

## **Appendix 3**

### **Subsection (14) (e)**

**A compliance and financial audit of the accounts and records of the corporation at the end of the preceding fiscal year conducted by an independent certified public accountant in accordance with rules of the Auditor General.**

**Audited Financial Statements  
and Supplementary Information**

**Scripps Florida Funding Corporation**

**A Component Unit of the  
State of Florida**

**September 30, 2009**

SCRIPPS FLORIDA FUNDING CORPORATION –  
A COMPONENT UNIT OF THE STATE OF FLORIDA

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY FINANCIAL INFORMATION

SEPTEMBER 30, 2009

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Independent Auditor's Report

To the Board of Directors  
Scripps Florida Funding Corporation  
West Palm Beach, Florida

We have audited the accompanying financial statements of the governmental activities and major fund of Scripps Florida Funding Corporation, a component unit of the State of Florida, as of September 30, 2009 and for the year then ended, which collectively comprise the basic financial statements of Scripps Florida Funding Corporation as listed in the table of contents. These financial statements are the responsibility of the management of Scripps Florida Funding Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting of Scripps Florida Funding Corporation. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Scripps Florida Funding Corporation as of September 30, 2009, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009 on our consideration of the internal control over financial reporting of Scripps Florida Funding Corporation and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The *management discussion and analysis* on pages 3 through 7 and the budgetary comparison information on pages 17 and 18 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Cale, Danten, Levine,  
Porter & Veil, P.A.*

December 15, 2009

## Management's Discussion and Analysis

Acting in our capacity as the management of Scripps Florida Funding Corporation ("SFFC"), we offer readers of SFFC's financial statements this narrative overview and analysis of the financial activities of SFFC as of and for the year ended September 30, 2009. SFFC is governed by a nine member Board of Directors, three of whom are appointed by the Governor of the State of Florida, three of whom are appointed by the President of the Senate of the State of Florida, and three of whom are appointed by the Speaker of the House of Representatives of the State of Florida. For financial reporting purposes, management determined that SFFC should be reported as a governmental organization and a component unit of the State of Florida based on the appointment of the Board of Directors by officials of State government.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* requires the presentation of certain comparative information for the current and prior year in the Management Discussion and Analysis.

### Financial Highlights

- The assets of SFFC exceeded its liabilities at September 30, 2009 by \$94,404,665 (*net assets*).
- SFFC's total assets were \$102,576,742 at September 30, 2009. Net assets of \$94,377,954 are attributable to the unexpended portion of a federal grant of \$310 million and investment earnings thereon and are restricted for future grants to The Scripps Research Institute for development of a biomedical research center in Palm Beach County, Florida.
- As of September 30, 2009, the General Fund of SFFC reported ending fund balance of \$94,404,665. Of this total amount, \$94,377,954 is committed to funding The Scripps Research Institute project (*reserved fund balance*), \$13,114 is reserved for prepaid items and \$13,597 is designated for spending in the subsequent year's budget (*designated fund balance*).

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to SFFC's basic financial statements. The basic financial statements of SFFC include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of SFFC's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of SFFC's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of SFFC is improving or deteriorating.

The *statement of activities* presents information showing how SFFC's net assets changed during the most recent fiscal year. All changes in net asset are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flow*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements present functions of SFFC that are principally supported by federal funds passed through from the State of Florida to finance SFFC's mission of promoting, developing and advancing the economic welfare of Florida through the establishment and operation of a

biomedical research institution and campus by The Scripps Research Institute (*governmental activities*). The governmental activities of SFFC include all General Fund functions.

SFFC has no business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SFFC, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. SFFC utilizes only one fund, the *General Fund*, which is classified as a *governmental* fund and accounts for all financial resources of SFFC.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of SFFC's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental fund* and *governmental activities*.

SFFC adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided on page 17 for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 8 and 9 of this report. Explanations of the reconciling items between the governmental fund and the governmental activities can be found in Note D on page 16.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-16 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning SFFC's budget to actual results for the General Fund for the current year. Required supplementary information can be found on pages 17-18 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of SFFC, assets exceeded liabilities by \$94,404,665 at September 30, 2009.

By far, the largest portion of SFFC's total assets (99.8 percent) are investments held by the State Board of Administration on behalf of SFFC for future disbursements to The Scripps Research Institute for the development of a biomedical research institution and campus in Palm Beach County, Florida.

