674.53	206,371.07	28,931,768.25
Assets Under Capital Leases	1,560,902.37	(377,102.37)	211,245.00		1,395,045.00
Capital Leasehold Improvements	57,303.35		2,100.00		59,403.35
Total Depreciable Capital Assets	200,505,916.83	14,524,056.79	6,881,803.54	2,456,133.82	219,455,643.34
Less, Accumulated Depreciation:					
Buildings	42,119,795.53		3,518,344.11		45,638,139.64
Infrastructure and Other Improvements	7,042,185.18		1,254,237.45		8,296,422.63
Furniture, Equipment, and Software	23,860,842.15	69,347.30	3,752,802.89	2,116,784.60	25,566,207.74
Library Resources	21,488,404.40		1,934,823.27	206,371.07	23,216,856.60
Assets Under Capital Leases	465,261.97	(69,347.30)	282,965.50		678,880.17
Capital Leasehold Improvements	16,171.87		5,800.36		21,972.23
Total Accumulated Depreciation	94,992,661.10		10,748,973.58	2,323,155.67	103,418,479.01
Total Depreciable Capital Assets, Net	\$ 105,513,255.73	\$ 14,524,056.79	\$ (3,867,170.04)	\$ 132,978.15	\$ 116,037,164.33

7. DEFERRED REVENUE

Deferred revenue includes amounts received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2006, the University reported \$186,282.55 in student nautilus card deposits as deferred revenue.

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

8. LONG-TERM LIABILITIES

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and Revenue Certificates Payable	\$ 4,974,567.11	\$ 4,065,720.76	\$ 782,328.44	\$ 8,257,959.43	\$ 332,304.24
Capital Leases Payable	2,973,667.12	211,245.00	1,065,785.98	2,119,126.14	1,003,596.65
Compensated Absences Payable	8,554,322.13	1,517,020.61	862,195.89	9,209,146.85	975,274.33
Total Long-Term Liabilities	\$ 16,502,556.36	\$ 5,793,986.37	\$ 2,710,310.31	\$ 19,586,232.42	\$ 2,311,175.22

Bonds and Revenue Certificates Payable. Bonds and revenue certificates were issued to construct University academic and student service facilities. Bonds and revenue certificates outstanding, which include both term and serial bonds, are secured by a pledge of various student fee assessments. Building and capital improvement fees, collected as part of tuition and remitted to the State Board of Education, are used to retire the revenue certificates of the academic and student service facilities. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

The University extinguished long-term debt obligations by the issuance of new long-term debt instruments as follows:

- On April 10, 2003, the State Board of Education issued \$50,545,000 of University System Improvement Revenue Refunding Bonds, Series 2003A. The University's portion of the refunding bonds (\$792,411.20) was used to defease \$835,523.89 of outstanding University System Improvement Revenue Bonds, Series 1993. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$89,979 over the next 10 years and obtained an economic gain of \$80,585. At June 30, 2006, the outstanding balance of the defeased bonds was \$578,415.49.
- On October 20, 2005, the State Board of Education issued \$28,290,000 of University System Improvement Revenue Refunding Bonds, Series 2005A. The University's portion of the refunding bonds (\$568,954.84) was used to defease \$536,675.85 of outstanding University System Improvement Revenue Bonds, Series 1997. Securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. The trust assets and the liability for the defeased bonds are not included in the University's statement of net assets. As a result of the refunding, the University reduced its debt service requirement by \$58,513.68 over the next 17 years and obtained an economic gain of \$42,947.69. At June 30, 2006, the outstanding balance of the defeased bonds was \$536,675.85.

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

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

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
State University System Revenue Bonds:				
1997 Trust Fund	\$ 740,204.31	\$ 22,515.47	5.10	2007
1997A Trust Fund	1,258,740.30	1,085,320.96	4.40 - 5.00	2016
1998 Trust Fund	2,231,366.56	1,734,136.08	4.00 - 5.00	2023
2001 Trust Fund	904,778.33	791,137.82	4.00 - 5.00	2026
2003A Trust Fund	792,411.19	568,213.54	5.00	2013
2005A Trust Fund	568,954.84	524,565.95	3.70 - 4.125	2022
2006A Trust Fund	3,532,069.61	3,532,069.61	4.00 - 5.00	2030
Total State University System Revenue Bonds	<u>\$ 10,028,525.14</u>	<u>\$ 8,257,959.43</u>		

Note: (1) Amount outstanding includes unamortized bond discounts and premiums, and deferred losses on refunding issues.

