



AGENDA

**THE UNIVERSITY OF WEST FLORIDA
BOARD OF TRUSTEES**

**Audit & Compliance Committee Meeting
February 14, 2019**

**University of West Florida
UWF Nautilus Chamber, Bldg. 22, Rm. 255
11000 University Parkway, Pensacola, FL 32514**

Call to Order/Roll Call. Robert Jones, Chair

Greeting Robert Jones

Action Items:

1. Acceptance of UWF Internal Auditing Reports Issued: Performance Based Funding Data Integrity
2. Acceptance of Internal Auditing PCard Audit Reports – Quarter 2 Update
3. Acceptance of External Audit: UWF Foundation Financial Statement Audit
4. Acceptance of External Audit: WUWF-FM Financial Statement Audit for Fiscal Year Ending June 30, 2018
5. Acceptance of External Audit: Intercollegiate Athletics Financial Statement Audit
6. Acceptance of External Audit: Institute for Human and Machine Cognition Financial Statement Audit

Information Items:

1. Internal Auditing Update on Status of Audits in Progress and Advisory Services
2. Compliance and Ethics Update on Activities

Other Committee Business:

Adjournment

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 14, 2019

Issue: UWF Internal Auditing Reports Issued

Proposed action: Acceptance

Background information:

Internal Auditing & Management Consulting completed one audit during the period November 1, 2018, through January 31, 2019: Performance Based Funding Data Integrity 2018.

Performance Based Funding Data Integrity 18-19 002

Our audit period was as of September 30, 2018, and was part of the approved work plan for 2018/19. We issued the audit report on January 14, 2019. The audit's objectives were to:

- Evaluate internal controls designed to ensure the accuracy, completeness, and timeliness of data submissions to the Board of Governors, and
- Provide an objective basis of support for the President and Chair of the Board of Trustees to sign the representations included in the *Performance Based Funding – Data Integrity Certification*, to be filed with the Board of Governors by March 1, 2019.

Results:

We found that controls over all processes were strong. We therefore made no recommendations.

Recommendation: Acceptance of the Internal Auditing report.

Implementation: None.

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Supporting documents

UWF 18-19_002 Performance Based Funding Data Integrity 2018 audit report

Prepared by: Internal Auditor Cindy Talbert, ctalbert@uwf.edu, 474-2638

Presenter: AVP Vito Hite, white@uwf.edu, 474-2637



EXECUTIVE SUMMARY

We audited Performance Based Funding Data Integrity as of September 30, 2018. This audit was included as part of our 2018/19 audit work plan, conducted in accordance with a Board of Governors (BOG) directive to state universities. Our specific objectives were to:

- Evaluate internal controls designed to ensure the accuracy, completeness, and timeliness of data submissions to the Board of Governors, and
- Provide an objective basis of support for the President and Chair of the Board of Trustees to sign the representations included in the *Performance Based Funding – Data Integrity Certification*, to be filed with the Board of Governors by March 1, 2019.

Audit fieldwork began on September 7, 2018, and ended on December 18, 2018. Our audit was conducted in accordance with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* and generally accepted auditing standards.

BACKGROUND

The BOG has broad governance responsibilities affecting administrative and budgetary matters for Florida’s 12 public universities. Beginning in fiscal year 2013/14, they instituted a performance funding program that is based on 10 metrics. These metrics are used to evaluate the institutions on a range of issues including cost per degree, retention rates, graduation rates, and job placement, among other things.

Each university is offered a “Board of Trustees Choice Metric,” enabling the institution to select a metric that improves their scoring with respect to

performance funding, based on their unique strengths.

Much of the information that is used by the BOG in their calculation of the metrics is through 6 data files that are submitted periodically by the universities. This includes the:

- Admissions File
- Degrees Awarded File
- Hours to Degree File
- Retention File
- Student Financial Aid File
- Student Instruction File

Data that is ultimately submitted to the BOG through these electronic submissions is initially entered through the Admissions, Registrar, Financial Aid, and Controller’s departments into the Banner Student system. The Office of Institutional Research (IR) has been delegated responsibility for compiling the data into tables according to BOG specifications, conducting a quality review of the data prior to submission to the BOG, and timely submission of the files.

In accordance with BOG Regulation 3.007 “State University System (SUS) Management Information Systems,” the President has formally appointed an Institutional Data Administrator, who is the Director of Institutional Research. The Director has frequent contact with the BOG Institutional Research staff, strengthening his understanding of their complex requirements for the data in the files.

Audits similar to this one were conducted in 2014, 2015, 2016, and 2017.



NOTABLE STRENGTH

The submission of accurate and complete data underlying the metrics is dependent upon having technical staff with the proper experience. The learning curve for these activities is long. The IR Director has been providing training in these matters to the IR Associate Director for over a year, considerably mitigating the risk to UWF of having a single knowledge holder for this critical process.

