

**UNIVERSITY OF SOUTH FLORIDA
POLYTECHNIC**

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 Polytechnic Vice President and Campus Executive Officer was Dr. Marshall Goodman. The Board members of the University of South Florida Polytechnic and the Board of the Trustee members of the University of South Florida who served during the audit period are listed below:

Polytechnic Campus Board Members

Gene Engle, Chair
Michael E. Carter
Mark Kaylor from 10-27-09 (1)
Ron Morrow
Carole F. Philipson

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 July 1, 2009, to October 26, 2009.
(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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA**

TABLE OF CONTENTS

	PAGE NO.
EXECUTIVE SUMMARY	i
INDEPENDENT AUDITOR’S REPORT ON FINANCIAL STATEMENTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets.....	14
Statement of Cash Flows.....	15
Notes to Financial Statements.....	17
OTHER REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress – Other Postemployment Benefits Plan	32
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 <i>GOVERNMENT AUDITING STANDARDS</i>	
Internal Control Over Financial Reporting.....	33
Compliance and Other Matters	34

EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the basic financial statements of the University of South Florida Polytechnic (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

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
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 Polytechnic (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 12 through 31. 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 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 **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 11 and **OTHER REQUIRED SUPPLEMENTARY INFORMATION** on page 32 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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
December 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) of the University of South Florida Polytechnic (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 \$77.4 million at June 30, 2010. This balance reflects a \$15.7 million, or 25.5 percent, increase from the 2008-09 fiscal year. Liabilities increased by \$0.3 million, or 16.9 percent, totaling \$2.2 million at June 30, 2010, compared to \$1.9 million at June 30, 2009. As a result, the Regional Campus net assets increased by \$15.4 million, reaching a year end balance of \$75.1 million.

The Regional Campus's operating revenues totaled \$4.8 million for the 2009-10 fiscal year, representing a 1.4 percent increase over the 2008-09 fiscal year due mainly to increases in student tuition and fees of \$0.5 million offset by a decrease in grants and contracts of \$0.4 million. Operating expenses totaled \$16 million for the 2009-10 fiscal year, representing a 13.2 percent increase over the 2008-09 fiscal year due mainly to increases in expenditures for compensation and employee benefits of \$1.2 million, services and supplies of \$0.5 million, and scholarships, fellowships, and waivers of \$0.1 million.

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	\$ 41,181	\$ 26,328
Capital Assets, Net	35,899	34,321
Other Noncurrent Assets	297	1,003
Total Assets	77,377	61,652
Liabilities		
Current Liabilities	1,119	582
Noncurrent Liabilities	1,120	1,333
Total Liabilities	2,239	1,915
Net Assets		
Invested in Capital Assets, Net of Related Debt	35,899	34,035
Restricted	27,311	18,488
Unrestricted	11,928	7,214
Total Net Assets	\$ 75,138	\$ 59,737

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 \$77.4 million at June 30, 2010. This balance reflects a \$15.7 million, or 25.5 percent, increase over the 2008-09 fiscal year. This increase is attributable to an increase in current assets of \$14.9 million primarily from additional construction funding due from the State, an increase in capital assets of \$1.6 million due primarily to construction in process on new buildings, and a decrease in other noncurrent assets of \$0.7 million due primarily to a decrease in investments and cash utilized in the construction fund.