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

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$ 328,629.40	\$ 409,352.53	\$ 737,981.93
2008	377,167.79	368,210.06	745,377.85
2009	384,989.72	352,007.41	736,997.13
2010	406,352.45	334,626.54	740,978.99
2011	424,214.21	316,207.06	740,421.27
2012-2016	2,195,432.47	1,284,379.69	3,479,812.16
2017-2021	1,724,474.95	822,572.31	2,547,047.26
2022-2026	1,483,917.56	410,670.69	1,894,588.25
2027-2030	871,722.77	111,634.04	983,356.81
Subtotal	8,196,901.32	4,409,660.33	12,606,561.65
Net Bond Discounts, Premiums, and Losses on Bond Refundings	61,058.11		61,058.11
Total	<u>\$ 8,257,959.43</u>	<u>\$ 4,409,660.33</u>	<u>\$ 12,667,619.76</u>

Bonds and Certificates of Participation Payable – Component Units. A summary of the component units' bonds and certificates of participation payable as of June 30, 2006, is shown in the following table:

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

Bond Type and Series	Amount of Original Issue	Amount Outstanding	Interest Rates (Percent)	Maturity Date To
Revenue Bonds:				
Dormitory Revenue Bonds:				
1998	\$ 15,400,000.00	\$ 13,020,000.00	3.50 - 4.75	2028
1999	13,455,000.00	12,400,000.00	4.40 - 5.75	2031
Dormitory Revenue Refunding Bonds:				
2005	<u>18,290,000.00</u>	<u>18,240,000.00</u>	3.75 - 5.00	2031
Subtotal	47,145,000.00	43,660,000.00		
Less, Bond Discounts		<u>451,125.00</u>		
Total Revenue Bonds	47,145,000.00	43,208,875.00		
Certificates of Participation:				
2003	<u>3,700,000.00</u>	<u>1,534,836.00</u>	2.44	2008
Total Revenue Bonds and Certificates of Participation	<u><u>\$ 50,845,000.00</u></u>	<u><u>\$ 44,743,711.00</u></u>		

Maturities of the component units' bonds and certificates of participation are shown in the following table:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds:			
2007	\$ 795,000.00	\$ 2,135,996.00	\$ 2,930,996.00
2008	830,000.00	2,102,319.00	2,932,319.00
2009	865,000.00	2,065,089.00	2,930,089.00
2010	1,180,000.00	2,027,116.00	3,207,116.00
2011	1,235,000.00	1,976,239.00	3,211,239.00
2012-2016	7,070,000.00	8,978,561.00	16,048,561.00
2017-2021	8,930,000.00	7,131,858.00	16,061,858.00
2022-2026	11,325,000.00	4,734,325.00	16,059,325.00
2027-2031	<u>11,430,000.00</u>	<u>1,716,513.00</u>	<u>13,146,513.00</u>
Subtotal	43,660,000.00	32,868,016.00	76,528,016.00
Less, Bond Discounts	<u>451,125.00</u>		<u>451,125.00</u>
Total Revenue Bonds	<u>43,208,875.00</u>	<u>32,868,016.00</u>	<u>76,076,891.00</u>
Certificates of Participation:			
2007	758,065.00	29,010.00	787,075.00
2008	<u>776,771.00</u>	<u>10,305.00</u>	<u>787,076.00</u>
Total Certificates of Participation	<u>1,534,836.00</u>	<u>39,315.00</u>	<u>1,574,151.00</u>
Total Revenue Bonds and Certificates of Participation	<u><u>\$ 44,743,711.00</u></u>	<u><u>\$ 32,907,331.00</u></u>	<u><u>\$ 77,651,042.00</u></u>

During the 2005-06 fiscal year, the University of West Florida Foundation, Inc., issued \$18,290,000 of Dormitory Refunding Revenue Bonds, Series 2005. Proceeds were used to refund \$5,475,000 of outstanding

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Housing System Revenue Bonds, Series 2002, and to defease \$11,640,000 of outstanding Dormitory Revenue Bonds, Series 1999. As a result of the refunding, the University of West Florida Foundation, Inc., consolidated certain debt issues and was able to achieve debt service savings. Proceeds from the Dormitory Refunding Revenue Bonds, Series 2005, were placed in an irrevocable escrow account with a trust agent to provide for all future debt service payments on the defeased bonds. Although defeased, the Dormitory Revenue Bonds, Series 1999, will not be retired until the date the bonds mature. At June 30, 2006, the outstanding balance of the defeased bonds was \$12,400,000, and assets held in escrow to pay the defeased bonds totaled approximately \$12 million.