OBSERVATIONS

We interviewed key personnel involved in the processes that end with submission of data to the BOG that are used in the computation of metrics. We examined written policies and procedures and other related documents. Audit testing was conducted on data submitted to the BOG in order to evaluate accuracy and completeness. We found that internal controls over all processes were strong. We therefore make no recommendations.

We appreciate the cooperation, professionalism, and responsiveness of the employees who were involved in the audit.

Respectfully submitted,

Cindy Talbert, CFE, CIA, CICA, CPA, CRMA
Interim Internal Audit Director

REPORT PROVIDED TO THE FOLLOWING:

Dr. Martha Saunders, President
Mort O'Sullivan, Chair BOT
Bob Jones, Chair Audit & Compliance Committee
Dick Baker, Audit & Compliance Committee
Robert Sires, Audit & Compliance Committee
Dr. George Ellenberg, Provost/Sr. Vice President
Dr. Joffery Gaymon, Vice President
Dr. Kim LeDuff, Vice President
Betsy Bowers, Vice President
Dr. Kimberly McCorkle, Vice Provost
Pamela Langham, General Counsel
Melanie Haveard, ITS Executive Director and CTO
Keith King, Institutional Research Director
Colleen Asmus, Associate Vice President
Kelley Brundage, Registrar
Katie Condon, Admissions Director
Shana Gore, Financial Aid Director
Jaime Hoelscher, Manager, FL Auditor General
Ken Danley, Supervisor, FL Auditor General
Julie Leftheris, BOG Chief Inspector General
Lori Clark, BOG Compliance and Audit Specialist
Rebecca Luntsford, BOT Liaison

UWF Board of Trustees Meeting
 Audit & Compliance Committee
 February 14, 2019

Issue: Internal Auditing PCard Audit Reports
 Quarter 2 Update (October 2018 – December 2018)
Proposed action: Acceptance

Purpose

To provide UWF Senior leadership a short, clear overview of the PCard audits completed during the quarter and highlight results. Our main objective is to report the status of PCard audits and any issues or findings requiring action.

Background

Internal Auditing has been charged with auditing PCard holder and approver activity as well as departmental activities and internal controls. The objectives of these audits were to determine if departments complied with UWF PCard policies and procedures, as well as to evaluate the level of understanding of PCard policies among PCard holders and approvers. UWF presently has 416 PCard holders distributed across 147 departments.

Notable Strengths

Files were well organized. Staff was well trained in PCard procedures. There was strong separation of duties.

Results for Quarter 2 (October – December 2018)

Ten (10) departments¹ encompassing 37 cardholders were examined on a sample basis. Individual reports were distributed to department heads and Procurement & Contracts upon completion of the audits. The totals below show the volume of activity occurring for these 7 departments and the amount tested. All reports are available from Internal Auditing.

Number of Departments Reviewed	Number of Cardholders	Number of Transactions Occurring	Number of Transactions Tested	Total PCard Expenditures of Depts.	Total PCard Transactions Tested
10	37	1,838	306	\$995,398	\$490,214
Audit Opinion for the PCard Audit¹					
EXCELLENT	GOOD	FAIR	POOR	Total	
8	0	2	0	10	

¹ Departments audited (listed by audit opinion): **Excellent** –Cybersecurity, Florida Virtual Campus, MBA Program, COB Marketing & Communications, History, Human Resources, Nautilus Card, Recreation; **Fair** –Trio Student Support Services, Office of Economic Development.

Highlight of Findings for Quarter 2:

1. The business purpose of the transaction was not clearly documented.
2. Monthly PCard reconciliations were not completed timely.

Recommendation:

Acceptance of the Internal Auditing PCard Reports for the Second Quarter of Fiscal Year 2018-2019.

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Prepared by: PCard Auditor Elizabeth Mrachek, emrachek@uwf.edu, 850-474-2639

Presenter: AVP Vito Hite, white@uwf.edu, 474-2638

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 14, 2019

Issue: External Audit of Financial Statements of Direct Support Organization—
University of West Florida Foundation, Inc.

Proposed action: Acceptance

Background information:

Pursuant to Florida Statute 1004.28¹ and BOG Regulation BOG-9.011(4)², organizations affiliated with or through the University of West Florida (aka Direct Support Organizations) must be audited annually and presented to the University of West Florida. The UWF Foundation, Inc. audit report was issued on October 23, 2018.

A cursory review was performed by IAMC to evaluate compliance with the Florida Statute and BOG Regulation. It was determined that compliance appears to exist regarding the annual financial audit.

