

**UNIVERSITY OF SOUTH FLORIDA
SARASOTA-MANATEE**

A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA

Financial Audit

For the Fiscal Year Ended
June 30, 2010



BOARD OF TRUSTEES AND PRESIDENT

During the audit period, the President of the University of South Florida was Dr. Judy L. Genshaft. The University of South Florida Sarasota-Manatee Regional Chancellor was Dr. Arthur M. Guilford. The Board members of the University of South Florida Sarasota-Manatee and the Board of Trustee members of the University of South Florida who served during the audit period are listed below:

<u>Sarasota-Manatee Campus Board Members</u>	<u>County</u>
Elizabeth G. Lindsay, Chair	Sarasota
Richard Smith, Vice Chair	Manatee
Margaret L. Callihan	Sarasota
Byron E. Shinn from 3-18-10	Manatee
Jan E. Smith to 8-24-09 (1)	Manatee
Bob Turner	Manatee

University Board of Trustee Members

John B. Ramil, Vice Chair to 6-23-10, Chair from 6-24-10
Rhea F. Law, Chair to 6-23-10
Harold W. Mullis, Jr., from 1-06-10, Vice Chair from 6-24-10
Lee E. Arnold Jr.
Dr. Laurence G. Branch (2)
Margarita R. Cancio, M.D.
Gene Engle
Sonja Garcia to 1-05-10 (3)
Cesar Hernandez from 5-04-10 (4)
Brian D. Lamb from 1-06-10
Kiran C. Patel, M.D., to 1-05-10 (3)
Debbie Nye Sembler
Byron E. Shinn from 3-09-10
Juan Soltero to 5-03-10 (4)
Robert L. Soran to 1-05-10
Jan E. Smith to 8-24-09 (5)
Sherrill Tomasino (6)
Jordan B. Zimmerman from 3-09-10

Notes: (1) Position remained vacant from August 25, 2009, to March 17, 2010.
(2) Faculty Senate chair.
(3) Positions remained vacant from January 6, 2010, to March 8, 2010.
(4) Student body president.
(5) Position remained vacant from August 25, 2009, to December 9, 2009.
(6) Board member resigned her position on December 10, 2009, to complete Jan E. Smith's term. Her position was vacant from December 10, 2009, to January 5, 2010, until Brian D. Lamb was appointed to the Board.

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 Rachel Sellers, CPA, and the audit was supervised by Karen J. Collington, 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 reports prepared by the Auditor General can be obtained on our Web site at 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 SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA

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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements of the University of South Florida Sarasota-Manatee (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida) 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 Regional Campus and its officers with administrative and stewardship responsibilities for Regional Campus operations had:

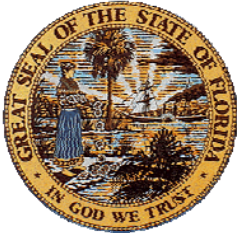
- Presented the Regional Campus's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; 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 Regional Campus's basic financial statements as of and for the fiscal year ended June 30, 2010. We obtained an understanding of the Regional Campus's environment, including its internal control and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

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

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent Regional Campus 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
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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111 West Madison Street
Tallahassee, Florida 32399-1450



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FAX: 850-488-6975

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 South Florida Sarasota-Manatee (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida), as of and for the fiscal year ended June 30, 2010, which collectively comprise the Regional Campus's basic financial statements as shown on pages 11 through 30. These financial statements are the responsibility of Regional Campus management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements of the Regional Campus have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present only that portion of the financial position and the changes in financial position and cash flows of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus. They do not purport to, and do not, present fairly the financial position of the University of South Florida as of June 30, 2010, and the 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Regional Campus as of June 30, 2010, 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.

As discussed in note 2 to the financial statements, the Regional Campus discontinued reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds on the Regional Campus's statement of net assets during the 2009-10 fiscal year. This change affects the comparability of amounts reported for the 2009-10 fiscal year with amounts reported for the 2008-09 fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Regional Campus'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 results of that testing, and not to provide an opinion on the 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.

Accounting principles generally accepted in the United States of America require that the **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 10, and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on page 31, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
October 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) of the University of South Florida Sarasota-Manatee (Regional Campus), a regional campus of the University of South Florida, provides an overview of the financial position and activities of the Regional Campus for the fiscal year ended June 30, 2010, 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 the Regional Campus's management.

FINANCIAL HIGHLIGHTS

The Regional Campus's assets totaled \$46.8 million at June 30, 2010. This balance reflects a \$2.1 million, or 4.7 percent, increase from the 2008-09 fiscal year. Liabilities decreased by \$0.4 million, or 16 percent, totaling \$2.1 million at June 30, 2010, compared to \$2.5 million at June 30, 2009. As a result, net assets increased by \$2.5 million, reaching a year-end balance of \$44.7 million.

The Regional Campus's operating revenues totaled \$6.6 million for the 2009-10 fiscal year, representing a 6.5 percent increase over the 2008-09 fiscal year due mainly to increases in student tuition and fees. Operating expenses totaled \$22.2 million for the 2009-10 fiscal year, representing a 2.8 percent increase over the 2008-09 fiscal year due mainly to increases in expenditures for scholarships, fellowships, and waivers, and compensation and employee benefits.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the Regional Campus'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 have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows that is attributable to the transactions of the Regional Campus.