### Net Assets

	2009	2008
<b>Assets</b>		
Cash and other current assets	\$ 223,001	\$ 197,070
Investments and other restricted assets	102,353,741	229,156,149
Total assets	\$ 102,576,742	\$ 229,353,219
<b>Liabilities</b>		
Current liabilities	\$ 917	\$ 1,959
Liabilities payable from restricted assets	8,171,160	100,741,007
Total liabilities	\$ 8,172,077	\$ 100,742,966
<b>Net assets</b>		
Restricted	\$ 94,377,954	\$ 128,581,025
Unrestricted	26,711	29,228
Total net assets	\$ 94,404,665	\$ 128,610,253

The substantial decrease in SFFC's restricted investments and liabilities are related to the termination of the securities lending investment program in 2009. At September 30, 2008 the restricted investments included approximately \$87.6 million related to the collateral pool for the securities lending program and liabilities payable from restricted assets included approximately \$87.5 million for obligations payable under the securities lending program. There were no assets or liabilities related to securities lending at September 30, 2009. The remaining decrease in restricted investments is related to payments to The Scripps Research Institute in 2009.

The largest portion of SFFC's net assets (*restricted* net assets) represents resources that are subject to external restrictions on how they may be used. These restrictions require the funds to be used for the development of a biomedical research institution and campus by The Scripps Research Institute. At the end of the current fiscal year, SFFC reported positive balances in both categories of net assets.

SFFC's unrestricted net assets of \$26,711 relate to the unspent portion of funds appropriated by the Florida Legislature for the administrative expenses of SFFC.

**Governmental activities.** Governmental activities decreased SFFC's net assets by \$34,205,588 in 2009 and by \$50,879,689 in 2008. Key elements of this change are as follows.

### Changes in Net Assets

	2009	2008
<b>Revenues</b>		
Investment income	\$ 5,675,826	\$ 8,642,394
Securities lending income	125,335	4,672,725
Contributed services	17,500	14,000
Total revenues	5,818,661	13,329,119

<b>Expenses</b>		
General government	\$ 190,789	\$ 184,772
Economic development grant to The Scripps Research Institute	39,739,500	59,586,407
Securities lending expense	<u>93,960</u>	<u>4,437,629</u>
Total expenses	<u>40,024,249</u>	<u>64,208,808</u>
Change in net assets	(34,205,588)	(50,879,689)
Net assets - beginning of year	<u>128,610,253</u>	<u>179,489,942</u>
Net assets - end of year	<u>\$ 94,404,665</u>	<u>\$ 128,610,253</u>

Investment income includes the earnings from the investment of the federal grant in U.S. Government and Agency securities, a money market mutual fund and securities lending income through the State Board of Administration (the "SBA"). During 2009 the SFFC Board of Directors requested that the SBA terminate the securities lending program for its investment portfolio. The securities lending program was terminated and the collateral pool securities were liquidated in February 2009. SFFC incurred a loss of approximately \$105,000 on the disposition of the collateral securities, which is included in investment income for 2009.

For the most part, general government expenses were primarily professional fees associated with the grant monitoring responsibilities of SFFC and administrative expenses, such as rent. The economic development expense includes the grant funding SFFC provided to The Scripps Research Institute in connection with the development of the biomedical research institution and campus in Palm Beach County, Florida.

Due to delays in finalizing a site for The Scripps Research Institute's permanent facilities in Palm Beach County, SFFC and The Scripps Research Institute agreed to amend the Operating and Funding Agreement in 2007 to modify the future annual amounts of the grant payments and extend the time period for disbursement of the grant funds from a term ending December 31, 2010 to a term ending December 31, 2013. The total disbursements to The Scripps Research Institute over the term of the Operating and Funding Agreement did not change.

### Financial Analysis of the Government's Funds

As noted earlier, SFFC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing SFFC's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As noted previously, SFFC has only one governmental fund, the General Fund.

As of the end of the current period, SFFC's governmental fund reported ending fund balance of \$94,404,665. Substantially all of the ending fund balance (\$94,391,068) constitutes *reserved fund balance*, which is not available for new spending because it has already been committed to pay for development of the biomedical research institution and campus in Palm Beach County, Florida, and for prepaid items. The remainder of fund balance (\$13,597) is *unreserved* to indicate that it is available for spending at the discretion of SFFC, although all of the unreserved fund balance is designated for 2009-2010 budgeted expenditures.