UWF Foundation received a clean unqualified opinion. The audit was performed in accordance with auditing standards generally accepted in the United States and in accordance with Generally Accepted *Government Auditing Standards (GAGAS)*. The audit report did not identify any material weaknesses in the internal control system. Additionally, no instances of non-compliance were reported.

In its financial statement audit report, several significant financial activities as of 6/30/18 for the UWF Foundation were noted:

- During the fiscal year 2018, the Foundation was gifted an estate known as “Timeless Tanglewood” that included land, a building, furniture and fixtures, and works of art with a total carrying value of \$7.8 million.
- The fair value of long-term investments was \$91,849,613, an increase of \$3,625,788 from the prior year.

Recommendation: Acceptance

Implementation Plan: None

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees of organizations affiliated with or through the University of West Florida.

¹ 1004.28(5)(a) “Each direct support organization shall provide for an annual financial audit of its accounts and records to be conducted by an independent certified public accountant in accordance with the rules adopted by the Auditor General pursuant to s. 11.45(8) and by the university board of trustees. The annual audit report shall be submitted, within 9 months after the end of the fiscal year to the Auditor General and Board of Governors for review.”

² 9.011(4) “Support organizations shall provide for an annual audit conducted pursuant to university regulations or policies. The annual audit report shall be submitted to the university board of trustees or designee, the Board of Governors, and the Auditor General for review.”

Supporting documents:

- Financial Statement Audit Report for the University of West Florida Foundation, Inc., for fiscal year ending June 30, 2018
- Audit Communication Letter UWF Foundation, Inc. June 30, 2018

Prepared by: Internal Auditor Elizabeth Mrachek, emrachek@uwf.edu, 474-2639

Presenter: AVP Vito Hite, vHITE@uwf.edu, 474-2637

To Management and the Board of Trustees
University of West Florida Foundation, Inc.
Pensacola, Florida

We have audited the financial statements of the University of West Florida Foundation, Inc. (the “Foundation”) for the year ended June 30, 2018, and have issued our report thereon dated October 23, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 21, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, during 2018 the Foundation adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2015-17, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*. Accordingly, the fair value disclosures in the financial statements have been modified. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

Management’s estimate of the fair value and collectability of promises to give is based on signed pledge cards, historical collection rates and an analysis of the collectability of individual promises. Management’s periodic evaluation of this estimate and the underlying assumptions used are based on the Foundation’s experience, various known and inherent risks, and current economic conditions.

Since 1944

Management's estimate of the fair value of investments is based on various methods, which include unadjusted quoted market prices, observable inputs based on both active and inactive markets, and unobservable inputs that are supported by little market activity. Management's periodic evaluation of this estimate is based on the Foundation's experience, various known and inherent risks, and current economic conditions.

Management's estimate of the contribution revenue and the carrying value of the Timeless Tanglewood property is based on appraisals.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of long-term investments and related net return on investments in Note 5 to the financial statements.
- The disclosure of endowment fund investment and spending policies under Florida UPMIFA in Note 10 to the financial statements.
- The disclosure of fair value measurements in Note 16 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit:

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Appendix A summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, we proposed certain reclassification entries for proper financial statement presentation. Management agreed with our proposed adjustments and requested we record them as part of our audit.

Disagreements with Management:

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 23, 2018.

Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the following supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. This supplementary information includes:

- a. Schedules of Student Housing System Revenues and Expenses
- b. Schedules of Financial Position (Excluding the Student Housing System)
- c. Schedules of Other Program Services and General and Administrative Expenses

The following supplementary information was not subjected to auditing procedures applied in the audit of financial statements:

- d. Chairs Under Eminent Scholars Program - Schedule of Receipts, Expenses and Endowment Balances
- e. Major Gifts Program - Schedule of Receipts, Expenses and Endowment Balances

This information is intended solely for the use of the Foundation's audit committee, Board of Directors, and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Saltmarsh Cleaveland & Gend".

Pensacola, Florida
October 23, 2018

Appendix A
University of West Florida Foundation, Inc.
Schedule of Uncorrected Misstatements

Account	Description	Debit	Credit
Proposed JE # 301			
To record the current year effect of prior year passed audit adjustment #303.			
29-42400	UNREALIZED GAIN/LOSS	92,321.00	
28-34000	NET ASSETS - TEMP RESTRICTED OTHER		92,321.00
Total		<u>92,321.00</u>	<u>92,321.00</u>
Proposed JE # 302			
To record current year effect of prior year passed audit adjustment #304.			
28-34000	NET ASSETS - TEMP RESTRICTED OTHER	106,561.00	
26-42400	UNREALIZED GAIN/LOSS		106,561.00
Total		<u>106,561.00</u>	<u>106,561.00</u>
Proposed JE # 303			
To true-up the market value to the June 30, 2018 investment statements.			
10-14700	STEPSTONE PIONNER CAPITAL III, LP	66,096.00	
10-14720	PORTFOLIO ADV V PRIV EQUITY	26,237.00	
10-14720	PORTFOLIO ADV V PRIV EQUITY	76,922.00	
10-14730	PA DIRECT CREDIT OPPORTUNITIES FUND II	6,811.00	
10-14735	PA SECONDARY FUND III (OFFSHORE), L.P.	49,184.00	
29-42400	UNREALIZED GAIN/LOSS		225,250.00
Total		<u>225,250.00</u>	<u>225,250.00</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
PENSACOLA, FLORIDA
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
PENSACOLA, FLORIDA
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