THE STATEMENT OF NET ASSETS

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

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

Condensed Statement of Net Assets at June 30
(In Thousands)

	2010	2009
Assets		
Current Assets	\$ 17,676	\$ 15,527
Capital Assets, Net	29,001	27,814
Other Noncurrent Assets	163	1,329
Total Assets	46,840	44,670
Liabilities		
Current Liabilities	900	1,145
Noncurrent Liabilities	1,231	1,309
Total Liabilities	2,131	2,454
Net Assets		
Invested in Capital Assets, Net of Related Debt	29,001	27,814
Restricted	4,955	5,399
Unrestricted	10,753	9,003
Total Net Assets	\$ 44,709	\$ 42,216

Assets are what the Regional Campus owns and are measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Liabilities are generally considered to be financial obligations of the Regional Campus and may also consist of payments received for services not yet provided (deferred revenue). Both assets and liabilities are classified as either current or noncurrent. This classification is made based on when an asset is expected to be converted to cash or a liability is expected to be paid off. If either of these situations is expected to take place within the upcoming year, then the asset or liability is considered to be current.

The Regional Campus's assets totaled \$46.8 million at June 30, 2010. This balance reflects a \$2.1 million, or 4.7 percent, increase over the 2008-09 fiscal year. This increase is attributable to an increase in current assets of \$2.1 million, an increase in capital assets of \$1.2 million due primarily to construction in progress, and a decrease in other noncurrent assets of \$1.2 million due primarily to a decrease in investments.

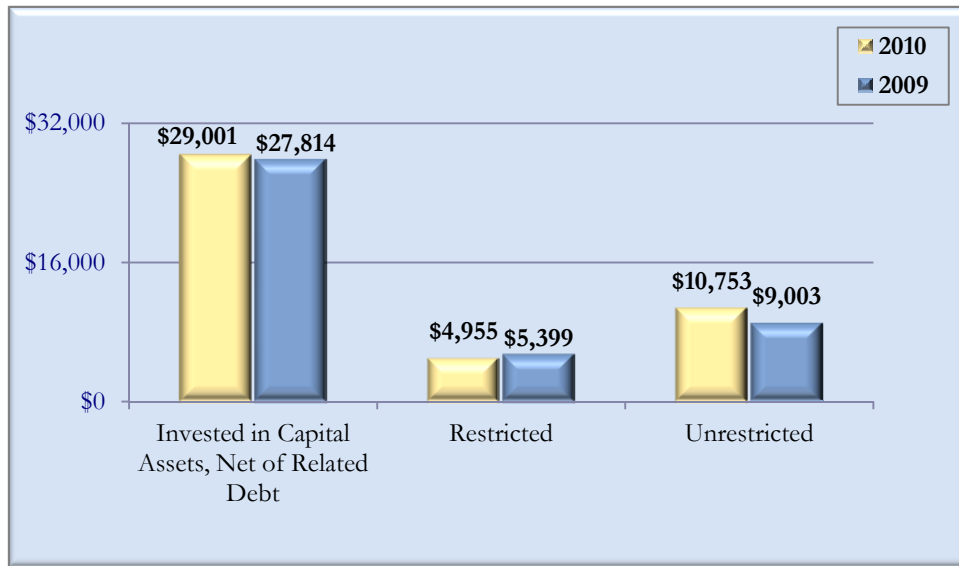
Total liabilities decreased by \$0.4 million, which was primarily due to a decrease in current liabilities of \$0.2 million from a reduction in construction contracts payables and a reduction in bonds payable (prior period adjustment, see note 2 to the financial statements) offset by increases in other postemployment benefits payable.

This combination of changes in both total assets of \$2.1 million and total liabilities of \$0.4 million resulted in a net increase in total net assets of \$2.5 million. This increase in total net assets is attributable to increases in capital assets of \$1.2 million, decreases in other restricted net assets of \$0.4 million, and increases in unrestricted net assets of \$1.7 million.

Net assets are reported in three major categories. The first category, invested in capital assets, net of related debt, provides the Regional Campus's equity in property, plant, and equipment owned by the Regional Campus. Restricted net assets are another category, which may be further broken down into nonexpendable and expendable. Restricted nonexpendable net assets represent funds that have been donated to the Regional Campus which are required to be invested in perpetuity. These net assets are primarily maintained within the University of South Florida Foundation,

Inc., a component unit of the University of South Florida, and are reported in the component unit column of the University of South Florida’s financial statements. Restricted expendable net assets are available for use by the Regional Campus, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the Regional Campus for any lawful purpose of the Regional Campus. The following graph illustrates the comparative change in net assets by category for the 2009-10 and 2008-09 fiscal years:

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



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

The statement of revenues, expenses, and changes in net assets presents the Regional Campus’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 Regional Campus's activity for the 2009-10 and 2008-09 fiscal years:

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

	2009-10	2008-09
Operating Revenues	\$ 6,584	\$ 6,236
Operating Expenses	22,214	21,584
Operating Loss	(15,630)	(15,348)
Net Nonoperating Revenues	16,365	16,416
Income Before Other Revenues, Expenses, Gains, or Losses	735	1,068
Other Revenues, Expenses, Gains, or Losses	1,479	1,601
Net Increase In Net Assets	2,214	2,669
Net Assets, Beginning of Year	42,216	39,547
Adjustments to Beginning Net Assets (1)	279	
Net Assets, Beginning of Year, as Restated	42,495	
Net Assets, End of Year	\$ 44,709	\$ 42,216

Note: (1) As discussed in note 2 to the financial statements, the Regional Campus's beginning net assets was increased to correct an error in reporting bonds and revenue certificates payable.

