

UNIVERSITY OF WEST FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2008



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vacant from June 4, 2008, to
June 16, 2008.

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 Joan Valle, CPA, and the audit was supervised by Jim Kiedinger, 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 WEST 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* issued by the Comptroller General of the United States.

Audit Objectives and Scope

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

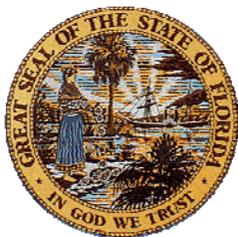
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- 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 basic 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. The results of our operational audit of the University are included in our report No. 2009-109.

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.



DAVID W. MARTIN, 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, 2008, which collectively comprise the University's basic financial statements as shown on pages 10 through 34. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for 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 West 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 the University of West 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 9 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
February 19, 2009

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 \$226.2 million at June 30, 2008. This balance reflects a \$21.7 million, or 10.6 percent increase from the 2006-07 fiscal year, resulting primarily from 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 only slightly. As a result, the University's net assets increased by \$21 million, reaching a year-end balance of \$197.7 million.

The University's operating revenues totaled \$49.5 million for the 2007-08 fiscal year, while operating expenses totaled \$146 million. Neither operating revenues nor operating expenses varied significantly from the preceding fiscal year.

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.
- West Florida Historic Preservation, Inc.

Information regarding these component units, including summaries of their separately issued financial statements, where applicable, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the component units. For those component units reporting under GASB standards, MD&A information 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)**

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 92,039	\$ 64,911
Capital Assets, Net	129,145	132,907
Other Noncurrent Assets	<u>4,996</u>	<u>6,691</u>
Total Assets	<u>226,180</u>	<u>204,509</u>
Liabilities		
Current Liabilities	11,091	11,244
Noncurrent Liabilities	<u>17,399</u>	<u>16,554</u>
Total Liabilities	<u>28,490</u>	<u>27,798</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	123,957	127,392
Restricted	41,397	25,442
Unrestricted	<u>32,336</u>	<u>23,877</u>
Total Net Assets	<u>\$ 197,690</u>	<u>\$ 176,711</u>

The increase in total assets was primarily attributable to additional Public Education Capital Outlay (PECO) appropriations due from the State for the construction of the Science and Technology Building and other construction projects.

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)**

	<u>2007-08</u>	<u>2006-07</u>
Operating Revenues	\$ 49,473	\$ 48,368
Operating Expenses	<u>146,046</u>	<u>143,482</u>
Operating Loss	(96,573)	(95,114)
Net Nonoperating Revenues	<u>94,942</u>	<u>89,223</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,631)	(5,891)
Other Revenues, Expenses, Gains, or Losses	<u>22,610</u>	<u>22,773</u>
Net Increase In Net Assets	20,979	16,882
Net Assets, Beginning of Year	<u>176,711</u>	<u>159,829</u>
Net Assets, End of Year	<u><u>\$ 197,690</u></u>	<u><u>\$ 176,711</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 2007-08 and 2006-07 fiscal years:

**Operating Revenues
(In Thousands)**

	<u>2007-08</u>	<u>2006-07</u>
Net Tuition and Fees	\$ 26,019	\$ 24,635
Grants and Contracts	14,831	16,348
Sales and Services of Educational Departments		142
Sales and Services of Auxiliary Enterprises	6,898	5,891
Other	<u>1,725</u>	<u>1,352</u>
Total Operating Revenues	<u><u>\$ 49,473</u></u>	<u><u>\$ 48,368</u></u>

Total operating revenues for the 2007-08 fiscal year were \$49.5 million, of which \$37.8 million was from gross student tuition and fees. A tuition allowance, which represents the difference between the stated charges 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 a student, totaled \$11.8 million. Its reduction of gross fees resulted in net student tuition and fees of \$26 million, which represents an increase of \$1.4 million, or 5.6 percent, over the 2006-07 fiscal year. Increased student enrollment and higher tuition and fee rates were responsible for the revenue increase.