CONTENTS

	PAGE
Audited Financial Statements:	
Independent Auditor's Report	1
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 <i>Government Auditing Standards</i>	3
Statements of Financial Position	5
Statements of Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	9
Supplementary Information:	
Schedules of Student Housing System Revenues and Expenses	45
Schedules of Financial Position (Excluding the Student Housing System)	46
Schedules of Functional Expenses	47
Chairs Under Eminent Scholars Program - Schedule of Receipts, Expenses and Endowment Balances, certified by management	48
Major Gifts Program - Schedule of Receipts, Expenses and Endowment Balances, certified by management	49

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
University of West Florida Foundation, Inc.
Pensacola, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the University of West Florida Foundation, Inc. (the "Foundation") (a component unit of the University of West Florida), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

-1-

Since 1944

Board of Directors
University of West Florida Foundation, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedules of Student Housing System Revenues and Expenses, Financial Position (Excluding the Student Housing System), and Functional Expenses have been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole. The accompanying Schedules of Receipts, Expenses and Endowment Balances for the Chairs Under Eminent Scholars Program and the Major Gifts Program have not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the Foundation's internal control over financial reporting 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* in considering Foundation's internal control over financial reporting and compliance.



Pensacola, Florida
October 23, 2018

**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
University of West Florida Foundation, Inc.
Pensacola, Florida

We have audited, in accordance with the 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, the financial statements of the University of West Florida Foundation, Inc. (the “Foundation”) (a component unit of the University of West Florida), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors
University of West Florida Foundation, Inc.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pensacola, Florida
October 23, 2018

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
Cash and cash equivalents	\$ 2,630,280	\$ 2,080,462
Restricted cash equivalents	10,193,593	10,474,477
Contributions receivable, net	7,336,118	8,167,001
Other receivables, net	202,735	231,166
Due from University	378,796	441,488
Prepaid expenses	203,330	190,912
Long-term investments	91,849,613	88,223,825
Property and equipment, net	53,579,283	49,071,972
Assets held under split interest agreements	3,208,207	3,144,979
Other assets	1,741,780	326,276
	\$ 171,323,735	\$ 162,352,558

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 739,080	\$ 889,892
Liabilities held under split interest agreements	1,604,792	1,642,526
Due to West Florida Historic Trust	1,238,296	1,336,882
Bonds payable, net	45,725,667	48,211,464
Total liabilities	49,307,835	52,080,764

Commitments and Contingencies

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Net Assets:

Unrestricted -		
Undesignated	1,464,895	1,904,438
Board designated	3,070,822	2,415,572
Student Housing System	8,620,025	9,078,934
Total unrestricted	13,155,742	13,398,944
Temporarily restricted	45,485,224	34,908,494
Permanently restricted	63,374,934	61,964,356
Total net assets	122,015,900	110,271,794

Total Liabilities and Net Assets

\$ 171,323,735 **\$ 162,352,558**

The accompanying notes are an integral
part of these financial statements.

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UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	Unrestricted		Temporarily Restricted	Permanently Restricted	2018 Total
	Foundation	Student Housing			
Revenue, Support and Reclassifications:					
Contributions	\$ 865,406	\$ -	\$ 10,934,324	\$ 1,408,116	\$ 13,207,846
Interest and dividends	25,088	-	1,258,867	-	1,283,955
Net unrealized and realized gain on long-term investments	1,469,610	-	5,631,279	-	7,100,889
Student housing system	-	9,258,099	-	-	9,258,099
Other income	164,891	-	-	-	164,891
Reclassification of net assets	-	-	(6,099)	6,099	-
Net assets released from restrictions	7,241,641	-	(7,241,641)	-	-
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Total revenue, support and reclassifications	9,766,636	9,258,099	10,576,730	1,414,215	31,015,680
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Expenses:					
Direct program services -					
Scholarships	1,947,358	-	-	-	1,947,358
Other program services	5,245,922	-	-	-	5,245,922
Student housing system	-	9,717,008	-	-	9,717,008
Total direct program services	7,193,280	9,717,008	-	-	16,910,288
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Supporting services -					
Fundraising	346,255	-	-	-	346,255
General and administrative	2,011,394	-	-	-	2,011,394
Total supporting services	2,357,649	-	-	-	2,357,649
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	9,550,929	9,717,008	-	-	19,267,937
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Loss from cancelled restricted contributions	-	-	-	3,637	3,637
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses and losses	9,550,929	9,717,008	-	3,637	19,271,574
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Change in Net Assets	215,707	(458,909)	10,576,730	1,410,578	11,744,106
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets, Beginning of Year	4,320,010	9,078,934	34,908,494	61,964,356	110,271,794
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets, End of Year	<u>\$ 4,535,717</u>	<u>\$ 8,620,025</u>	<u>\$ 45,485,224</u>	<u>\$ 63,374,934</u>	<u>\$ 122,015,900</u>