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 2009-10 and 2008-09 fiscal years:

**Operating Revenues
(In Thousands)**

	2009-10	2008-09
Net Tuition and Fees	\$ 5,922	\$ 5,069
Grants and Contracts	292	747
Sales and Services of Auxiliary Enterprises	366	420
Interest on Loans and Notes Receivable	4	
Total Operating Revenues	\$ 6,584	\$ 6,236

Total operating revenues increased by \$0.3 million with the change being attributable to two factors. Student tuition and fees (after tuition scholarship allowance) increased by \$0.9 million mainly due to a 15 percent increase in the tuition rates and a 6.7 percent increase in student credit hours taken over the previous fiscal year. Grants and contracts revenue decreased \$0.5 million primarily due to a decrease in nongovernmental grants and contracts.

Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the Regional Campus'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 Regional Campus 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 2009-10 and 2008-09 fiscal years:

Operating Expenses (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Compensation and Employee Benefits	\$ 15,072	\$ 14,762
Services and Supplies	3,110	3,163
Utilities and Communications	380	284
Scholarships, Fellowships, and Waivers	2,593	2,170
Depreciation	1,059	1,205
Total Operating Expenses	<u>\$ 22,214</u>	<u>\$ 21,584</u>

Total operating expenses increased by \$0.6 million mainly attributable to increases in compensation and employee benefits (\$0.3 million) and increases in scholarships, fellowships, and waivers (\$0.4 million). The increase in scholarship, fellowships, and waivers was directly related to the increase in student fees being assessed. The increase in compensation and employee benefits was a result of an increase in fringe benefits rates.

Nonoperating Revenues and Expenses

Certain revenue sources that the Regional Campus 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 Regional Campus's nonoperating revenues and expenses for the 2009-10 and 2008-09 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
State Appropriations	\$ 11,950	\$ 14,003
Federal and State Student Financial Aid	3,247	2,358
State Appropriated American Recovery and Reinvestment Act Funds	1,009	
Investment Income	199	214
Other Nonoperating Revenues	18	14
Interest on Capital Asset-Related Debt		(9)
Other Nonoperating Expenses	(58)	(164)
Net Nonoperating Revenues	<u>\$ 16,365</u>	<u>\$ 16,416</u>

Total nonoperating revenues (expenses) decreased by \$0.05 million, due primarily to a 15 percent decrease in State appropriations of \$2.1 million. This reduction in State appropriations was partially offset by new State Appropriated American Recovery and Reinvestment Act funds of \$1 million. Other changes included an increase in Federal and State student financial aid of \$0.9 million and a decrease in other nonoperating expenses resulting from a onetime

adjustment in 2008-09 fiscal year for establishing a liability for the return of the Federal portion of the Federal Perkins Loan program net assets.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and transfers to and from other University campuses. The following summarizes the Regional Campus's other revenues, expenses, gains, or losses for the 2009-10 and 2008-09 fiscal years:

Other Revenues, Expenses, Gains, or Losses (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Capital Appropriations	\$ 454	\$ 1,934
Transfer To/ From Other University Campuses, Net	1,025	(333)
Total	<u>\$ 1,479</u>	<u>\$ 1,601</u>

Total other revenues decreased by \$0.1 million. The reduction of \$1.5 million in Capital Appropriations relates to reduction in construction funding from the State. This decrease was offset by an increase in transfers to and from other university campuses of \$1.4 million from interdepartmental activity and other cash and property transfers between the regional and other university campuses.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the Regional Campus's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the Regional Campus'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 Regional Campus. Cash flows from capital financing activities include all plant funds. 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 2009-10 and 2008-09 fiscal years:

Condensed Statement of Cash Flows (In Thousands)		
	<u>2009-10</u>	<u>2008-09</u>
Cash Provided (Used) by:		
Operating Activities	\$ (14,095)	\$ (14,277)
Noncapital Financing Activities	16,277	16,076
Capital and Related Financing Activities	(1,240)	(682)
Investing Activities	918	(6,517)
Net Increase (Decrease) in Cash and Cash Equivalents	1,860	(5,400)
Cash and Cash Equivalents, Beginning of Year	2	5,402
Cash and Cash Equivalents, End of Year	<u>\$ 1,862</u>	<u>\$ 2</u>

The above condensed statement of cash flows represents the four major cash flow activities. Major sources of operating activities included net student tuition and fees (\$6 million), grants and contracts (\$0.3 million), and sales and services of auxiliary enterprises (\$0.4 million). Included in the calculation of net cash used for operating activities are

payments to employees (\$14.8 million), payments to suppliers (\$3.5 million), and payments to students for scholarships and fellowships (\$2.6 million). The net cash used for operating activities decreased by \$0.2 million, primarily due to decreases in payments to suppliers of \$0.3 million, and grants and contracts of \$0.5 million, offset by increases in tuition and fees collections of \$1 million, payments to employees of \$0.1 million, and scholarships and fellowships of \$0.4 million.