Federal grants and contracts decreased by \$3.2 million and non-Federal grants and contracts increased by \$1.7 million as the general state of the economy resulted in an overall decline in contract and grant funding. Sales

and services from auxiliary enterprises reflect a 17 percent increase over the 2006-07 fiscal year due primarily to increased student enrollment, higher fee rates, and an increase in auxiliary programs generating noncredit revenue.

Operating Expenses

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

The following summarizes the operating expenses by natural classifications for the 2007-08 and 2006-07 fiscal years:

Operating Expenses (In Thousands)		
	<u>2007-08</u>	<u>2006-07</u>
Compensation and Employee Benefits	\$ 87,597	\$ 85,751
Services and Supplies	33,027	33,072
Utilities and Communications	3,971	4,144
Scholarships, Fellowships, and Waivers	12,037	11,463
Depreciation	<u>9,414</u>	<u>9,052</u>
Total Operating Expenses	<u>\$ 146,046</u>	<u>\$ 143,482</u>

The \$1.8 million increase in compensation and employee benefits was primarily due to the \$1,000 bonus given to all eligible employees in November 2007.

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)		
	<u>2007-08</u>	<u>2006-07</u>
State Appropriations	\$ 76,837	\$ 72,388
Federal and State Student Financial Aid	16,358	14,725
Noncapital Grants, Contracts, and Donations		1,027
Investment Income	2,084	2,041
Other Nonoperating Revenues	517	
Loss on Disposal of Capital Assets	(97)	(194)
Interest on Capital Asset-Related Debt	(385)	(451)
Other Nonoperating Expenses	<u>(372)</u>	<u>(313)</u>
Net Nonoperating Revenues	<u>\$ 94,942</u>	<u>\$ 89,223</u>

Nonoperating revenue changes were the result of the following factors:

- State appropriations increased \$4.4 million, even though the University's initial General Revenue appropriation was cut by more than \$3 million during the fiscal year. This is primarily due to a \$1.3 million increase in the Educational Enhancement appropriation over the prior fiscal year and a \$5 million nonrecurring general revenue appropriation for the expansion of the Ft. Walton Beach campus.
- Federal and State student financial aid increases resulted from additional funding for Pell Grants, Bright Futures Scholarships, and Florida Student Assistance Grants as well as the University's continued participation in two programs introduced in fiscal 2007, the Academic Competitiveness Grant and the National Smart Grant.

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 2007-08 and 2006-07 fiscal years:

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2007-08</u>	<u>2006-07</u>
Capital Appropriations	\$ 21,330	\$ 22,136
Capital Grants, Contracts, Donations, and Fees	1,280	637
Total	\$ 22,610	\$ 22,773

Variations in revenues from these sources for the two fiscal years were not significant.

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)**

	<u>2007-08</u>	<u>2006-07</u>
Cash Provided (Used) by:		
Operating Activities	\$(84,971)	\$(83,900)
Noncapital Financing Activities	93,525	88,226
Capital and Related Financing Activities	(1,166)	(909)
Investing Activities	<u>(7,698)</u>	<u>32</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(310)	3,449
Cash and Cash Equivalents, Beginning of Year	<u>7,959</u>	<u>4,510</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,649</u>	<u>\$ 7,959</u>

Major sources of funds came from State appropriations (\$76.8 million), net student tuition and fees (\$25.9 million), capital appropriations (\$21.3 million), Federal and State student financial aid (\$16.4 million), grants and contracts (\$14 million), and sales and services of auxiliary enterprises (\$6.9 million).

The slight decrease in the liquidity position of the university at June 30, 2008, is due to the following:

- The increase in cash flows from noncapital financing activities is primarily due to a \$6 million increase in State appropriations and Federal and State student financial aid.
- The University continually monitors the rate of return on investments in the State Special Purpose Investment Account (SPIA) and compares that rate to the interest rate earned on funds on deposit with the University's local bank. During the 2007-08 fiscal year, the SPIA consistently outperformed earnings on funds placed locally, and thus investing activity shows a significant increase from the previous fiscal year.