Capital Leases Payable. Equipment and computer software in the amount of \$1,395,045 is being acquired under capital lease agreements. The stated interest rates range from 2.44 to 3.44 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2006, are as follows:

Fiscal Year Ending June 30	Foundation Lease-Purchase	Equipment	Total
2007	\$ 787,074.59	\$ 258,409.90	\$ 1,045,484.49
2008	787,075.54	258,410.48	1,045,486.02
2009		45,773.82	45,773.82
2010		45,773.81	45,773.81
Total Minimum Payments	1,574,150.13	608,368.01	2,182,518.14
Less, Amount Representing Interest	39,314.11	24,077.89	63,392.00
Present Value of Minimum Payments	\$ 1,534,836.02	\$ 584,290.12	\$ 2,119,126.14

The University entered into a financing arrangement on June 30, 2003, which arrangement was characterized as a lease-purchase agreement, with the University of West Florida Foundation, Inc. (Foundation). The University secured financing for certain software, costing \$683,800, and the services for installation, implementation and testing, costing \$3,016,194, as described in a contract between the University and a private software vendor dated February 11, 2003 (the Series 2003 Project), in the amount of \$3,700,000. The financing was accomplished through the issuance of Certificates of Participation, Series 2003, by the Foundation, to be repaid from the proceeds of rents paid by the University.

As a condition of the financing arrangement, the University has given a ground lease on University property to the Foundation, with a rental fee of \$10 per year. The initial term of the ground lease commenced on June 26, 2003, and ends on the earlier of the date on which the Series 2003 Certificates have been paid or provision for their payment has been made, or June 30, 2009. The properties covered by the ground lease

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are leased back to the University. If the University fails to renew the lease and to provide for the rent payments through to term, the University may be required to surrender the property included under the ground lease for the benefit of the securers of the Series 2003 Certificates.

University property included in the ground lease under this financing arrangement includes:

- All computer equipment and any part of the software and licenses included in the Series 2003 Project (Premises).
- All property of the University upon which the Premises or the Series 2003 Project is located, together with any property reasonably needed for pedestrian and vehicular ingress, egress and access to and from the Premises; together with any property upon which the Premises may be dependent upon for utility and other enjoyment of the Premises.

The lease payments are payable by the University monthly, on the first day of each month at an interest rate of 2.44 percent. Payments began on August 1, 2003, and continue for 60 months with the final payment due on June 30, 2008.

As of June 30, 2006, the University had spent \$683,800 of the proceeds to purchase software which is recorded as an asset under capital lease and the remaining \$3,016,200 of the proceeds were used to pay monthly implementation, support, and training costs, which the University elected to expense.

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors Regulation 6C-5.920 and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2006, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$9,209,146.85. The current portion of the compensated absences liability 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.

9. RETIREMENT PROGRAMS

Florida Retirement System. Most employees working in regularly established positions of the University are covered by the Florida Retirement System (FRS). The FRS is primarily a State-administered, cost-

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sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code, wherein eligibility, contributions, and benefits are defined and described in detail. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

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

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

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

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	7.83
Florida Retirement System, Senior Management Services	0.00	10.45
Florida Retirement System, Special Risk	0.00	18.53
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	9.33
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions

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(including employee contributions) for the fiscal years ended June 30, 2004, June 30, 2005, and June 30, 2006, totaled \$2,082,528, \$2,038,686, and \$2,105,155, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. There were 84 University participants during the 2005-06 fiscal year. Required contributions made to the PEORP totaled \$172,389.15.

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

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

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

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There were 492 University participants during the 2005-06 fiscal year. Required employer contributions made to the Program totaled \$2,847,064 and employee contributions totaled \$1,574,327.

10. POST-EMPLOYMENT BENEFITS

Pursuant to Section 112.363, Florida Statutes, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) to assist retirees of all State-administered retirement systems in paying health insurance costs. During the 2005-06 fiscal year, the HIS program was funded by required contributions consisting of 1.11 percent assessed against the payroll for all active employees covered in State-administered retirement systems. This assessment is included in the Florida Retirement System contribution rates presented in note 9.

Eligible retirees, spouses, or financial dependents under any State-administered retirement system must provide proof of health insurance coverage, which can include Medicare. During the 2005-06 fiscal year, participants received an extra \$5 per month for each year of creditable service completed at the time of retirement; however, no eligible retiree or beneficiary may receive a subsidy payment of more than \$150 or less than \$30. If contributions fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or canceled.