The net cash provided by noncapital financing activities consists primarily of \$13 million of State appropriations, including \$1 million of American Recovery and Reinvestment Act funds, and \$3.2 million for Federal and State student financial aid.

Cash used by capital and related financing activities increased by \$0.6 million. This was mainly due to decreases in capital debt in the amount of \$0.3 million, increases in purchases or construction of capital assets of \$1.3 million, decreases in capital appropriations of \$1.5 million, offset by an increase in capital subsidies of \$2.5 million.

Cash provided by investing activities increased by \$7.4 million. The increase was mainly due to a change in investment strategy and activities.

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

CAPITAL ASSETS

At June 30, 2010, the Regional Campus had \$33.1 million in capital assets, less accumulated depreciation of \$4.1 million, for net capital assets of \$29 million. Depreciation charges for the current fiscal year totaled \$1.1 million. The following table summarizes the Regional Campus’s capital assets, net of accumulated depreciation at June 30:

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

	2010	2009
Land	\$ 510	\$ 510
Buildings	23,783	24,218
Construction in Progress	1,484	618
Infrastructure and Other Improvements	1,732	1,244
Furniture and Equipment	1,110	980
Library Resources	302	173
Works of Art and Historical Treasures	17	27
Other Capital Assets	63	44
Capital Assets, Net	\$ 29,001	\$ 27,814

Additional information about the Regional Campus’s capital assets is presented in the notes to financial statements.

CAPITAL EXPENSES AND COMMITMENTS

The following table summarizes the Regional Campus’s major capital commitments as of June 30, 2010:

	Amount (In Thousands)
Current Commitment Expenses	\$ 5,058 1,484
Balance Committed	\$ 3,574

DEBT ADMINISTRATION

The Regional Campus's beginning net assets was increased by \$0.3 million to correct an error in reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years the liability for these bonds was reported on the Regional Campus's statement of net assets. It has subsequently been determined that these bonds are not debt of the Regional Campus. Although proceeds from the bonds were provided to the Regional Campus for capital projects, the Regional Campus is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all universities and remitted in total to the Florida Department of Education. After the recording of this adjustment the Regional Campus has no bonds or revenue certificates payable.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The state and national economic downturn has impacted USF Sarasota-Manatee and State appropriations have declined. To partially offset these reductions, the Florida Legislature has authorized tuition increases over the past few years combined with technology fees and distance learning fees that provide additional resources to support a balanced budget and expansion of academic programs and services to support students. In addition, the American Recovery and Reinvestment Act (ARRA) has generated a positive impact. Although this ARRA funding is nonrecurring, it too has helped offset the reductions in State general revenue appropriations. These Federal stimulus funds have been made available in the 2009-10 and 2010-11 fiscal years, but will need to be replaced in fiscal year 2011-12 by either a new funding source or further reductions in operating expenses. The economic impact of the oil spill in the Gulf may be significant and may create additional strains on tax revenues as the State is heavily dependent on the tourism industry.

It is very unlikely the State will fund a significant increase in State appropriations for the following fiscal year. The current economic conditions will result in lower state funding per student. This implies that tuition and fees gradually will become a larger share of the education and general budget. Management continues to look for and implement means to conserve resources and cut operational costs. The faculty has extensive research background and we are expecting increases in research and grant activity for the foreseeable future.

Management is committed to meet its enrollment growth plan to increase full-time equivalent (FTE) student enrollment of 1,241 FTE in fiscal year 2010-11 to 1,480 FTE in fiscal year 2014-15. Enrollment is expected to grow at a rate of approximately 4.5 percent annually over the next five years. Management is also focused on development activities and expects increases in fund raising as well.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Linda Peterson, University Controller, 4202 East Fowler Avenue, Tampa, Florida 33620-5800.

BASIC FINANCIAL STATEMENTS

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF NET ASSETS
June 30, 2010**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,855,951
Investments	11,068,190
Accounts Receivable, Net	216,564
Loans and Notes Receivable, Net	50,040
Due from State	4,484,802
Other Current Assets	234
Total Current Assets	<u>17,675,781</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	6,649
Restricted Investments	39,700
Loans and Notes Receivable, Net	116,760
Depreciable Capital Assets, Net	27,006,800
Nondepreciable Capital Assets	1,994,193
Total Noncurrent Assets	<u>29,164,102</u>

TOTAL ASSETS

\$ 46,839,883

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 104,102
Salaries and Wages Payable	537,411
Deposits Payable	6,814
Deferred Revenue	188,821
Long-Term Liabilities - Current Portion:	
Compensated Absences Payable	63,168
Total Current Liabilities	<u>900,316</u>

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010

LIABILITIES (Continued)

Noncurrent Liabilities:

Federal Advance Payable	\$ 118,378
Compensated Absences Payable	706,680
Other Postemployment Benefits Payable	405,609

Total Noncurrent Liabilities	1,230,667
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TOTAL LIABILITIES	2,130,983
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NET ASSETS

Invested in Capital Assets	29,000,993
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Restricted for Expendable:

Loans	52,708
Capital Projects	4,371,637
Other	530,953

Unrestricted	10,752,609
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TOTAL NET ASSETS	44,708,900
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TOTAL LIABILITIES AND NET ASSETS	\$ 46,839,883
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The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2010

REVENUES

Operating Revenues:

Student Tuition and Fees, Net of Scholarship Allowances of \$1,139,897	\$ 5,922,168
Federal Grants and Contracts	106,417
Nongovernmental Grants and Contracts	185,392
Sales and Services of Auxiliary Enterprises	365,409
Interest on Loans and Notes Receivable	4,385

Total Operating Revenues	<u>6,583,771</u>
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EXPENSES

Operating Expenses:

Compensation and Employee Benefits	15,072,140
Services and Supplies	3,109,796
Utilities and Communications	379,984
Scholarships, Fellowships, and Waivers	2,592,965
Depreciation	1,059,466

Total Operating Expenses	<u>22,214,351</u>
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Operating Loss	<u>(15,630,580)</u>
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	11,950,047
Federal and State Student Financial Aid	3,247,133
State Appropriated American Recovery Act and Reinvestment Act Funds	1,008,934
Investment Income	199,493
Other Nonoperating Revenues	17,495
Other Nonoperating Expenses	(57,693)

Net Nonoperating Revenues	<u>16,365,409</u>
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Income Before Other Revenues, Expenses, Gains, or Losses	734,829
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Capital Appropriations	454,167
Transfers To/From Other University Campuses, Net	1,024,661

Increase in Net Assets	<u>2,213,657</u>
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Net Assets, Beginning of Year	42,215,693
Adjustment to Beginning Net Assets	279,550

Net Assets, Beginning of Year, as Restated	<u>42,495,243</u>
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Net Assets, End of Year	<u>\$ 44,708,900</u>
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The accompanying notes to financial statements are an integral part of this statement.

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 6,018,780
Grants and Contracts	345,005
Sales and Services of Auxiliary Enterprises	361,926
Interest on Loans and Notes Receivable	4,334
Payments to Employees	(14,801,108)
Payments to Suppliers for Goods and Services	(3,454,890)
Payments to Students for Scholarships and Fellowships	(2,592,965)
Net Loans Issued to Students	24,037
Net Cash Used by Operating Activities	<u>(14,094,881)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	11,950,047
Federal and State Student Financial Aid	3,247,133
State Appropriated American Recovery Act and Reinvestment Act Funds	1,008,934
Operating Subsidies and Transfers	66,125
Net Change in Funds Held for Others	270
Other Receipts	17,495
Other Expenses	(12,710)
Net Cash Provided by Noncapital Financing Activities	<u>16,277,294</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	454,167
Capital Subsidies and Transfers	125,536
Purchase or Construction of Capital Assets	(1,820,079)
Net Cash Used by Capital and Related Financing Activities	<u>(1,240,376)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase or Sale of Investments, Net	911,959
Investment Income	6,387
Net Cash Provided by Investing Activities	<u>918,346</u>
Net Increase in Cash and Cash Equivalents	1,860,383
Cash and Cash Equivalents, Beginning of Year	<u>2,217</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,862,600</u></u>

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2010**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (15,630,580)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,059,466
Change in Assets and Liabilities:	
Receivables, Net	(11,308)
Other Assets	607
Accounts Payable	34,282
Salaries and Wages Payable	69,490
Compensated Absences Payable	(1,961)
Deferred Revenue	181,618
Other Postemployment Benefits Payable	203,505
NET CASH USED BY OPERATING ACTIVITIES	\$ (14,094,881)

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

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. Effective July 1, 2001, Chapter 2001-170, Laws of Florida, designated that the Sarasota-Manatee campus of the University of South Florida be established and known as the University of South Florida Sarasota-Manatee. The Statute further stated that the University of South Florida Sarasota-Manatee was to be fiscally autonomous, operated and maintained as a separate organizational and budget entity of the University of South Florida (a component unit of the State of Florida), and should have a Campus Board and a Campus Executive Officer. Members of the Campus Board are appointed by the University of South Florida (University) Board of Trustees upon recommendation by the University of South Florida President. One member of the Campus Board serves jointly on the University Board of Trustees. The University of South Florida Sarasota-Manatee (Regional Campus) has a governing board of five members (three residents of Manatee County and two residents of Sarasota County) and is a legal body with specific budget authority over the Regional Campus. Campus Board members serve 4-year staggered terms.

For financial reporting purposes, the Regional Campus is a part of the University of South Florida. Accordingly, the financial statements of the Regional Campus are combined and reported in the financial statements of the University of South Florida for the fiscal year ended June 30, 2010. The financial statements of the Regional Campus have been prepared for use by the Southern Association of Colleges and Schools, and are intended to present the financial position and the changes in financial position and cash flows as of and for the fiscal year ended June 30, 2010, of only that portion of the University of South Florida that is attributable to the transactions of the Regional Campus.

Basis of Presentation. The Regional Campus'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 Regional Campus 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 Regional Campus 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

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

➤ Other Required Supplementary Information

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 Regional Campus'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 Regional Campus follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Significant 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 Regional Campus'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 (net of unrealized gains or losses on investments), and revenues for capital construction projects.