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

CAPITAL ASSETS

At June 30, 2008, the University had \$247.1 million in capital assets, less accumulated depreciation of \$118 million, for net capital assets of \$129.1 million. Depreciation charges for the current fiscal year totaled \$9.4 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

**Capital Assets, Net at June 30
(In Thousands)**

	<u>2008</u>	<u>2007</u>
Land	\$ 9,606	\$ 9,606
Buildings	71,500	75,656
Works of Art and Historical Treasures	9,595	9,500
Construction in Progress	3,483	593
Infrastructure and Other Improvements	17,661	18,632
Furniture and Equipment	11,452	12,744
Library Resources	5,346	5,280
Property Under Capital Lease and Leasehold Improvements	117	557
Computer Software	<u>385</u>	<u>339</u>
Total Capital Assets, Net	<u>\$ 129,145</u>	<u>\$ 132,907</u>

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

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2008, were incurred on the Science and Technology Building and the Childcare Center. The University's major capital commitments at June 30, 2008, are as follows:

	Amount (In Thousands)
Total Commitment	\$ 46,886
Completed to Date	<u>(8,394)</u>
Balance Committed	<u>\$ 38,492</u>

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

DEBT ADMINISTRATION

As of June 30, 2008, the University had \$7.6 million in outstanding bonds and capital leases, representing a decrease of \$1.4 million, or 15.6 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>2008</u>	<u>2007</u>
Bonds Payable	\$ 7,544	\$ 7,926
Capital Leases	<u>88</u>	<u>1,116</u>
Total	<u>\$ 7,632</u>	<u>\$ 9,042</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's economic position is influenced by that of the State of Florida. State appropriations comprise approximately 53 percent of the University's operating and nonoperating revenues and are the largest single source of funding. Current economic conditions in the State have forced a reduction in the 2008-09 fiscal year appropriations, and additional reductions are anticipated. The University continues to monitor this situation closely and is confident in its ability to meet these economic challenges through cost saving measures and increases in alternate revenue sources.

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 Assistant Vice-President for Finance/Controller, University of West Florida, 11000 University Parkway, Pensacola, Florida, 32514.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF WEST 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	\$ 5,457,751	\$ 6,117,371
Investments	41,944,665	1,160,117
Accounts Receivable, Net	6,239,783	2,558,126
Loans and Notes Receivable, Net	49,272	255,412
Due from State	38,347,372	
Due from University		2,850
Inventories		6,079
Other Current Assets		99,133
Total Current Assets	92,038,843	10,199,088
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,191,530	12,590,573
Restricted Investments		56,629,862
Loans and Notes Receivable, Net	2,758,792	
Depreciable Capital Assets, Net	106,460,502	27,287,367
Nondepreciable Capital Assets	22,684,300	5,051,600
Other Noncurrent Assets	46,559	13,543,170
Total Noncurrent Assets	134,141,683	115,102,572
TOTAL ASSETS	\$ 226,180,526	\$ 125,301,660
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 3,115,113	\$ 496,064
Construction Contracts Payable	397,150	
Salaries and Wages Payable	3,322,472	128,160
Deposits Payable	434,660	
Due to State	1,120,997	
Due to Component Units	2,850	
Deferred Revenue	1,341,237	19,500
Long-Term Liabilities - Current Portion:		
Bonds Payable	384,990	12,505,000
Capital Leases Payable	43,298	
Compensated Absences Payable	928,575	
Total Current Liabilities	11,091,342	13,148,724