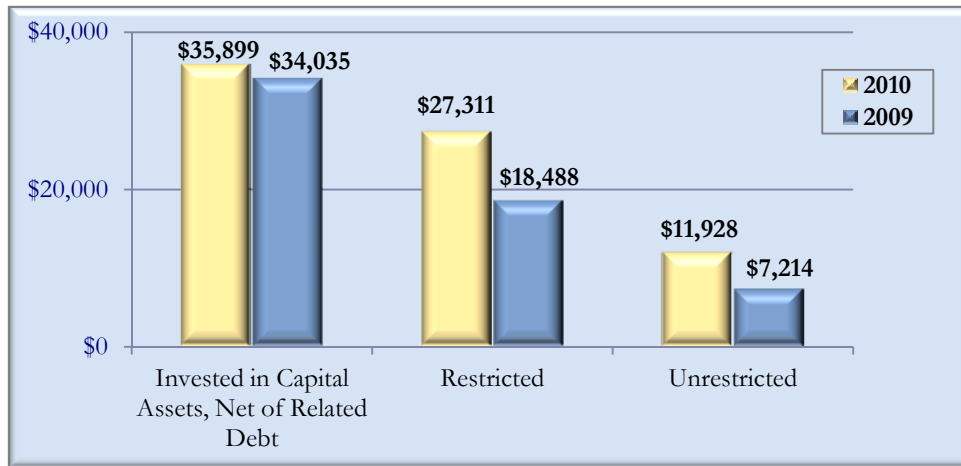
Total liabilities increased by \$0.3 million, which was primarily due to an increase in current liabilities of \$0.5 million from construction contracts payable and salaries and wages payable, offset by a reduction in bonds payable (prior period adjustment, see note 2 to the financial statements).

This combination of changes in both total assets of \$15.7 million and total liabilities of \$0.3 million resulted in a net increase in total net assets of \$15.4 million. This increase in total net assets is attributable to increases in capital assets, net of related debt of \$1.9 million, increases in capital projects and other restricted net assets of \$8.8 million, and increases in unrestricted net assets of \$4.7 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)**

	<u>2009-10</u>	<u>2008-09</u>
Operating Revenues	\$ 4,802	\$ 4,737
Operating Expenses	<u>15,967</u>	<u>14,104</u>
Operating Loss	(11,165)	(9,367)
Net Nonoperating Revenues	<u>15,888</u>	<u>10,020</u>
Income Before Other Revenues, Expenses, Gains, or Losses	4,723	653
Other Revenues, Expenses, Gains, or Losses	<u>10,193</u>	<u>33,926</u>
Net Increase In Net Assets	<u>14,916</u>	<u>34,579</u>
Net Assets, Beginning of Year	59,737	25,009
Adjustments to Beginning Net Assets (1)	<u>485</u>	<u>149</u>
Net Assets, Beginning of Year, as Restated	<u>60,222</u>	<u>25,158</u>
Net Assets, End of Year	<u>\$ 75,138</u>	<u>\$ 59,737</u>

Note: (1) As discussed in note 2 to the financial statements, the Regional Campus's beginning net assets for the 2009-10 fiscal year 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)**

	<u>2009-10</u>	<u>2008-09</u>
Net Tuition and Fees	\$ 4,421	\$ 3,895
Grants and Contracts	356	801
Sales and Services of Auxiliary Enterprises	24	38
Interest on Loans and Notes Receivable	<u>1</u>	<u>3</u>
Total Operating Revenues	<u>\$ 4,802</u>	<u>\$ 4,737</u>

Total operating revenues increased by \$0.07 million with the change being attributable to two factors. Student tuition and fees (after tuition scholarship allowance) increased by \$0.5 million mainly due to an increase in the tuition rates beginning in Fall 2009. Grants and contracts revenue decreased \$0.4 million primarily from reduced expenditures in Federal grants projects and reduced revenues in nongovernmental funds.

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	\$ 11,600	\$ 10,400
Services and Supplies	2,078	1,577
Utilities and Communications	87	81
Scholarships, Fellowships, and Waivers	1,483	1,338
Depreciation	<u>719</u>	<u>708</u>
Total Operating Expenses	<u>\$ 15,967</u>	<u>\$ 14,104</u>

Total operating expenses increased by \$1.9 million mainly attributable to increases in compensation and employee benefits of \$1.2 million; services and supplies of \$0.5 million; and scholarships, fellowships, and waivers of \$0.1 million. Increases in compensation and employee benefits, and services and supplies are the result of increased faculty/support personnel, infrastructure, and program and campus operating support.