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 Regional Campus'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 Regional Campus and the amount that is actually paid by a student or a third party making payment on behalf of the student. The Regional Campus applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the Regional Campus computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered to be third-party aid.

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

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. Regional Campus 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.

Capital Assets. Regional Campus capital assets consist of land; construction in progress; buildings; infrastructure and other improvements; furniture and equipment; library resources; works of art and historical treasures, and other capital assets. 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 Regional Campus has a capitalization threshold of \$1,000 for tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 25 to 40 years, depending on construction
- Infrastructure and Other Improvements – 20 years
- Furniture and Equipment – 5 to 20 years
- Library Resources – 10 years
- Works of Art and Historical Treasures – 5 years
- Other Capital Assets – 3 to 5 years

Noncurrent Liabilities. Noncurrent liabilities include Federal advance payable, compensated absences payable, and other postemployment benefits payable that are not scheduled to be paid within the next fiscal year.

2. PRIOR PERIOD ADJUSTMENTS

The Regional Campus's beginning net assets was increased by \$279,550 to correct an error in reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds. In prior fiscal years, the liability for these bonds was reported on the Regional Campus's statement of net assets. It was subsequently determined that these bonds are not debt of the Regional Campus. Although proceeds from the bonds were provided to the Regional Campus for capital projects, the Regional Campus is not responsible for the repayment of the bonds. Repayment of the bonds is the responsibility of the Florida Board of Governors to be paid from capital improvement fees collected by all Florida Universities and remitted in total to the Florida Department of Education.

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 adopted a written investment policy providing that surplus funds of the University shall be invested in those institutions and instruments permitted under the provisions of Florida Statutes. Pursuant to Section 218.415(16), Florida Statutes, the Regional Campus is authorized to invest in the Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; obligations of Federal agencies and instrumentalities; securities of, or interests in, certain open-end or closed-end management type investment companies; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and other investments approved by the University's Board of Trustees as authorized by law. During fiscal year 2009-10, the University Board of Trustees Investment Committee authorized the University to invest in Hedge Funds, a new class of assets. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The Regional Campus's investments at June 30, 2010, are reported at fair value, as follows:

<u>Investment Type</u>	<u>Amount</u>
Bond Index Mutual Funds	\$ 9,681,658
Hedge Funds	662,087
Equity Mutual Fund	147,152
Money Market Mutual Fund	616,993
Total Regional Campus Investments	<u><u>\$ 11,107,890</u></u>

The Regional Campus's investments consisted of various bond, foreign equity, and money market mutual funds, and hedge funds. The investment policy allows investments in pooled funds which are professionally managed and registered with the Securities and Exchange Commission, fixed-income investments, and hedge funds. The following risks apply to the Regional's Campus's investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy limits the fixed-income portfolio (United States Treasury securities, United States government agency obligations, mortgage-based securities, corporate debt, State, and municipal securities investments) to a weighted-average duration of less than five years. The investment policy provides for interest risk. The risk varies depending on the type of investment.

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The investment policy provides for credit risk. The risk varies depending on the type of investment.

The following interest rate and credit risks apply to the Regional Campus's investments in bond and money market mutual funds and hedge funds at June 30, 2010:

Investment Type	Weighted or Effective Average Maturities	Credit Quality Rating	Fair Value
Bond Index Mutual Funds	2.963 Years (1)	Not Rated	\$ 9,681,658
Hedge Funds	(2)	Not Rated	662,087
Money Market Mutual Fund	54 Days (3)	Not Rated	616,993
Total			<u>\$ 10,960,738</u>

Notes: (1) Weighted-average maturity.
(2) Information not available.
(3) Effective average maturity.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Regional Campus's investment in a single issuer. The investment policy provides that the maximum amount that may be invested in the securities of an individual issuer not backed by the full faith and credit of the United States Government shall not exceed five percent of the market value of the assets of the investment portfolio, and no single corporate bond issuer shall exceed five percent of the market value of the investment portfolio. Direct investments in securities of the United States Government, Government agencies and State of Florida Investment Pools, or Pooled Funds comprised solely of United States Government Securities are not subject to these restrictions.

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 loans receivable. As of June 30, 2010, the Regional Campus reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 190,242
Contracts and Grants	14,133
Other	12,189
Total Accounts Receivable, Net	<u>\$ 216,564</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 SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based on 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 \$194,378 and \$103,166, respectively, at June 30, 2010.