UNIVERSITY OF WEST 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	\$ 7,159,310	\$ 29,119,267
Capital Leases Payable	44,807	
Compensated Absences Payable	9,449,124	104,721
Postemployment Health Care Benefits Payable	746,000	
Other Noncurrent Liabilities		230,736
	17,399,241	29,454,724
Total Noncurrent Liabilities		
	17,399,241	29,454,724
TOTAL LIABILITIES	28,490,583	42,603,448
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	123,957,123	1,487,741
Restricted for Nonexpendable:		
Endowment		41,542,720
Restricted for Expendable:		
Loans	3,693,108	
Capital Projects	36,483,763	
Other	1,219,701	27,296,304
Unrestricted	32,336,248	12,371,447
	197,689,943	82,698,212
TOTAL NET ASSETS		
	197,689,943	82,698,212
TOTAL LIABILITIES AND NET ASSETS	\$ 226,180,526	\$ 125,301,660

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, 2008

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$11,819,313	\$ 26,018,880	\$
Federal Grants and Contracts	9,989,790	
State and Local Grants and Contracts	4,185,574	
Nongovernmental Grants and Contracts	654,962	
Sales and Services of Auxiliary Enterprises	6,898,468	
Sales and Services of Component Units		57,551
Gifts and Donations		5,540,461
Interest on Loans and Notes Receivable	58,658	
Other Operating Revenues	1,666,363	6,990,671
	49,472,695	12,588,683
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	87,597,175	3,032,888
Services and Supplies	33,026,798	3,973,937
Utilities and Communications	3,970,789	756,062
Scholarships, Fellowships, and Waivers	12,036,891	1,013,367
Depreciation	9,414,418	1,422,102
	146,046,071	10,198,356
Operating Income (Loss)	(96,573,376)	2,390,327
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	76,836,830	
Federal and State Student Financial Aid	16,358,567	
Investment Income (Loss)	2,083,573	(2,774,512)
Other Nonoperating Revenues	517,365	
Gain (Loss) on Disposal of Capital Assets	(97,340)	251,378
Interest on Capital Asset-Related Debt	(385,012)	(2,099,216)
Other Nonoperating Expenses	(372,044)	(301,378)
	94,941,939	(4,923,728)
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,631,437)	(2,533,401)
Capital Appropriations	21,329,759	
Capital Grants, Contracts, Donations, and Fees	1,280,338	
Additions to Permanent Endowments		940,647
	20,978,660	(1,592,754)
Increase (Decrease) in Net Assets	20,978,660	(1,592,754)
Net Assets, Beginning of Year	176,711,283	84,290,966
	\$ 197,689,943	\$ 82,698,212
Net Assets, End of Year	\$ 197,689,943	\$ 82,698,212

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, 2008

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 25,858,530
Grants and Contracts	14,048,766
Sales and Services of Auxiliary Enterprises	6,898,468
Interest on Loans and Notes Receivable	52,705
Payments to Employees	(86,503,029)
Payments to Suppliers for Goods and Services	(36,511,948)
Payments to Students for Scholarships and Fellowships	(12,036,891)
Net Loans Issued to Students	185,396
Other Operating Receipts	3,036,893
	(84,971,110)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	76,836,830
Federal and State Student Financial Aid	16,358,567
Net Change in Funds Held for Others	183,868
Other Nonoperating Receipts	145,322
	93,524,587
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	21,329,759
Capital Grants, Contracts, Donations, and Fees	1,280,338
Capital Subsidies and Transfers	(15,843,958)
Purchase or Construction of Capital Assets	(6,141,026)
Principal Paid on Capital Debt and Leases	(1,405,850)
Interest Paid on Capital Debt and Leases	(385,013)
	(1,165,750)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(9,748,761)
Investment Income	2,051,077
	(7,697,684)
Net Decrease in Cash and Cash Equivalents	(309,957)
Cash and Cash Equivalents, Beginning of Year	7,959,238
Cash and Cash Equivalents, End of Year	\$ 7,649,281

UNIVERSITY OF WEST FLORIDA
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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	\$ (96,573,376)
Adjustments to Reconcile Net Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	9,414,418
Change in Assets and Liabilities:	
Receivables, Net	(517,169)
Other Assets	182,515
Accounts Payable	488,521
Salaries and Wages Payable	(74,832)
Deposits Payable	(292,666)
Compensated Absences Payable	422,978
Deferred Revenue	1,232,501
Postemployment Health Care Benefits Payable	746,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (84,971,110)

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, 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.