Key factors to consider in analyzing the fund balance for the General Fund are as follows:

- The restricted investments with the SBA and the investment earnings thereon are required to be disbursed to The Scripps Research Institute through December 31, 2013.
- In future years, SFFC is limited to expenditures of \$200,000 annually for administrative expenses. All other funds are committed to The Scripps Research Institute project, including any unexpended portion of the annual administrative budget allocation of \$200,000.

### **General Fund Budgetary Highlights**

There were no differences between the original budget and the final amended budget for the year ended September 30, 2009.

During the year, revenue met budgetary estimates. Expenditures were less than budgetary estimates by approximately \$3,000, which was attributable primarily to lower professional fees incurred for the grant monitoring activities of SFFC.

### **Capital Asset and Debt Administration**

**Capital assets.** SFFC has not purchased any capital assets, but is renting equipment for the SFFC office.

**Long-term debt.** SFFC is not permitted to incur long-term debt.

### **Economic Factors and Next Year's Budget**

SFFC has a stable financial position and economic outlook, as indicated by:

- The investments with the State Board of Administration earned approximately \$5.7 million for 2009, including net realized and unrealized gains of approximately \$900,000 and investment expenses of approximately \$24,000 on SBA accounts. At September 30, 2009 investments consist of a money market mutual fund and U.S. Government securities with fixed maturities corresponding with the annual payments to The Scripps Research Institute. SFFC anticipates holding the securities to maturity which will avoid realization of any market losses.
- Administrative expenditures are limited to \$200,000 annually in future years.

These factors were considered in preparing SFFC's budget for the 2009-2010 fiscal year.

### **Requests for Information**

This financial report is designed to provide a general overview of SFFC's finances for all those with an interest in the organization's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Scripps Project Director at 505 South Flagler Drive, Suite 1003, West Palm Beach, Florida, 33401.

SCRIPPS FLORIDA FUNDING CORPORATION

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS

September 30, 2009

	Governmental Fund <u>General Fund</u>	Adjustments (Note D)	Statement of Net Assets <u>Governmental Activities</u>
<b>ASSETS</b>			
Cash	\$ 209,887	\$	\$ 209,887
Restricted assets			
Cash equivalents	4,712,046		4,712,046
Investments	97,602,079		97,602,079
Accrued investment income	39,616		39,616
Prepaid items	<u>13,114</u>		<u>13,114</u>
TOTAL ASSETS	<u>\$ 102,576,742</u>	0	102,576,742
<b>LIABILITIES</b>			
Accounts payable	\$ 917		917
Liabilities payable from restricted assets			
Accrued investment expenses	1,410		1,410
Economic development grant	<u>8,169,750</u>		<u>8,169,750</u>
TOTAL LIABILITIES	<u>8,172,077</u>	<u>0</u>	<u>8,172,077</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance			
Reserved for Scripps project	94,377,954	(94,377,954)	0
Reserved for prepaid items	13,114	(13,114)	0
Unreserved			
Designated for subsequent years' expenditures	<u>13,597</u>	<u>(13,597)</u>	<u>0</u>
TOTAL FUND BALANCE	<u>94,404,665</u>	<u>(94,404,665)</u>	0
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 102,576,742</u>		
Net assets			
Restricted		94,377,954	94,377,954
Unrestricted		<u>26,711</u>	<u>26,711</u>
TOTAL NET ASSETS		<u>\$ 0</u>	<u>\$ 94,404,665</u>

See notes to financial statements.

SCRIPPS FLORIDA FUNDING CORPORATION

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

Year Ended September 30, 2009

	Governmental Fund <u>General Fund</u>	Adjustments (Note D)	Statement of Activities <u>Governmental Activities</u>
<b>Revenues</b>			
Investment income	\$ 5,675,826	\$	\$ 5,675,826
Securities lending income	125,335		125,335
Contributions	17,500		17,500
	<u>5,818,661</u>	<u>0</u>	<u>5,818,661</u>
<b>Expenditures/Expenses</b>			
Current			
General government	190,789		190,789
Economic development grant	39,739,500		39,739,500
Securities lending			
Interest	92,514		92,514
Agent fees	1,446		1,446
	<u>40,024,249</u>	<u>0</u>	<u>40,024,249</u>
Revenues over (under) expenditures/ Change in net assets	(34,205,588)	0	(34,205,588)
Fund balance/Net assets at October 1, 2008	<u>128,610,253</u>		<u>128,610,253</u>
Fund balance/Net assets at September 30, 2009	<u>\$ 94,404,665</u>	<u>\$ 0</u>	<u>\$ 94,404,665</u>

See notes to financial statements.