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	\$ 12,995	\$ 8,621
Federal and State Student Financial Aid	1,980	1,589
State Appropriated American Recovery and Reinvestment Act Funds	709	
Investment Income	249	116
Other Nonoperating Revenues	2	2
Interest on Capital Asset-Related Debt		(20)
Other Nonoperating Expenses	<u>(47)</u>	<u>(288)</u>
Net Nonoperating Revenues	<u>\$ 15,888</u>	<u>\$ 10,020</u>

Total nonoperating revenues (expenses) increased by \$5.9 million, due primarily to a 50.7 percent increase in State appropriations of \$4.4 million. The appropriation increase will assist in establishing the faculty/support personnel and infrastructure necessary to meet operating requirements of the Regional Campus as it aligns course offerings and faculty hires necessary to meet the Polytechnic mission and vision of an applied learning environment. Other changes included an increase in Federal and State student financial aid of \$0.4 million, State Appropriated American Recovery

and Reinvestment Act funds of \$0.7 million, and an increase in investment income of \$0.1 million due to an increase in the average investment portfolio balance and favorable changes in investment activities. Other nonoperating expenses decreased \$0.2 million mainly due to a reduction in the loss on disposal of capital assets.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations; capital grants, contracts, donations and fees; 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	\$ 10,490	\$ 15,220
Capital Grants, Contracts, Donations, and Fees		17,914
Transfers To/From Other University Campuses, Net	<u>(297)</u>	<u>792</u>
Total	<u>\$ 10,193</u>	<u>\$ 33,926</u>

Total other revenues decreased by \$23.7 million. The major reduction in capital grants, contracts, donations, and fees was because of a onetime donation of land, \$17.9 million, recorded in the 2008-09 fiscal year. Capital appropriations decreased \$4.7 million from the previous fiscal year's continued funding for the new campus building. A reduction of \$1.1 million in net transfers to/from other university campuses was primarily from interdepartmental charges and cash transfers between other campus University funds.

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 the 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	\$ (9,910)	\$ (9,068)
Noncapital Financing Activities	15,047	11,459
Capital and Related Financing Activities	(819)	(129)
Investing Activities	<u>(2,351)</u>	<u>(9,370)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,967	(7,108)
Cash and Cash Equivalents, Beginning of Year	<u>3</u>	<u>7,111</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,970</u>	<u>\$ 3</u>

Major sources of operating activities cash inflows included net student tuition and fees (\$4.4 million) and grants and contracts (\$0.3 million). The three major outflows included in the calculation of net cash used for operating activities are payments to employees (\$11.1 million), payments to suppliers (\$2.1 million) and payments to students for scholarships and fellowships (\$1.5 million). The net cash used for operating activities increased by \$0.8 million, primarily due to increases in payments to employees of \$0.8 million, payments to suppliers of \$0.3 million and payments to students for scholarships and fellowships of \$0.1 million, offset by increases in tuition and fees collections of \$0.5 million, and a reduction in grants and contracts of \$0.1 million.

The net cash provided by noncapital financing activities consists primarily of \$13 million of State appropriations, \$0.7 million of American Recovery and Reinvestment Act funds, and \$2 million for Federal and State student financial aid received during the 2009-10 fiscal year.

Cash used by capital and related financing activities increased by \$0.7 million. This was mainly due to an increase in purchases or construction of capital assets.

Cash used by investing activities decreased by \$7 million mainly due to a decrease in purchases of investments and 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 \$39.8 million in capital assets, less accumulated depreciation of \$3.9 million, for net capital assets of \$35.9 million. Depreciation charges for the current fiscal year totaled \$0.7 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	\$ 17,910	\$ 17,910
Buildings	10,653	10,902
Construction in Progress	5,734	3,848
Infrastructure and Other Improvements	29	31
Furniture and Equipment	1,386	1,447
Library Resources	27	44
Other Capital Assets	160	139
Capital Assets, Net	\$ 35,899	\$ 34,321

Additional information about the Regional Campus' 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:

	<u>Amount (In Thousands)</u>
Current Commitment	\$ 20,400
Expenses	5,734
Balance Committed	\$ 14,666

DEBT ADMINISTRATION

The Regional Campus's beginning net assets was increased by \$0.5 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

Chapter 2010-206, Laws of Florida, established the Florida Industrial and Phosphate Research Institute (FIPRI, formerly Florida Institute of Phosphate Research) within the University of South Florida Polytechnic. The law became effective June 4, 2010. In the 2010-11 fiscal year, FIPRI will receive authority for approximately \$7.3 million by the Phosphate Research Trust Fund. This appropriation is not reflected in the Regional Campus 2009-10 fiscal year State allocated funding.

Effective July 1, 2010, Chapter 2010-155, Laws of Florida, authorized a doctor of pharmacy degree program at the University of South Florida to be housed at the University of South Florida Polytechnic new campus facility upon completion of facility construction. New legislative appropriations for the doctor of pharmacy degree program will be received through Regional Campus appropriations.

The recent economic downturn has affected the level of State appropriations. The Legislature has authorized tuition increases over the past few years, combined with increased technology and distance learning fees, intended to provide additional resources to support a balanced budget and expansion of academic programs and services to support students.

The budget adopted by the Florida Legislature for the State University System for the 2010-11 fiscal year reflected a base budget reduction for the Regional Campus of \$459,666. To offset the base budget adjustment, the Legislature allocated \$678,080 nonrecurring Federal stimulus funds to the Regional Campus. The 2010-11 fiscal year is the second of two years this funding is expected to be allocated. The Regional Campus has examined their operations to generate savings in both administrative and academic areas in anticipation that the Federal stimulus funding will not continue.

Regional Campus management is committed to meeting its enrollment growth plan to increase full-time student enrollment from 943 in the 2010-11 fiscal year to 2,228 in the 2015-16 fiscal year. The Regional Campus is developing more daytime and on-line courses to meet enrollment targets. The Regional Campus expects to begin offering lower-level courses in Spring 2011 and admit freshman and sophomore students in the Fall 2013 term. Activities associated with Florida Industrial and Phosphate Research Institute do not directly involve student enrollment.

At the campus facility shared with Polk State College, the Regional Campus currently occupies 69,830 square feet of offices, classrooms, and both campus and student support space. The Regional Campus has been moving through the planning and approval steps necessary for development of its new campus site at Interstate 4 and the Polk Parkway. The first facility will establish an open, multipurpose design in support of the interdisciplinary and collaborative learning environment foundational to a polytechnic experience for our students. The Legislature, in the 2010-11 fiscal year, approved a \$16 million enhancement funding appropriation which provided \$10 million for

faculty and staff hires and programs in support of upper and lower level coursework and freshman and sophomore admissions at the Regional Campus, and provided \$6 million operating support for the doctor of pharmacy program at USF to be housed at the Regional Campus upon completion of facility construction.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplementary 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 POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF NET ASSETS
June 30, 2010**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,940,689
Investments	11,903,109
Accounts Receivable, Net	673,634
Loans and Notes Receivable, Net	36,124
Due from State	<u>26,628,111</u>

Total Current Assets 41,181,667

Noncurrent Assets:

Restricted Cash and Cash Equivalents	29,806
Restricted Investments	183,070
Loans and Notes Receivable, Net	84,289
Depreciable Capital Assets, Net	12,255,006
Nondepreciable Capital Assets	<u>23,643,707</u>

Total Noncurrent Assets 36,195,878

TOTAL ASSETS

\$ 77,377,545

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 153,521
Construction Contracts Payable	229,293
Salaries and Wages Payable	538,412
Deposits Payable	5,208
Deferred Revenue	128,500

Long-Term Liabilities - Current Portion:

Compensated Absences Payable	<u>63,943</u>
------------------------------	---------------

Total Current Liabilities 1,118,877

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
STATEMENT OF NET ASSETS (Continued)
June 30, 2010**