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 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

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

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 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 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

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

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., follows FASB standards of accounting and financial reporting for not-for-profit organizations. The West Florida Historic Preservation, 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 capital assets, and depreciation on capital assets. Nonoperating revenues include State appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net assets is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, 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.

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

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

Capital Assets. University capital assets consist of land, works of art and historical treasures, buildings, construction in progress, infrastructure and other improvements, furniture and equipment, library resources, property under capital lease/leasehold improvements 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 \$50,000 for new buildings and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Capital Leasehold Improvements – 10 years or the term of the lease, whichever is greater
- Furniture and Equipment – 5 to 20 years
- Library Resources – 10 years
- Computer Software – 5 years
- Property Under Capital Lease – 5 to 20 years

Capital assets of the University of West Florida Foundation, Inc., consist of land, construction in progress, buildings and improvements, office equipment and software, and property held 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 a straight-line basis over the estimated useful lives of the respective assets.

Capital assets of the West Florida Historic Preservation, Inc., consist of land, buildings and improvements, and furniture, fixtures, and equipment, including historic properties, antiques, and collections. 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. Antiques and collectibles for which a fair market value cannot be determined are recorded at a value of \$1. 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,

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

fixtures, and equipment and over 10 to 40 years for buildings and improvements. Historic properties, antiques, and collectibles are not depreciated.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds payable, capital leases 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 and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

2. 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. 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 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 States Treasury; 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.

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

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

<u>Investment Type</u>	<u>Amount</u>
External Investment Pools:	
State Treasury Special Purpose Investment Account	\$ 41,924,231
State Board of Administration Local Government Surplus Funds Trust Fund	3,938
State Board of Administration Fund B Surplus Funds Trust Fund	16,496
Total University Investments	\$ 41,944,665

External Investment Pools

The University reported investments at fair value totaling \$41,924,231 at June 30, 2008, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of AA-f by Standard and Poor’s and had an effective duration of 3.31 years at June 30, 2008. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool.

At June 30, 2008, the University reported investments at fair value totaling \$3,938 in the Local Government Surplus Funds Trust Fund Investment Pool (LGIP) administered by the State Board of Administration (SBA) pursuant to Section 218.405, Florida Statutes. The University’s investments in the LGIP, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, at June 30, 2008, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. The LGIP carried a credit rating of AAAM by Standard and Poor’s and had a weighted-average days to maturity (WAM) of 20.22 days at June 30, 2008. A portfolio’s WAM reflects the average maturity in days, based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the LGIP to interest rate changes. The investments in the LGIP are reported at fair value, which is amortized cost.

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 Funds Trust Fund. 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.

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

At June 30, 2008, the University reported investments at fair value of \$16,496 for amounts held in the 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. WAL measures the sensitivity of Fund B to interest rate changes. The University's investment in Fund B is unrated.

Component Units Investments

Investments held by the University of West Florida Foundation, Inc., and the West Florida Historic Preservation, Inc., at June 30, 2008, are reported at fair value as follows:

<u>Investment Type</u>	<u>Amount</u>
Bonds and Notes	\$22,652,122
Stocks and Other Equity Securities	33,850,488
Certificates of Deposit	1,160,117
Money Market and Mutual Funds	127,252
Total Component Units Investments	<u><u>\$57,789,979</u></u>

4. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2008, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 4,890,342
Student Tuition and Fees	1,018,610
Other	330,831
Total Accounts Receivable, Net	<u><u>\$ 6,239,783</u></u>

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, 2008

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 \$937,547 and \$106,988, respectively, at June 30, 2008.