# SCRIPPS FLORIDA FUNDING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

September 30, 2009

### NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Scripps Florida Funding Corporation ("SFFC") is a Florida not-for-profit public benefit corporation created by Florida Statutes, Section 288.955 and was incorporated on December 8, 2003 for the purpose of enhancing education and research and promoting, developing and advancing the business prosperity and economic welfare of the State of Florida and its residents by facilitating and overseeing the establishment and operation of a state-of-the-art biomedical research institution and campus in the State by The Scripps Research Institute ("TSRI").

SFFC is governed by a nine member Board of Directors, three of whom are appointed by the Governor of the State of Florida, three of whom are appointed by the President of the Senate of the State of Florida, and three of whom are appointed by the Speaker of the House of Representatives of the State of Florida.

Financial Reporting Entity: For financial reporting purposes, management determined that SFFC should be reported as a governmental organization and a component unit of the State of Florida based on the appointment of the Board of Directors by officials of State government. In considering potential component units to include in the SFFC financial reporting entity, management applied the criteria set forth in U.S. generally accepted accounting principles (GAAP). As defined by GAAP, the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. Based upon the application of these criteria, SFFC found that there were no entities to consider as potential component units.

Government-wide/Governmental Fund Financial Statements: SFFC is a special-purpose government engaged in one primary governmental activity, to facilitate and oversee the establishment and operation of a state-of-the-art biomedical research institution and campus in the State by The Scripps Research Institute. SFFC accounts for all financial resources in one fund, the General Fund, which includes all *governmental activities* of SFFC, which are supported primarily by an annual appropriation established by the State of Florida. Accordingly, the Government-wide and Governmental Fund financial statements of SFFC are combined using a columnar format that reconciles individual line items of General Fund financial data to Government-wide data in separate columns on the face of the financial statements. The Governmental Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund. The Government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities. Note D explains the reconciling items presented in the adjustments column of the combined Government-wide and Governmental Fund financial statements.

Measurement Focus and Basis of Accounting: Financial reporting is based upon all pronouncements of the Governmental Accounting Standards Board (GASB), as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors, including FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that do not conflict with or contradict GASB pronouncements.

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide financial statements are reported using the *economic resources measurement* focus and the *accrual basis of accounting*. Revenue is recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. SFFC does not allocate indirect expenses.

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available. Revenues are considered to be available when collectible within the current period or soon enough thereafter to pay liabilities of the current period. SFFC considers revenues to be available if collected within 90 days of the end of the current fiscal year. Expenditures are generally recognized in the accounting period in which the fund liability is incurred. Investment earnings are considered susceptible to accrual and have been recognized as revenue in the current fiscal year. All other revenue items are considered to be measurable and available only when received in cash by SFFC.

Cash and Cash Equivalents: Cash consists of amounts on deposit in money market and non-interest bearing checking accounts with a financial institution. Cash equivalents include amounts held in an institutional money market mutual fund through the State Board of Administration of the State of Florida (the "SBA").

Investments: Investments consist of deposits in an investment pool administered by the SBA pursuant to a trust agreement entered into January 30, 2004. All SFFC funds legally restricted to the TSRI project are required to be deposited in the SBA investment pool. Investments are presented in the financial statements at fair value as determined by the SBA.

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Net Assets/Fund Balance: The government-wide financial statements utilize a net asset presentation. Net assets are categorized as follows:

*Restricted* – This component of net assets consists of constraints placed on the use of net assets by external restrictions imposed by vendors, contributors, or laws or regulations of other governments or constraints imposed by law, constitutional provisions or enabling legislation. Restricted resources are used first to fund expenses incurred for restricted purposes.

*Unrestricted* – This component of net assets consists of net assets that do not meet the definition of *Invested in Capital Assets, Net of Related Debt* or *Restricted*.