LIABILITIES (Continued)

Noncurrent Liabilities:

Federal Advance Payable	\$ 96,193
Compensated Absences Payable	715,342
Other Postemployment Benefits Payable	<u>308,750</u>

Total Noncurrent Liabilities 1,120,285

TOTAL LIABILITIES 2,239,162

NET ASSETS

Invested in Capital Assets	35,898,713
Restricted for Expendable:	
Loans	25,697
Capital Projects	26,569,046
Other	716,574
Unrestricted	<u>11,928,353</u>

TOTAL NET ASSETS 75,138,383

TOTAL LIABILITIES AND NET ASSETS \$ 77,377,545

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

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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 \$705,601	\$ 4,421,562
Federal Grants and Contracts	323,952
State and Local Grants and Contracts	13,931
Nongovernmental Grants and Contracts	18,152
Sales and Services of Auxiliary Enterprises	23,753
Interest on Loans and Notes Receivable	<u>1,235</u>
Total Operating Revenues	<u>4,802,585</u>

EXPENSES

Operating Expenses:

Compensation and Employee Benefits	11,599,663
Services and Supplies	2,078,066
Utilities and Communications	86,619
Scholarships, Fellowships, and Waivers	1,483,525
Depreciation	<u>718,882</u>
Total Operating Expenses	<u>15,966,755</u>

Operating Loss(11,164,170)**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	12,995,407
Federal and State Student Financial Aid	1,979,830
State Appropriated American Recovery and Reinvestment Act Funds	708,656
Investment Income	248,911
Other Nonoperating Revenues	1,695
Other Nonoperating Expenses	<u>(46,842)</u>

Net Nonoperating Revenues15,887,657**Income Before Other Revenues, Expenses,****Gains, or Losses**

4,723,487

Capital Appropriations

10,489,797

Transfers To/From Other University Campuses, Net

(296,831)**Increase in Net Assets**14,916,453

Net Assets, Beginning of Year

59,737,373

Adjustment to Beginning Net Assets

484,557**Net Assets, Beginning of Year, as Restated**60,221,930**Net Assets, End of Year**\$ 75,138,383

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

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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	\$ 4,378,726
Grants and Contracts	325,375
Sales and Services of Auxiliary Enterprises	22,829
Interest on Loans and Notes Receivable	2,015
Payments to Employees	(11,130,357)
Payments to Suppliers for Goods and Services	(2,082,940)
Payments to Students for Scholarships and Fellowships	(1,483,525)
Net Loans Issued to Students	<u>58,375</u>
Net Cash Used by Operating Activities	<u>(9,909,502)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	12,995,407
Federal and State Student Financial Aid	1,979,830
State Appropriated American Recovery and Reinvestment Act Funds	708,656
Operating Subsidies and Transfers	(607,589)
Net Change in Funds Held for Others	(2,586)
Other Receipts	1,695
Other Expenses	<u>(28,191)</u>
Net Cash Provided by Noncapital Financing Activities	<u>15,047,222</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	1,027,466
Purchase or Construction of Capital Assets	<u>(1,846,414)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(818,948)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase or Sale of Investments, Net	(2,356,454)
Investment Income	<u>5,463</u>
Net Cash Used by Investing Activities	<u>(2,350,991)</u>
Net Increase in Cash and Cash Equivalents	1,967,781
Cash and Cash Equivalents, Beginning of Year	<u>2,714</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,970,495</u>

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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	\$ (11,164,170)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	718,882
Change in Assets and Liabilities:	
Receivables, Net	(77,294)
Accounts Payable	81,741
Salaries and Wages Payable	173,420
Compensated Absences Payable	130,455
Deferred Revenue	62,033
Other Postemployment Benefits Payable	165,431
	<u>165,431</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (9,909,502)</u></u>

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

UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
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, 2008, Chapter 2008-97, Laws of Florida, designated that the Lakeland campus of the University of South Florida be established and should be known as the University of South Florida Polytechnic. The Statute further stated that the University of South Florida Polytechnic 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 Polytechnic (Regional Campus) has a governing board of five members and is a legal body with specific budget authority over the Regional Campus. Campus Board members serve four-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
- Other Required Supplementary Information

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

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 University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting*, has elected to apply only those FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

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 POLYTECHNIC
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 purchase or construct capital or other restricted net 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, 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 15 years
- Library Resources – 10 years
- Other Capital Assets – 5 to 20 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 \$484,557 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 Florida universities and remitted in total to the Florida Department of Education.