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

5. DUE FROM STATE

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

6. CAPITAL ASSETS

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

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 9,605,539	\$	\$	\$ 9,605,539
Works of Art and Historical Treasures	9,500,280	95,194		9,595,474
Construction in Progress	592,657	2,989,080	98,450	3,483,287
Total Nondepreciable Capital Assets	\$ 19,698,476	\$ 3,084,274	\$ 98,450	\$ 22,684,300
Depreciable Capital Assets:				
Buildings	\$ 124,675,959	\$	\$ 625,038	\$ 124,050,921
Infrastructure and Other Improvements	28,004,341	3,453		28,007,794
Furniture and Equipment	39,186,067	2,599,660	1,810,958	39,974,769
Library Resources	28,954,743	1,179,325	195,136	29,938,932
Property Under Capital Lease and Leasehold Improvements	1,512,783		1,242,135	270,648
Computer Software	1,242,307	951,915	5,180	2,189,042
Total Depreciable Capital Assets	223,576,200	4,734,353	3,878,447	224,432,106
Less, Accumulated Depreciation:				
Buildings	49,020,110	3,530,203		52,550,313
Infrastructure and Other Improvements	9,372,211	974,966		10,347,177
Furniture and Equipment	26,441,426	2,842,807	760,987	28,523,246
Library Resources	23,674,589	1,113,662	195,136	24,593,115
Property Under Capital Lease and Leasehold Improvements	956,126	48,189	850,799	153,516
Computer Software	902,936	904,591	3,290	1,804,237
Total Accumulated Depreciation	110,367,398	9,414,418	1,810,212	117,971,604
Total Depreciable Capital Assets, Net	\$ 113,208,802	\$ (4,680,065)	\$ 2,068,235	\$ 106,460,502

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

7. DEFERRED REVENUE

Deferred revenue primarily includes grant funds for specific projects received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2008, the University reported deferred revenue of \$1,341,237.

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2008, include bonds, capital leases, 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	\$ 7,925,655	\$	\$ 381,355	\$ 7,544,300	\$ 384,990
Capital Leases Payable	1,115,528		1,027,423	88,105	43,298
Compensated Absences Payable	9,954,722	1,418,157	995,180	10,377,699	928,575
Postemployment Health Care Benefits Payable		1,384,000	638,000	746,000	
Total Long-Term Liabilities	\$ 18,995,905	\$ 2,802,157	\$ 3,041,958	\$ 18,756,104	\$ 1,356,863

9. REVENUE BONDS PAYABLE

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

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
State University System Revenue Bonds:				
1997A Series	\$ 1,258,740	\$ 935,347	4.625 - 5.000	2016
1998 Series	2,231,367	1,589,600	4.40 - 5.00	2023
2001 Series	904,778	739,108	4.00 - 5.00	2026
2003A Series	792,411	415,004	5.00	2013
2005A Series	568,955	496,742	3.625 - 4.125	2022
2006A Series	3,532,070	3,368,499	4.00 - 5.00	2030
Total	\$9,288,321	\$ 7,544,300		

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

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

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

Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 384,990	\$ 352,007	\$ 736,997
2010	406,352	334,627	740,979
2011	424,214	316,207	740,421
2012	442,777	297,337	740,114
2013	468,526	277,438	745,964
2014-2018	1,926,403	1,086,207	3,012,610
2019-2023	1,841,538	656,039	2,497,577
2024-2028	1,139,064	277,666	1,416,730
2029-2031	457,240	34,569	491,809
Subtotal	7,491,104	3,632,097	11,123,201
Net Bond Discounts, Premiums, and Losses on Bond Refundings	53,196		53,196
Total	<u><u>\$7,544,300</u></u>	<u><u>\$3,632,097</u></u>	<u><u>\$11,176,397</u></u>

Bonds Payable – Component Units. A summary of the component units’ bonds payable as of June 30, 2008, is shown in the following table:

<u>Bond Type and Series</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Maturity Date To</u>
Revenue Bonds:				
Dormitory Revenue Bonds:				
1998	\$ 15,400,000	\$ 12,305,000	3.50 - 4.75	2028
1999	13,455,000	11,905,000	4.40 - 5.75	2031
Dormitory Refunding Revenue Bonds:				
2005	18,290,000	17,825,000	3.75 - 5.00	2031
Subtotal	47,145,000	42,035,000		
Less, Bond Discounts		410,733		
Total Revenue Bonds	<u><u>\$ 47,145,000</u></u>	<u><u>\$ 41,624,267</u></u>		

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

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

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds:			
2009	\$ 12,505,000	\$ 2,065,089	\$ 14,570,089
2010	900,000	1,363,111	2,263,111
2011	940,000	1,326,794	2,266,794
2012	980,000	1,286,771	2,266,771
2013	1,020,000	1,243,656	2,263,656
2014-2018	5,815,000	5,514,499	11,329,499
2019-2023	7,255,000	4,081,553	11,336,553
2024-2028	9,090,000	2,241,625	11,331,625
2029-2031	3,530,000	358,750	3,888,750
Subtotal	42,035,000	19,481,848	61,516,848
Less, Bond Discounts	410,733		410,733
Total Revenue Bonds	<u>\$ 41,624,267</u>	<u>\$ 19,481,848</u>	<u>\$ 61,106,115</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 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 Foundations, Inc., consolidated certain debt issues and was able to achieve debt service coverage 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, 2008, the outstanding balance of the defeased bonds was \$11,905,000, and assets held in escrow to pay the defeased bonds totaled approximately \$12 million.

10. 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

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

Retirement System and FICA contributions, totaled \$10,377,699. 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.

11. 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 \$20,718,000 at July 1, 2007, the date of transition, amortized over 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 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. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the plan information is not included in the annual report of a public employee retirement system or another entity.

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, 101 retirees received postemployment health care benefits. The University provided required contributions of \$638,000 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. Retiree contributions totaled \$923,000.

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

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accordance with the provisions of Governmental Accounting Standards Board Statement 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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 617,000
Amortization of Unfunded Actuarial Accrued Liability	714,000
Interest on Normal Cost and Amortization	<u>53,000</u>
Annual Required Contribution	1,384,000
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	<u>-</u>
Annual OPEB Cost (Expense)	1,384,000
Contribution Toward the OPEB Cost	<u>(638,000)</u>
Increase in Net OPEB Obligation	746,000
Net OPEB Obligation, Beginning of Year	<u>-</u>
Net OPEB Obligation, End of Year	<u><u>\$ 746,000</u></u>

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:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Beginning Balance, July 1, 2007	\$		\$
2007-08	1,384,000	46.1%	746,000

Funded Status and Funding Progress. As of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$20,718,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$20,718,000. The covered payroll (annual payroll of active participating employees) was \$59,873,420 for the 2007-08 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 35 percent.

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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 health care 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 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. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial health care cost trend rate used for employees covered by Medicare was 9.1 percent and the rate was 9.6 percent for employees not covered by Medicare, grading to 5.5 percent in 0.5 percent steps after eight years and nine years, respectively. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on a open 30 year period. The remaining amortization period at June 30, 2008, was 29 years.

12. 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.

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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 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
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	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 including employee contributions for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled \$2,105,155, \$2,747,147, and \$2,787,154, 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

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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 98 University participants during the 2007-08 fiscal year. Required contributions made to the PEORP totaled \$321,290.26.

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 465 University participants during the 2007-08 fiscal year. Required employer contributions made to the Program totaled \$2,921,551 and employee contributions totaled \$1,655,793.