The governmental fund financial statements utilize a fund balance presentation. Fund balance is categorized as follows:

*Fund balance reserves* indicate the portion of fund balance that is not available for subsequent expenditure, other than for the specific purpose for which the reserve was established.

*Fund balance designations* indicate management's intended future use of available resources.

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Economic Development Grant: SFFC entered into an Operating and Funding Agreement (the "Agreement") with TSRI dated January 30, 2004. Pursuant to the terms of the Agreement, SFFC will provide an economic development grant to TSRI in the amount of \$310 million plus the net investment income thereon and less the annual administrative appropriation to SFFC. Subject to compliance by TSRI with the terms of the Agreement and annual approval of a grant request by SFFC, the economic development grant is payable to TSRI in quarterly installments on March 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup> and December 15<sup>th</sup> of each year, unless there is a material default of the Agreement by TSRI. At September 30, 2009, TSRI was in compliance with the Agreement and the payment due on December 15, 2009 is accrued in the accompanying financial statements.

In-Kind Contributions: SFFC records in-kind contributions for contributed professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The project director for SFFC was an employee of the State of Florida, Office of Tourism, Trade and Economic Development, which contributed to SFFC the portion of the professional time of the project director related to administering the operations of SFFC. For 2009, these in-kind professional services were valued at \$17,500 and recorded in the accompanying financial statements as contributions and offset by a like amount included in general government expenditures/expenses.

Property Taxes: SFFC receives no property taxes.

Risk Management: SFFC 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. SFFC purchases commercial insurance for the risks of losses to which it is exposed. Policy limits and deductibles are reviewed annually by management and established at amounts to provide reasonable protection from significant financial loss. Settlements have not exceeded insurance coverage since inception.

Recent Accounting Pronouncements: The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and financial reporting requirements for derivative instruments entered into by state and local governments. The requirements of this statement will be effective for SFFC for the fiscal year ending September 30, 2010. Management has not completed its analysis of the effects of this statement, if any, on the financial statements of SFFC.

The GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes accounting and financial reporting requirements for all governmental funds and establishes criteria for classifying fund balances. The requirements of this statement will be effective for SFFC for the fiscal year ending September 30, 2011. Management has not completed its analysis of the effects of this statement, if any, on the financial statements of SFFC.

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were used.

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash: At September 30, 2009, SFFC had deposits with financial institutions with a carrying value and bank balance of \$209,887. The deposits with financial institutions were entirely covered by federal depository insurance and a collateral pool pledged to the State Treasurer of Florida by financial institutions that comply with the requirements of Florida Statutes and have been designated as a qualified public depository by the State Treasurer. Qualified public depositories are required to pledge collateral to the State Treasurer with a fair value equal to a percentage of the average daily balance of all government deposits in excess of any federal deposit insurance. In the event of a default by a qualified public depository, the amount of public funds would be covered by the proceeds of federal deposit insurance, pledged collateral of the public depository in default and, if necessary, a pro rata assessment to the other qualified public depositories in the collateral pool. Accordingly, all deposits with financial institutions are considered fully insured or collateralized in accordance with the provisions of GASB Statement No. 3.

Cash Equivalents: Cash equivalents include investments in the Dreyfus Government Cash Management money market mutual fund, an institutional money market fund held in the SBA investment pool for SFFC. All cash equivalents are legally restricted to the TSRI project.

Investments: Pursuant to a trust agreement with the SBA entered into on January 30, 2004, SFFC is required to invest all funds legally restricted to the TSRI project in an investment pool administered by the SBA. The objective of the SBA investment pool is to provide liquidity to fund the anticipated disbursements for the TSRI project through 2013. All investment policies are established by the SBA, except for those specifically set forth in the trust agreement. The trust agreement requires investments to be made in marketable securities rated investment grade (BBB for Standard and Poor's or Baa for Moody's Investor Services) by at least one Nationally Recognized Statistical Rating Organization (NRSRO), or if not rated, deemed by the SBA to be the equivalent of investment grade. Short-term investments must be rated in the highest two categories by at least one NRSRO. All investments are required to mature within six months of the anticipated date of disbursement to TSRI. As of and for the year ended September 30, 2009 the SBA investment pool for SFFC included U.S. Government Treasury inflation protected securities (TIPS), U.S. Treasury interest only and principal only strip securities, and the Dreyfus Government Cash Management money market mutual fund.