Unrestricted		Temporarily Restricted	Permanently Restricted	2017 Total
Foundation	Student Housing			
\$ 877,438	\$ -	\$ 10,114,292	\$ 6,895,569	\$ 17,887,299
2,975	-	1,024,234	-	1,027,209
1,082,960	-	8,707,733	-	9,790,693
-	10,410,583	-	-	10,410,583
415,075	-	-	-	415,075
-	-	24,482	(24,482)	-
9,513,193	-	(9,513,193)	-	-
<u>11,891,641</u>	<u>10,410,583</u>	<u>10,357,548</u>	<u>6,871,087</u>	<u>39,530,859</u>
1,240,964	-	-	-	1,240,964
7,968,014	-	-	-	7,968,014
-	13,661,625	-	-	13,661,625
<u>9,208,978</u>	<u>13,661,625</u>	<u>-</u>	<u>-</u>	<u>22,870,603</u>
344,789	-	-	-	344,789
1,855,560	-	-	-	1,855,560
<u>2,200,349</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,200,349</u>
11,409,327	13,661,625	-	-	25,070,952
-	-	-	2,289	2,289
<u>11,409,327</u>	<u>13,661,625</u>	<u>-</u>	<u>2,289</u>	<u>25,073,241</u>
482,314	(3,251,042)	10,357,548	6,868,798	14,457,618
<u>3,837,696</u>	<u>12,329,976</u>	<u>24,550,946</u>	<u>55,095,558</u>	<u>95,814,176</u>
<u>\$ 4,320,010</u>	<u>\$ 9,078,934</u>	<u>\$ 34,908,494</u>	<u>\$ 61,964,356</u>	<u>\$ 110,271,794</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 11,744,106	\$ 14,457,618
Adjustments to reconcile change in net assets to cash flows used in operating activities -		
Net unrealized and realized gain on long-term investments	(7,100,889)	(9,790,693)
Contributions restricted for long-term purposes	(1,408,116)	(6,895,569)
Contributions of investments	-	(689,216)
Contributions of property and equipment	(6,475,202)	-
Contributions of works of art	(1,388,420)	-
Bad debt expense	24,982	34,702
Loss from cancelled restricted contributions	3,637	2,289
Loss on disposal of property and equipment	15,992	-
Loss on extinguishment of debt	-	3,693,269
Change in fair value of -		
Contributions receivable	402,464	1,298,512
Split interest agreements	(100,962)	(176,158)
Cash surrender value of insurance policies	(27,084)	26,797
Depreciation and amortization	2,990,984	2,829,877
Amortization of bond premium	(42,172)	-
Change in operating assets and liabilities -		
Contributions receivable	418,218	(6,687,204)
Other receivables	10,013	(37,659)
Due from University	62,692	(162,792)
Prepaid expenses	(12,418)	3,283
Accounts payable and accrued expenses	(150,812)	239,095
Net cash used in operating activities	(1,032,987)	(1,853,849)
Cash Flows From Investing Activities:		
Purchases of investments	(12,325,535)	(30,699,047)
Proceeds from sales, maturities, and distributions of investments	15,800,636	28,823,884
Acquisition of property and equipment	(997,213)	(1,177,799)
Due to West Florida Historic Trust	(98,586)	179,281
Net cash provided by (used in) investing activities	2,379,302	(2,873,681)
Cash Flows From Financing Activities:		
Proceeds from bond issuance	-	51,312,905
Defeasance of bonds	-	(29,702,310)
Reissuance of bonds	-	(22,318,344)
Bond principal payments	(2,485,497)	(2,440,046)
Bond issuance costs	-	(319,440)
Contributions to permanent endowments	1,408,116	6,895,569
Net cash provided by (used in) financing activities	(1,077,381)	3,428,334
Net Increase (Decrease) in Cash and Cash Equivalents	268,934	(1,299,196)
Cash and Cash Equivalents at Beginning of Year	12,554,939	13,854,135
Cash and Cash Equivalents at End of Year	\$ 12,823,873	\$ 12,554,939