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13. CONSTRUCTION COMMITMENTS

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

<u>Project Description</u>	<u>Total Commitment</u>	<u>Completed to Date</u>	<u>Balance Committed</u>
Science and Technology Building	\$ 31,407,032	\$ 575,030	\$ 30,832,002
Utilities and Infrastructure Projects	9,250,000	5,675,239	3,574,761
Child Care Center	2,819,924	701,878	2,118,046
Repairs and Maintenance Projects	2,454,970	1,243,708	1,211,262
Field House Renovations - Phase I	679,238	192,514	486,724
Historic Barkley House	275,000	5,605	269,395
Total	<u>\$ 46,886,164</u>	<u>\$ 8,393,974</u>	<u>\$ 38,492,190</u>

14. OPERATING LEASE COMMITMENTS

The University leased building space and equipment under operating leases, which expire in 2013. 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 commitments for noncancelable operating leases are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2009	\$ 384,222
2010	335,473
2011	172,668
2012	84,843
2013	<u>15,894</u>
Total Minimum Payments Required	<u>\$ 993,100</u>

15. 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, improvements, and enhancements for, and new releases of, specified software systems during the period March 1, 2003, through February 28, 2013. The University paid a total of \$154,151 in fees under the agreement during the 2007-08 fiscal year. Fees for each subsequent contract year may increase by up to 4 percent over the fees for the immediate preceding contract year through the term of the agreement. Minimum future fee payments under the agreement total approximately \$781,000.

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16. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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, Federal Civil Rights, and fleet automotive liability. For property losses during the 2007-08 fiscal year, 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 per occurrence; 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(5), 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 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.

17. 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.

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18. 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	\$ 44,186,622
Research	4,595,726
Public Service	8,660,317
Academic Support	14,239,682
Student Services	8,085,140
Institutional Support	24,476,013
Operation and Maintenance of Plant	10,521,411
Scholarships and Fellowships	12,036,891
Depreciation	9,414,418
Auxiliary Enterprises	9,829,851
Total Operating Expenses	<u><u>\$ 146,046,071</u></u>

19. COMPONENT UNITS

As discussed in note 1, the University had two component units as of June 30, 2008. A third component unit, The Research Foundation of the University of West Florida, dissolved effective December 14, 2007. The results of its operation for the period July 1, 2007, through the date of dissolution, along with the financial information of the University's two remaining component units, comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is, in the case of the university's two remaining component units, from the most recently available audited financial statements for the component units:

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	University of West Florida Foundation, Inc. 6-30-08	Research Foundation of the University of West Florida, Inc. 12-14-07 (1)	West Florida Historic Preservation, Inc. 6-30-08	Total
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 8,629,214	\$	\$ 1,569,874	\$ 10,199,088
Capital Assets, Net	30,851,226		1,487,741	32,338,967
Other Noncurrent Assets	82,762,921		684	82,763,605
Total Assets	122,243,361		3,058,299	125,301,660
Liabilities:				
Current Liabilities	13,107,058		41,666	13,148,724
Noncurrent Liabilities	29,454,724			29,454,724
Total Liabilities	42,561,782		41,666	42,603,448
Net Assets:				
Investment in Capital Assets, Net of Related Debt			1,487,741	1,487,741
Restricted	68,668,281		170,743	68,839,024
Unrestricted	11,013,298		1,358,149	12,371,447
Total Net Assets	\$ 79,681,579	\$	\$ 3,016,633	\$ 82,698,212
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	\$ 12,161,044	\$	\$ 427,639	\$ 12,588,683
Operating Expenses	9,894,312	2,207	301,837	10,198,356
Operating Income (Loss)	2,266,732	(2,207)	125,802	2,390,327
Net Nonoperating Revenues (Expenses)	(4,923,596)	(26,378)	26,246	(4,923,728)
Other Revenues or Gains	940,647			940,647
Increase (Decrease) in Net Assets	(1,716,217)	(28,585)	152,048	(1,592,754)
Net Assets, Beginning of Year	81,397,796	28,585	2,864,585	84,290,966
Net Assets, End of Year	\$ 79,681,579	\$	\$ 3,016,633	\$ 82,698,212

Note: (1) The Foundation was dissolved on December 14, 2007.



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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 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, 2008, which collectively comprise the University'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 purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the

University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, 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*.

We noted certain operational matters that we reported to University management in our report No. 2009-109, dated February 2009.

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 these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 19, 2009