Securities Lending: Pursuant to Florida Statutes Section 215.47(16) and SBA policies, the SBA investment pool for SFFC participated in a securities lending program for investments through February 2009. In the securities lending program, a lender (the SBA) loaned securities to a borrower for cash collateral, with a simultaneous agreement to return the collateral for the same securities in the future. The SBA's custodial bank (Mellon Bank) managed the securities lending program and received cash held as collateral. Generally, the cash collateral was required to be at least 102 percent of the fair value of the securities loaned and additional collateral was required in the event the cash collateral was below 100% of the fair value of the securities loan. The cash collateral received by the custodial bank was pooled with cash collateral received for securities on loan in other funds at the SBA and invested in a short-term collateral pool consisting of eligible securities meeting the SBA investment guidelines for credit quality, maturity and liquidity. Eligible securities of the short-term collateral pool generally included obligations issued or guaranteed by the U.S. Government, its agencies and instrumentalities; commercial paper; bankers acceptances; domestic and Eurodollar time deposits and certificates of deposit; certain repurchase agreements and money market mutual funds; bank and deposit notes; corporate and medium term notes; loan participations; guaranteed investment contracts; beneficial interests in trusts; and, other approved debt obligations.

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Due to changes in financial markets in 2009, the SFFC Board of Directors and Investment Committee, in consultation with the SBA and TSRI, decided to discontinue the securities lending program in February 2009. SFFC incurred a loss of approximately \$105,000 from the sale of collateral securities upon termination of the securities lending program. No violations of legal or contractual provisions occurred and no losses were incurred due to borrower or lending agent defaults for the year ended September 30, 2009.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments of the SBA pool are structured to mature within six months of the scheduled SFFC annual grant disbursement dates. The weighted average maturity of the Dreyfus Government Cash Management money market mutual fund (Dreyfus) is limited to ninety days pursuant to the requirements of Rule 2a7 of the Investment Company Act of 1940, as amended. The weighted average maturity of Dreyfus was 50 days at September 30, 2009. For purposes of calculating a weighted average maturity, the maturity date is assumed to be the next interest rate reset date rather than the stated maturity date. The table below summarizes the scheduled maturities of investment securities at September 30, 2009.

	<u>Fair Value</u>	<u>Scheduled Maturities</u>	
		<u>Less Than One Year</u>	<u>One to Five Years</u>
U.S. Government Securities (cost \$97,061,791)			
Treasury Inflation Protected Securities (TIPS)	\$ 10,154,165	\$ 0	\$ 10,154,165
Treasury interest only strips	38,189,165	0	38,189,165
Treasury principal only strips	<u>49,258,749</u>	<u>20,484,559</u>	<u>28,774,190</u>
	<u>\$ 97,602,079</u>	<u>\$ 20,484,559</u>	<u>\$ 77,117,520</u>

Credit Risk: Credit risk is the risk that an issuer will not fulfill its obligations. All investments must be rated investment grade by at least one Nationally Recognized Statistical Rating Organization (NRSRO), or if not rated, deemed by the SBA to be the equivalent of investment grade. An investment grade rating is at least BBB for Standard and Poor's (S&P) or Baa for Moody's Investor Services (Moody's). At September 30, 2009 the credit quality ratings by S&P and Moody's for Dreyfus Government Cash Management money market mutual fund were AAAM and Aaa, respectively.

Concentration of Credit Risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. For investments other than the Dreyfus Government Cash Management money market mutual fund, there is no specific policy for concentration of credit risk. The Dreyfus Government Cash Management money market mutual fund is structured to comply with the requirements of Rule 2a7 of the Investment Company Act of 1940, as amended, and for 75% of the total assets, securities of a single issuer are limited to no more than 5% and voting securities of a single issuer are limited to no more than 10% of the amortized cost of the portfolio (excluding securities of the U.S. Government, its agencies and instrumentalities).

Custodial Credit Risk: Custodial credit risk is defined as the risk that the investment pool may not recover the securities held by another party in the event of a financial failure. The SBA investment pool does not have a formal policy for custodial credit risk. The assets in the SFFC investment pool were classified by the SBA

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

pursuant to the custodial credit risk categories of GASB Statement No. 3 to give an indication of the level of custodial credit risk for the SFFC investment pool at September 30, 2009. Category 1 includes investments that are insured or registered or for which the securities are held by the SBA or its agent in the SBA's name for the SFFC account. At September 30, 2009, the U. S. Government securities are classified as *Category 1*. The Dreyfus Government Cash Management money market mutual fund is a commingled pool of investments that cannot be classified.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. There was no exposure to foreign currency risk at September 30, 2009.