11. CONSTRUCTION COMMITMENTS

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

Project Name	Contract Amount	Completed to Date	Balance Committed
Utilities and Infrastructure Projects	\$ 14,750,000.00	\$ 11,280,604.22	\$ 3,469,395.78
Repairs and Maintenance Projects	3,037,719.00	1,657,001.85	1,380,717.15
Child Care Center	2,819,924.00		2,819,924.00
Science and Technology Building	1,356,548.00	157.41	1,356,390.59
Field House Renovation - Phase I	679,238.00		679,238.00
Total	\$ 22,643,429.00	\$ 12,937,763.48	\$ 9,705,665.52

12. OPERATING LEASE COMMITMENTS

The University leased building space and equipment under operating leases, which expire in 2011. These leased assets and the related commitments are not reported on the University's statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease

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commitments for noncancelable operating leases with remaining terms in excess of one year as of June 30, 2006, are as follows:

Fiscal Year Ending	Equipment Operating Leases	Building Operating Leases	Total Operating Leases
2007	\$ 152,961.80	\$ 274,836.44	\$ 427,798.24
2008	29,820.20	180,806.56	210,626.76
2009	8,788.08	92,664.19	101,452.27
2010		62,970.13	62,970.13
2011		16,300.00	16,300.00
Total	\$ 191,570.08	\$ 627,577.32	\$ 819,147.40

13. OTHER COMMITMENTS

The University executed an agreement with a software company on February 11, 2003, which was subsequently amended on March 1, 2004, which allows the University to purchase maintenance and enhancements for new releases of the SCT Banner Finance, SCT Banner Human Resources, and Campus Pipeline Luminis Premier Package software systems during the period March 1, 2003, through February 28, 2013. The agreement provides that fees for the second contract year will total \$117,330 and each subsequent contract year through February 28, 2013, will not increase by more than 4.0 percent over the fee for the immediate preceding contract year. Amendment 1 to the agreement provides that fees for the first contract year will total an additional \$15,015, and will increase by 4.0 percent over the fee for the immediate preceding contract year through the term of the agreement. The University paid a total of \$142,520 under the amended agreement during the 2005-06 fiscal year.

14. RISK MANAGEMENT PROGRAMS

Pursuant to Section 1001.72(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, and fleet automotive liability. During the 2005-06 fiscal year, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for wind and flood and \$5 million for perils other than wind and flood. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for wind, \$50 million for flood, and \$200 million for perils other than wind and flood; and losses exceeding those amounts were retained by the State. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure

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for each participant. The \$50 million of wind coverage is \$35 million less than the coverage provided for the 2004-05 fiscal year. Settlements have not exceeded insurance coverage during the past three years.

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

15. 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:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 44,633,481.24
Research	4,176,007.46
Public Service	4,277,599.16
Academic Support	14,552,388.77
Student Services	7,483,642.06
Institutional Support	25,420,423.83
Operation and Maintenance of Plant	10,431,157.00
Scholarships and Fellowships	11,143,716.73
Auxiliary Operations	12,267,847.51
Depreciation	10,748,973.58
Loan Operations	(68,316.94)
Total Operating Expenses	<u><u>\$ 145,066,920.40</u></u>

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16. COMPONENT UNITS

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

	University of West Florida Foundation, Inc. 6-30-06	Research Foundation of the University of West Florida, Inc. 6-30-06	West Florida Historic Preservation, Inc. 6-30-06	Total
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 7,878,530	\$ 48,021	\$ 1,189,886	\$ 9,116,437
Capital Assets, Net	29,036,330		517,132	29,553,462
Other Noncurrent Assets	75,676,351		952	75,677,303
Total Assets	112,591,211	48,021	1,707,970	114,347,202
Liabilities:				
Current Liabilities	2,159,498	8,446		2,167,944
Noncurrent Liabilities	43,422,982			43,422,982
Total Liabilities	45,582,480	8,446		45,590,926
Net Assets:				
Invested in Capital Assets, Net of Related Debt			517,132	517,132
Restricted	60,859,738		24,660	60,884,398
Unrestricted	6,148,993	39,575	1,166,178	7,354,746
Total Net Assets	\$ 67,008,731	\$ 39,575	\$ 1,707,970	\$ 68,756,276
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	\$ 7,614,891	\$	\$ 534,816	\$ 8,149,707
Operating Expenses	10,386,767	22,146	393,793	10,802,706
Operating Income (Loss)	(2,771,876)	(22,146)	141,023	(2,652,999)
Net Nonoperating Revenues	7,723,952	51	262,511	7,986,514
Increase (Decrease) in Net Assets	4,952,076	(22,095)	403,534	5,333,515
Net Assets, Beginning of Year	62,056,655	61,670	1,304,436	63,422,761
Net Assets, End of Year	\$ 67,008,731	\$ 39,575	\$ 1,707,970	\$ 68,756,276