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

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

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 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	\$10,534,336
Hedge Funds	720,398
Equity Mutual Fund	160,113
Money Market Mutual Fund	<u>671,332</u>
Total Regional Campus Investments	<u>\$ 12,086,179</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 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.

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.

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

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	2.737 Years (1)	Not Rated	\$ 10,534,336
Hedge Funds	(2)	Not Rated	720,398
Money Market Mutual Fund	54 Days (3)	Not Rated	<u>671,332</u>
Total			<u><u>\$ 11,926,066</u></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>
Contracts and Grants	\$ 522,881
Student Tuition and Fees	148,805
Other	<u>1,948</u>
Total Accounts Receivable, Net	<u><u>\$ 673,634</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 SOUTH FLORIDA POLYTECHNIC
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 \$93,141 and \$66,237, 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	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 17,910,000	\$	\$	\$ 17,910,000
Construction in Progress	3,847,865	1,942,718	56,876	5,733,707
Total Nondepreciable Capital Assets	\$ 21,757,865	\$ 1,942,718	\$ 56,876	\$ 23,643,707
Depreciable Capital Assets:				
Buildings	\$ 11,886,075	\$ 56,876	\$	\$ 11,942,951
Infrastructure and Other Improvements	34,920			34,920
Furniture and Equipment	3,470,635	350,978	99,909	3,721,704
Library Resources	62,885	7,824	35,385	35,324
Other Capital Assets	380,195	65,989	12,367	433,817
Total Depreciable Capital Assets	15,834,710	481,667	147,661	16,168,716
Less, Accumulated Depreciation:				
Buildings	984,100	305,739		1,289,839
Infrastructure and Other Improvements	4,074	1,746		5,820
Furniture and Equipment	2,024,032	368,828	57,394	2,335,466
Library Resources	18,952	3,353	14,079	8,226
Other Capital Assets	240,798	39,216	5,655	274,359
Total Accumulated Depreciation	3,271,956	718,882	77,128	3,913,710
Total Depreciable Capital Assets, Net	\$ 12,562,754	\$ (237,215)	\$ 70,533	\$ 12,255,006

7. DEFERRED REVENUE

The \$128,500 amount reported as deferred revenue includes amounts received from contracts and grants prior to fiscal year end related to subsequent accounting periods.

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

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:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable (1)	\$ 487,457	\$	\$ 487,457	\$	\$
Federal Advance Payable	124,384		28,191	96,193	
Compensated Absences Payable	648,830	131,741	1,286	779,285	63,943
Other Postemployment Benefits Payable	143,319	224,031	58,600	308,750	
Total Long-Term Liabilities	\$ 1,403,990	\$ 355,772	\$ 575,534	\$ 1,184,228	\$ 63,943

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, totaled \$779,285. 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)

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

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, one retiree received postemployment healthcare benefits. The Regional Campus provided required contributions of \$63,000 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 \$5,344.

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:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 113,000
Amortization of Unfunded Actuarial Accrued Liability	101,000
Interest on Normal Cost and Amortization	<u>9,000</u>
Annual Required Contribution	223,000
Interest on Net OPEB Obligation	6,000
Adjustment to Annual Required Contribution	<u>(4,969)</u>
Annual OPEB Cost (Expense)	224,031
Contribution Toward the OPEB Cost	<u>(63,000)</u>
Increase in Net OPEB Obligation	161,031
Net OPEB Obligation, Beginning of Year	143,319
Actuarial Adjustment to Beginning of Year	<u>4,400</u>
Net OPEB Obligation, End of Year	<u><u>\$ 308,750</u></u>

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

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:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007			
2007-08	\$ 142,576	43.7%	\$ 85,600
2008-09	122,319	49.1%	143,319
2009-10	224,031	28.1%	308,750

Funded Status and Funding Progress: As of July 1, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$3,039,171, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$3,039,171 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$7,453,583 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.