Administrative Expense: The SBA receives an administrative investment fee in the amount of two basis points annualized, calculated and charged monthly based on the end-of-month fair value of the investments, with an annual minimum fee of \$2,500. The SBA administrative fee expense for the year ended September 30, 2009 was approximately \$24,000 and is netted with investment income received from the SBA.

NOTE C - COMMITMENTS AND CONTINGENCY

Contract Commitment: Pursuant to the terms of the Operating and Funding Agreement, SFFC will provide an economic development grant to TSRI of \$310 million plus the investment income thereon and less an annual allocation to SFFC for administrative expenses of \$200,000 for 2008 and each subsequent contract year. The grant funds are to be used by TSRI to establish and operate a state-of-the-art biomedical research institution and campus in Florida. Subject to a material default by TSRI under the agreement, SFFC will disburse the grant funds to TSRI in quarterly installments over the term of the Agreement. During 2007 SFFC and TSRI agreed to amend the Agreement to modify the future annual amounts of the grant payments and extend the time period for disbursement of the grant funds from a term ending December 31, 2010 to a term ending December 31, 2013. The future anticipated annual disbursements under the revised Agreement, exclusive of investment earnings on invested funds, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2010	\$ 24,943,500
2011	30,180,750
2012	19,271,000
2013	7,441,500
2014	<u>1,250,000</u>
Total	<u>\$ 83,086,750</u>

Lease Commitment: SFFC leases office space under an operating lease expiring January 31, 2010. Annual rent increases are based on changes in the consumer price index. Rent expense under this lease was \$12,573 for the year ended September 30, 2009. The minimum future lease payments at September 30, 2009 were \$4,259 due in the fiscal year ending September 30, 2010.

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2009

NOTE C - COMMITMENTS AND CONTINGENCY (Continued)

Grants: Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies. Any disallowed claims, including amounts already received, might constitute a liability of SFFC for the return of those funds.

NOTE D - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND AND GOVERNMENT-WIDE FINANCIAL STATEMENT AMOUNTS

The only difference between the Governmental Fund financial statements and the Government-wide financial statements is the reclassification of the *Fund Balance* reported for SFFC's General Fund into the *Net Assets* categories reported for Governmental Activities in the Statement of Net Assets. There were no differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities.

REQUIRED SUPPLEMENTARY INFORMATION

SCRIPPS FLORIDA FUNDING CORPORATION

BUDGETARY COMPARISON SCHEDULE -  
GENERAL FUND - NON-GAAP BUDGETARY BASIS

Year Ended September 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Investment income allocation for administrative expenses	\$ 200,000	\$ 200,000	\$ 200,000	\$ 0
TOTAL REVENUES	200,000	200,000	200,000	0
<b>General Government</b>				
Bank charges	80	80	82	(2)
Insurance	38,760	38,760	38,957	(197)
Licenses and fees	100	100	91	9
Meeting expenses	600	600	2,634	(2,034)
Office supplies	1,500	1,500	1,165	335
Postage	600	600	304	296
Professional fees				
Legal	35,000	35,000	37,433	(2,433)
Accounting and auditing	56,500	56,500	63,175	(6,675)
Bookkeeping	960	960	960	0
Other	20,000	20,000	6,500	13,500
Public meeting notices	600	600	1,147	(547)
Rent	12,165	12,165	12,573	(408)
Seminars	100	100	399	(299)
Telephone	3,900	3,900	2,882	1,018
Travel				
Board members	3,000	3,000	1,080	1,920
Staff	2,500	2,500	3,907	(1,407)
TOTAL EXPENDITURES	176,365	176,365	173,289	3,076
REVENUES OVER EXPENDITURES - BUDGETARY BASIS	\$ 23,635	\$ 23,635	\$ 26,711	\$ 3,076