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

5. DUE FROM STATE

This amount includes Public Education Capital Outlay allocations and Lottery Appropriations due to the Regional Campus for construction of Regional Campus facilities and operations, respectively.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 510,368	\$	\$	\$	\$ 510,368
Construction in Progress	618,449		1,617,556	752,180	1,483,825
Total Nondepreciable Capital Assets	\$ 1,128,817	\$	\$ 1,617,556	\$ 752,180	\$ 1,994,193
Depreciable Capital Assets:					
Buildings	\$ 26,231,893	\$ 20,344	\$ 207,491	\$	\$ 26,459,728
Infrastructure and Other Improvements	1,464,287		544,691		2,008,978
Furniture and Equipment	1,276,766	189,838	76,915	176,190	1,367,329
Library Resources	387,757	676,897			1,064,654
Works of Art and Historical Treasures	66,000		2,580		68,580
Other Capital Assets	71,314	1,034	17,680		90,028
Total Depreciable Capital Assets	29,498,017	888,113	849,357	176,190	31,059,297
Less, Accumulated Depreciation:					
Buildings	2,014,433	(9,262)	671,737		2,676,908
Infrastructure and Other Improvements	220,505	(19,165)	75,484		276,824
Furniture and Equipment	297,466	(84,320)	192,867	149,138	256,875
Library Resources	214,606	449,022	98,953		762,581
Works of Art and Historical Treasures	38,667		13,329		51,996
Other Capital Assets	26,897	(6,680)	7,096		27,313
Total Accumulated Depreciation	2,812,574	329,595	1,059,466	149,138	4,052,497
Total Depreciable Capital Assets, Net	\$ 26,685,443	\$ 558,518	\$ (210,109)	\$ 27,052	\$ 27,006,800

Note: (1) Adjustments to certain capital assets and/or related accumulated depreciation were made during the 2009-10 fiscal year in order to properly state the respective amounts in the Regional Campus' financial statements. The adjustment for library resources was due to the Regional Campus's addition of library resources in the library shared with New College of Florida since the reorganization in the 2001-02 fiscal year. Senior Regional Campus management determined that the library books belonged to the Regional Campus.

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

7. DEFERRED REVENUE

Deferred revenue includes amounts received in advance for auxiliary accounts and from contracts and grants prior to fiscal year end related to subsequent accounting periods. As of June 30, 2010, the Regional Campus reported the following amounts as deferred revenue:

<u>Description</u>	<u>Amount</u>
Auxiliary Funds	\$ 125,000
Contracts and Grants	63,821
Total Deferred Revenue	\$ 188,821

8. LONG-TERM LIABILITIES

Long-term liabilities of the Regional Campus at June 30, 2010, include Federal advance payable, compensated absences payable, and other postemployment benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2010, is shown below:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds Payable (1)	\$ 280,092	\$	\$ 280,092	\$	\$
Federal Advance Payable	131,087		12,709	118,378	
Compensated Absences Payable	771,809	81,531	83,492	769,848	63,168
Other Postemployment Benefits Payable	202,104	289,581	86,076	405,609	
Total Long-Term Liabilities	\$ 1,385,092	\$ 371,112	\$ 462,369	\$ 1,293,835	\$ 63,168

Note: (1) The University recorded an adjustment to beginning net assets to correct an error in reporting bonds and revenue certificates payable for State University System Capital Improvement Trust Fund Revenue Bonds. See Note 2.

Federal Advance Payable. Represents the Regional Campus's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the Regional Campus cease making Federal Perkins Loans or has excess cash in the loan program.

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 regulations, University regulations, 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 Regional Campus 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 Regional Campus 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, 2010, the estimated liability for compensated absences, which includes the Regional Campus's share of the Florida Retirement System and FICA contributions,

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

totaled \$769,848. The current portion of the compensated absences liability for the Regional Campus is based on a proportionate percentage of the current liability reported by the University.

Other Postemployment Benefits Payable. The University follows Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits provided by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the Regional Campus, are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined-benefit plan (Plan). The Regional Campus 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 report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The Regional Campus has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2009-10 fiscal year, 22 retirees received postemployment healthcare benefits. The Regional Campus provided required contributions of \$82,000 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 \$131,285.

Annual OPEB Cost and Net OPEB Obligation. The Regional Campus's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards No. 45. 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 Regional Campus's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Regional Campus's net OPEB obligation:

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 146,000
Amortization of Unfunded Actuarial Accrued Liability	131,000
Interest on Normal Cost and Amortization	<u>11,000</u>
Annual Required Contribution	288,000
Interest on Net OPEB Obligation	8,000
Adjustment to Annual Required Contribution	<u>(6,419)</u>
Annual OPEB Cost (Expense)	289,581
Contribution Toward the OPEB Cost	<u>(82,000)</u>
Increase in Net OPEB Obligation	207,581
Net OPEB Obligation, Beginning of Year	202,104
Actuarial Adjustment to Beginning of Year	<u>(4,076)</u>
Net OPEB Obligation, End of Year	<u><u>\$ 405,609</u></u>

The Regional Campus's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010, and for the transition and preceding years, were 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	208,000	43.7%	117,094
2008-09	172,104	48.8%	202,104
2009-10	289,581	28.3%	405,609

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,926,320, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,926,320 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$9,629,321 for the 2009-10 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 40.8 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

Actuarial Methods and Assumptions. 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 Regional Campus's OPEB actuarial valuation as of July 1, 2009, used the entry-age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2010, and the Regional Campus's 2009-10 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. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for the PPO plan was 10.32 and 8.84 percent for the first two years, followed by 7 percent in the third year, grading to 5.1 percent over 70 years. Initial healthcare cost trend rates for the HMO plan was 10 percent for the first two years, 7 percent in the third year, grading to 5.1 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 27 years.

9. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the Regional Campus are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to FRS 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. FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (PEORP).

Employees in the Plan vest at six years of service. All vested 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; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2009-10 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment 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 in which reemployed.