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017
(Continued)

	2018	2017
Analysis of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 2,630,280	\$ 2,080,462
Restricted cash equivalents	10,193,593	10,474,477
	\$ 12,823,873	\$ 12,554,939
 Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 1,795,941	\$ 1,952,277
 Supplemental Disclosure of Noncash Investing Activities:		
Investments received as contributions	\$ -	\$ 689,216
Property and equipment received as contributions	\$ 6,475,202	\$ -
Collections received as contributions	\$ 1,388,420	\$ -

The accompanying notes are an integral
part of these financial statements.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

The University of West Florida Foundation, Inc. (the “Foundation”) was organized as a Florida not-for-profit corporation in 1965 for the purpose of soliciting, receiving, and administering gifts and bequests of property and funds for scientific, educational, and charitable purposes, all for the advancement of the University of West Florida (the “University”) and its objectives. The Foundation is a direct-support organization of the University, as provided for in Section 1004.28, Florida Statutes, and Rule 6C-9.011, Florida Administrative Code, and therefore is considered a component unit of the University.

The Foundation owns the Student Housing System and is responsible for the management thereof, along with the associated revenues, expenses and debt related to the operation of these projects as further described in Note 12 to the financial statements.

Basis of Accounting:

The Foundation follows standards of accounting and financial reporting prescribed for not-for-profit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

Basis of Presentation:

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Foundation. The donors of these assets permit the Foundation to use all of the investment return on these assets. Such assets primarily include the Foundation’s permanent endowment funds.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time. Such assets are available for use by the various colleges and departments of the University, as designated by the donors to the Foundation.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the action of the governing board, including quasi-endowments, or may otherwise be limited by contractual agreements with outside parties.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued):

Unrestricted net assets - student housing system - Unrestricted net assets designated through bond covenant restrictions for the specific purpose of bond repayment for the Student Housing System.

Contributions:

Contributions are reported as temporarily restricted if the donor limits the use of the donated assets. When the restrictions expire, these temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as *net assets released from restrictions*. Contributions of endowments are reported as permanently restricted since the corpus is invested in perpetuity. All other contributions having no restrictions are reported as unrestricted.

The Foundation has elected to record unconditional promises to give at fair value. Management believes the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques at historical discount rates. An allowance for uncollectible pledges is provided based on management's evaluation of potential uncollectible pledges receivable at year-end. Conditional promises to give are not recorded in the financial statements.

In the event a donor makes changes to the nature of a restricted gift which affect its classification among the net asset categories, such amounts are reflected as net assets released from restrictions in the revenues section of the statement of activities.

Non-cash contributions are recorded at fair market value at the time of donation.

Each state university board of trustees is authorized to permit the use of property, facilities, and personal services at any state university by any university direct support organization per Section 1004.28, Florida Statutes. Administrative and fiscal services, office space, and other miscellaneous support services are provided to University direct support organizations by the University. As discussed in Note 7, Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, requires the recognition and measurement for services received from affiliated not-for-profit organizations when not charged.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents:

The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, and a portion of cash placed with the State Treasury Special Purpose Investment Account (“SPIA”).

SPIA has enacted liquidity requirements limiting the amount of money SPIA participants can withdraw from their accounts. The portion considered liquid is calculated as forty percent of the previous three months’ average daily balance.

For the purpose of reporting cash flows, the Foundation considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Under this definition, the Foundation considers the liquid portion of SPIA deposits to be cash equivalents.

Restricted Cash Equivalents:

Restricted cash equivalents represent a portion of SPIA, and funds held by bond trustees for construction of on-campus housing, debt service, and maintenance of reserves required under the bond indentures. In addition, SPIA has established a minimum balance for each account. Each SPIA participant is required to give six months’ notice for all withdrawals below the floor, which is calculated as sixty percent of the previous three months’ average daily balance.

Investments:

The Foundation has created various pools for the investment of funds on a consolidated basis. All investments are reported at fair value.

Investment income (interest, dividends, realized and unrealized gains or losses) from endowment and restricted operating funds is recognized as temporarily restricted investment income in accordance with donor stipulations. Income from all other operating funds is recognized as unrestricted investment income. There are no permanent restrictions on investment income.

Property and Equipment:

Property and equipment consists of office equipment and property held for lease, future use, or sale. Purchased assets are recorded at cost, while donated assets are recorded at fair market value at the date of donation. Depreciation is allocated over the estimated useful lives of the respective assets on a straight-line basis. Where a contributed asset has an uncertain fair market value due to deed restrictions, the Foundation records no value for the property.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued):

The Foundation capitalizes interest costs on borrowing incurred during the construction of qualifying assets. The capitalized interest is amortized over the life of the borrowing.