SCRIPPS FLORIDA FUNDING CORPORATION

NOTES TO BUDGETARY COMPARISON SCHEDULE

September 30, 2009

NOTE A - BUDGETARY ACCOUNTING

An appropriated budget is legally required and has been legally adopted for the General Fund on the same modified-accrual basis used to reflect actual revenues and expenditures, except that for budgetary purposes, investment income from the SBA, excluding the annual administrative allocation, securities lending income, and in-kind, contributed professional services are not budgeted in revenues and SBA investment expenses, in-kind, contributed professional services and economic development grant are not budgeted in expenditures. The Board of Directors must approve all changes or amendments to the budgeted expenditures of Scripps Florida Funding Corporation (SFFC). Total expenditures may not legally exceed total budgeted appropriations at the fund level. During 2009, SFFC made no supplemental appropriations.

The General Fund budget amounts presented in the accompanying budgetary comparison schedule reflect the original budget and the amended budget based on legally authorized revisions to the original budget during the year. Appropriations lapse at fiscal year end.

NOTE B - BUDGET TO ACTUAL COMPARISONS

U.S. generally accepted accounting principles (GAAP) require that the General Fund budgetary comparison schedule be prepared under the basis of accounting used in preparing the budget. As a result, General Fund revenues reported in the budgetary comparison schedule differ from the revenues reported on the GAAP basis. The difference can be reconciled as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Budgetary basis	\$ 200,000	\$ 173,289
GAAP basis adjustments:		
SBA investment income	5,475,826	
Securities lending income and expenses	125,335	93,960
Economic development grant		39,739,500
In-kind contribution of professional services	<u>17,500</u>	<u>17,500</u>
GAAP Basis	<u>\$ 5,818,661</u>	<u>\$ 40,024,249</u>

Expenditures for general government purposes are legally limited by Florida Statutes to \$300,000 for the first contract year of operations, ending on December 15, 2004 and \$200,000 for each contract year thereafter. For purposes of this limitation, the budgetary basis expenditures for general government purposes of \$173,289 through September 30, 2009 were within the \$200,000 limitation for the contract period ending December 15, 2009. The limitation of \$200,000 for the contract period ended December 15, 2008 was also met.

COMPLIANCE REPORT AND  
MANAGEMENT LETTER



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Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors  
Scripps Florida Funding Corporation  
West Palm Beach, Florida

We have audited the financial statements of the governmental activities and major fund of Scripps Florida Funding Corporation, a component unit of the State of Florida, as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements of Scripps Florida Funding Corporation and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 internal control over financial reporting of Scripps Florida Funding Corporation as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting of Scripps Florida Funding Corporation. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting of Scripps Florida Funding Corporation.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 financial statements of Scripps Florida Funding Corporation are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, Audit Committee and management of Scripps Florida Funding Corporation, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*Calder, Dauter, Levine,  
Porter & Veil, P.A.*

December 15, 2009



CALER, DONTEN, LEVINE,  
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Management Letter

To the Board of Directors  
Scripps Florida Funding Corporation  
West Palm Beach, Florida

We have audited the financial statements of Scripps Florida Funding Corporation, a component unit of the State of Florida, as of September 30, 2009 and for the year then ended, and have issued our report thereon dated December 15, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in that report should be considered in assessing the results of our audit. Additionally, our audit was conducted in accordance with Chapter 10.700, Rules of the Auditor General, which govern the conduct of audits of certain nonprofit organizations in the State of Florida and require that certain items be addressed in the management letter.

**CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

The Rules of the Auditor General require disclosure in the management letter of the following matters if not already addressed in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* unless clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures; (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit for the year ended September 30, 2009 disclosed no such matters that are required to be disclosed. The Rules of the Auditor General also require that we address in the management letter any other findings or recommendations noted during our audit. We noted no matters that are required to be reported.

**PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

The Rules of the Auditor General require that we address in the management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations and contractual provisions reported in the preceding annual financial audit report have been corrected. Additionally, the Rules of the Auditor General require that we address in the

management letter, if not already addressed in the auditor's report on internal control over financial reporting and on compliance and other matters, whether or not recommendations made in the preceding management letter have been followed or otherwise no longer apply. Our prior year management letter comment 2008-1 Investments was satisfactorily addressed during 2009.

This report is intended solely for the information and use of the Board of Directors, Audit Committee and management of Scripps Florida Funding Corporation, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*Calder, Dauter, Levine,  
Porter & Veil, P.A.*

December 15, 2009