The Regional Campus’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 Regional Campus. The Regional Campus's contributions for the fiscal years ended June 30, 2008, June 30, 2009, and June 30, 2010, totaled \$240,458, \$248,565, and \$272,313, respectively, which were equal to the required contributions for each fiscal year.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the PEORP in lieu of the FRS defined-benefit plan. University employees already participating in the State College 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, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Employees in PEORP vest at one year of service. There were 45 Regional Campus participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$159,552.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 84 Regional Campus participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$498,301 and employee contributions totaled \$229,846.

10. CONSTRUCTION COMMITMENTS

The Regional Campus’s major construction commitments at June 30, 2010, were as follows:

Project Description	Current Commitment	Expenses	Commitment Balance
Utilities/Infrastructure/Minor Projects	\$ 5,058,361	\$ 1,483,825	\$ 3,574,536
Total	\$ 5,058,361	\$ 1,483,825	\$ 3,574,536

11. RISK MANAGEMENT PROGRAMS

The Regional Campus 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(2), Florida Statutes, the Regional Campus participates in State self-insurance programs providing insurance for property and casualty, workers’ compensation, general liability, and fleet automotive liability. During the 2009-10 fiscal year, for property losses, the State retained the first \$2 million of losses for each occurrence with an annual aggregate retention of \$40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for named wind and flood through January 31, 2010, and increased to \$58.75 million starting February 1, 2010. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers’ compensation, general and automotive liability, Federal Civil Rights and employment action coverage, all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, Florida Statutes.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010**

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 fiscal years.

Pursuant to Section 110.123, Florida Statutes, Regional Campus employees may obtain healthcare 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.

12. 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	\$ 7,462,014
Research	88,778
Academic Support	2,994,262
Student Services	2,239,612
Institutional Support	3,980,556
Operation and Maintenance of Plant	1,362,678
Scholarships and Fellowships	2,592,965
Depreciation	1,059,466
Auxiliary Enterprises	425,327
Loan Operations	8,693
Total Operating Expenses	\$ 22,214,351

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

13. CURRENT UNRESTRICTED FUNDS

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

Statement of Current Unrestricted Funds Net Assets

Assets

Current Assets:

Cash and Cash Equivalents	\$ 1,240,716
Investments	11,068,190
Accounts Receivable, Net	186,672
Due from State	<u>159,484</u>

Total Assets

12,655,062

Liabilities

Current Liabilities:

Accounts Payable	64,585
Salary and Wages Payable	537,411
Deferred Revenue	125,000
Compensated Absences Payable	<u>63,168</u>

Total Current Liabilities

790,164

Noncurrent Liabilities:

Compensated Absences Payable	706,680
Other Postemployment Benefits Payable	<u>405,609</u>

Total Noncurrent Liabilities

1,112,289

Total Liabilities

1,902,453

Total Net Assets

\$ 10,752,609

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010

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

Revenues

Operating Revenues:

Student Tuition and Fees, Net of Scholarship	
Allowances of \$1,139,897	\$ 5,287,738
Sales and Services of Auxiliary Enterprises	<u>365,409</u>

Total Operating Revenues 5,653,147

Expenses

Operating Expenses:

Compensation and Employee Benefits	14,919,313
Services and Supplies	2,924,459
Utilities and Communications	379,814
Scholarships, Fellowships, and Waivers	<u>122,979</u>

Total Operating Expenses 18,346,565

Operating Loss (12,693,418)

Nonoperating Revenues

State Appropriations	11,950,047
State Appropriated American Recovery Act and Reinvestment Act Funds	1,008,934
Investment Income	199,493
Other Nonoperating Revenues	<u>13,050</u>

Nonoperating Revenues 13,171,524

Income Before Other Revenues,

Expenses, Gains, or Losses 478,106

Transfers to/from Other University Campuses, Net 1,271,860

Increase in Net Assets 1,749,966

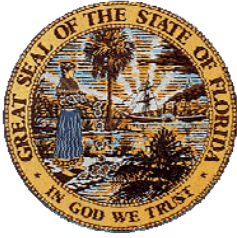
Net Assets, Beginning of Year 9,002,643

Net Assets, End of Year \$ 10,752,609

UNIVERSITY OF SOUTH FLORIDA SARASOTA-MANATEE
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OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN
JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b) (b) (1)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$ -	\$ 3,047,000	\$ 3,047,000	0%	\$ 11,010,379	27.7%
7/1/2008	-	2,506,386	2,506,386	0%	9,523,247	26.3%
7/1/2009	-	3,926,320	3,926,320	0%	9,629,321	40.8%

Note: (1) Entry-Age Cost Actuarial Method used to estimate.



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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 have audited the financial statements of the University of South Florida Sarasota-Manatee (Regional Campus), a regional campus of the University of South Florida (a component unit of the State of Florida) as of and for the fiscal year ended June 30, 2010, which collectively comprise the Regional Campus's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. As discussed in Note 1 of the financial statements, the financial statements of the Regional Campus are intended to present the financial position and the changes of financial position and cash flows of the University of South Florida that are attributable to the transactions of the Regional Campus. 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Regional Campus's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. 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 Regional Campus's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, with which noncompliance could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Pursuant to Section 11.45(4), 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
October 22, 2010