Split-Interest Agreements:

The Foundation serves as trustee for split-interest agreements classified as charitable gift annuities and charitable remainder unitrust. Assets received under these agreements are recorded at fair market value and the liabilities to make future payments under these agreements are recorded at present value, with the difference reported as a gain or loss. These assets and liabilities are adjusted to reflect changes in their fair market value and present value. The determination of the present value of liabilities under split-interest agreements is based on discount rates and mortality tables established by the Internal Revenue Code and Regulations.

Works of Art:

Donated works of art are capitalized and are recorded as other assets on the statements of financial position.

Bond Discounts and Premiums:

Bond discounts and premiums are amortized over the terms of the bonds using the straight-line method since the difference between this method and the effective interest method is not material to the financial statements. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

Compensated Absences:

Employees of the Foundation are entitled to paid vacation and sick days depending on job classification, length of service and other factors. Upon termination of employment, an employee will be paid for accumulated annual leave. In addition, an employee with ten or more years of service may be paid for a portion of their accumulated sick leave.

At June 30, 2018 and 2017, accrued compensated absences totaling \$318,566 and \$292,894 were reported as a component of accrued expenses in the accompanying financial statements.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Program Services:

Other program services consist of expenditures released from temporarily restricted net assets based on donor-imposed stipulations to support the objectives of the University and/or its various colleges and departments.

Income Taxes:

The Foundation is a nonprofit organization exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. However, income from certain investment activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income.

In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Retirement Plan:

As discussed in more detail in Note 11, Foundation employees may elect to participate in the Florida Retirement System consisting of a defined benefit plan; the Deferred Retirement Option Program, an alternative method for retirement payment; and the Public Employee Optional Retirement Program, a defined contribution plan. These plans have vesting and service requirements. Certain eligible faculty and administrators may also elect to participate in the Optional Retirement Program, a defined contribution plan which provides full and immediate vesting of contributions. Certain key University personnel participate in a money-purchase retirement savings plan with specific vesting schedules.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events:

Management has evaluated subsequent events through October 23, 2018, the date which the financial statements were available for issue.

Recent Accounting Pronouncements:

In May 2015, FASB issued Accounting Standards Update (“ASU”) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value Per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (“NAV”) practical expedient. This ASU is effective for fiscal years beginning after December 15, 2016, with retrospective application required. The Foundation adopted the ASU in 2018 and modified the fair value disclosures.

NOTE 2 - RESTRICTED CASH EQUIVALENTS

Restricted cash equivalents at June 30 consist of the following:

	2018	2017
Housing operating reserves	\$ 1,203,135	\$ 1,201,786
Housing replacement reserves	695,375	839,992
Housing contingency and improvement reserve	6,152,899	7,092,627
Courtelis reserve	640,230	733,415
SPIA operating reserves	1,475,554	601,553
2016A bond interest	6,637	5,104
2016B bond interest	19,727	-
2016C bond interest	36	-
	\$ 10,193,593	\$ 10,474,477

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - CONTRIBUTIONS RECEIVABLE

The Foundation records unconditional promises to give using fair value adjusted for the current year end discount rates, ranging from 0% to 46%, based on the prevailing five-year Treasury constant maturities. As of June 30, 2018, the cumulative fair value adjustment to contributions revenue for temporarily and permanently restricted was \$605,510 and \$1,298,495 respectively. As of June 30, 2017, the cumulative fair value adjustment to contributions revenue for temporarily and permanently restricted was \$483,438 and \$1,018,103, respectively. Multi-year contributions receivable are classified within Level 3 of the fair value hierarchy because determination of the present value of future cash flows is based on little or no market data and requires management to develop their own assumptions. In 2018 and 2017, there were no transfers of contributions receivable into or out of Level 3.

Unconditional promises to give at June 30 are due as follows:

	2018	2017
In one year or less	\$ 606,180	\$ 612,211
Between one and five years	3,328,826	3,143,898
Greater than five years	5,319,010	5,921,619
Total contributions receivable, gross	9,254,016	9,677,728
Less discounts to net fair value	1,904,005	1,501,541
Less allowance for doubtful accounts	13,893	9,186
	\$ 7,336,118	\$ 8,167,001

The table below presents information about unconditional promises to give measured at fair value at June 30, 2018:

	Temporarily Restricted	Permanently Restricted
Promises measured at Fair Value		
Promised cash flows	\$ 3,961,619	\$ 5,292,397
Fair value estimate	\$ 3,356,109	\$ 3,993,902
Measurement basis	Level 3	Level 3
Contribution revenue	\$ 605,510	\$ 1,298,495
Cumulative changes included in the statement of activities	\$ 605,510	\$ 1,298,495

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - CONTRIBUTIONS RECEIVABLE (Continued)