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,

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

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.

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

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

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	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 \$248,784, \$249,213, and \$311,546, 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. Regional Campus 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, 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 9 Regional Campus participants during the 2009-10 fiscal year. Required contributions made to the PEORP totaled \$41,525.

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.

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

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 49 Regional Campus participants during the 2009-10 fiscal year. Required employer contributions made to the Program totaled \$361,485 and employee contributions totaled \$195,545.

10. CONSTRUCTION COMMITMENTS

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

<u>Project Name</u>	<u>Current Commitment</u>	<u>Expenses</u>	<u>Commitment Balance</u>
Polytechnic New Campus	\$20,400,000	\$5,733,707	\$14,666,293
Total	<u>\$20,400,000</u>	<u>\$5,733,707</u>	<u>\$14,666,293</u>

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. 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.

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

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	\$ 6,679,743
Research	346,077
Academic Support	1,885,622
Student Services	1,232,881
Institutional Support	3,334,108
Operation and Maintenance of Plant	243,770
Scholarships and Fellowships	1,495,588
Depreciation	718,882
Auxiliary Enterprises	8,916
Loan Operations	<u>21,168</u>
Total Operating Expenses	<u>\$ 15,966,755</u>

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:

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

Statement of Current Unrestricted Funds Net Assets

Assets

Current Assets:

Cash and Cash Equivalents	\$ 1,616,073
Investments	11,903,109
Accounts Receivable, Net	142,944
Due from State	<u>42,647</u>

Total Assets 13,704,773

Liabilities

Current Liabilities:

Accounts Payable	149,973
Salaries and Wages Payable	538,412
Compensated Absences Payable	<u>63,943</u>

Total Current Liabilities 752,328

Noncurrent Liabilities:

Compensated Absences Payable	715,342
Other Postemployment Benefits Payable	<u>308,750</u>

Total Noncurrent Liabilities 1,024,092

Total Liabilities 1,776,420

Total Net Assets \$ 11,928,353

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
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	\$ 4,119,835
Allowances of \$ 705,601	23,753
Sales and Services of Auxiliary Enterprises	<u>23,753</u>

Total Operating Revenues 4,143,588

Expenses

Operation Expenses:

Compensation and Employee Benefits	11,294,556
Services and Supplies	2,014,833
Utilities and Communications	86,619
Scholarships, Fellowships, and Waivers	<u>68,867</u>

Total Operating Expenses 13,464,875

Operating Loss (9,321,287)

Nonoperating Revenues:

State Appropriations	12,995,407
State Appropriated American Recovery and Reinvestment Act Funds	708,656
Investment Income	<u>246,789</u>

Nonoperating Revenues 13,950,852

**Income Before Other Revenues,
Expenses, Gains, or Losses**

	4,629,565
Transfers To/From Other University Campuses, Net	<u>84,866</u>

Increase In Net Assets 4,714,431

Net Assets, Beginning of Year 7,213,922

Net Assets, End of Year \$ 11,928,353

**UNIVERSITY OF SOUTH FLORIDA POLYTECHNIC
A REGIONAL CAMPUS OF THE UNIVERSITY OF SOUTH FLORIDA
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (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	\$	\$ 2,089,531	\$ 2,089,531	0%	\$ 7,504,843	27.8%
7/1/2008		1,781,441	1,781,441	0%	6,768,751	26.3%
7/1/2009		3,039,171	3,039,171	0%	7,453,583	40.8%

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



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
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 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 Polytechnic (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 deficiencies, 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 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
December 6, 2010