The table below presents information about unconditional promises to give measured at fair value at June 30, 2017:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Promises measured at Fair Value		
Promised cash flows	\$ 4,099,856	\$ 5,577,872
Fair value estimate	\$ 3,616,418	\$ 4,559,769
Measurement basis	Level 3	Level 3
Contribution revenue	\$ 483,438	\$ 1,018,103
Cumulative changes included in the statement of activities	 \$ 483,438	 \$ 1,018,103

Changes in unconditional promises to give for the year ended June 30, 2018 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Beginning Balance, July 1, 2017	\$ 3,616,418	\$ 4,559,769
New promises received	527,655	32,500
Collections	(662,142)	(316,225)
Change in fair value	(122,072)	(280,392)
Management and general (write-offs)	(3,750)	(1,750)
	<u>3,356,109</u>	<u>3,993,902</u>
Less allowance for doubtful accounts	<u>7,083</u>	<u>6,810</u>
Ending Balance, June 30, 2018	<u>\$ 3,349,026</u>	<u>\$ 3,987,092</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - CONTRIBUTIONS RECEIVABLE (Continued)

Changes in unconditional promises to give for the year ended June 30, 2017 are as follows:

	Temporarily Restricted	Permanently Restricted
Beginning Balance, July 1, 2016	\$ 1,089,549	\$ 1,717,752
New promises received	3,662,655	3,927,500
Collections	(624,532)	(278,225)
Change in fair value	(441,254)	(857,258)
Management and general (write-offs)	(20,000)	-
Change in pledge terms	(50,000)	50,000
	<u>3,616,418</u>	<u>4,559,769</u>
Less allowance for doubtful accounts	<u>4,263</u>	<u>4,923</u>
Ending Balance, June 30, 2017	<u>\$ 3,612,155</u>	<u>\$ 4,554,846</u>

Conditional promises to give amounted to \$2,438,052 at June 30, 2018 for state matching funds from the State of Florida Major Gifts Trust Fund. The funds will be forwarded to the Foundation in the event that future appropriations are made by the state legislature.

NOTE 4 - OTHER RECEIVABLES

Other receivables at June 30 consist of the following:

	2018	2017
Student loan fund	\$ 65,321	\$ 63,564
Rent, less allowance of \$236,872 in 2018 and \$218,460 in 2017	118,744	106,495
Other	<u>18,670</u>	<u>61,107</u>
Net other receivables	<u>\$ 202,735</u>	<u>\$ 231,166</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - OTHER RECEIVABLES (Continued)

The Student Loan Fund, established through contributions, provides low-interest, short-term loans to students. All transactions are conducted through the University's cashiers' office. The Student Loan Program is made up of accounts receivable for loans to students, funds held at the University available for loans to students, and funds invested in a quasi-endowment at the Foundation. The Foundation holds \$228,655 that is invested in a quasi-endowment. Earnings in the quasi-endowment are transferred to the University, as needed, to support the Student Loan Program.

NOTE 5 - LONG-TERM INVESTMENTS

Investments are carried at fair value and consist of the following:

	Cost	Fair Value	Unrealized Gain (Loss)
June 30, 2018:			
Certificates of deposit	\$ 586,890	\$ 586,890	\$ -
Equity securities -			
Common stock and mutual funds	44,673,403	59,183,345	14,509,942
Debt securities	17,512,327	17,456,679	(55,648)
Alternative investments -			
Fund of fund hedge funds	5,586,458	8,799,734	3,213,276
Private equity investments	1,997,095	2,648,851	651,756
Real estate investment trust	2,855,044	3,174,114	319,070
	<u>\$ 73,211,217</u>	<u>\$ 91,849,613</u>	<u>\$ 18,638,396</u>
June 30, 2017:			
Certificates of deposit	\$ 601,800	\$ 601,800	\$ -
Equity securities -			
Common stock and mutual funds	43,445,800	53,422,205	9,976,405
Debt securities	14,236,787	14,399,904	163,117
Alternative investments -			
Fund of fund hedge funds	11,218,108	15,900,120	4,682,012
Private equity investments	2,104,629	2,314,903	210,274
Real estate investment trust	1,600,899	1,584,893	(16,006)
	<u>\$ 73,208,023</u>	<u>\$ 88,223,825</u>	<u>\$ 15,015,802</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - LONG-TERM INVESTMENTS (Continued)

Wells Fargo is the custodian for the Foundation's equity securities, debt securities and fund of fund hedge funds.

As further discussed in Note 7, on July 1, 2016, the Foundation entered into a cash and securities agreement with the Pensacola Museum of Art ("PMA") for the furtherance of the PMA mission. The Foundation acts as a manager of PMA's certificates of deposit and mutual funds which are included in the Foundation's investment balance. These investments are kept separate from the Foundation's investment pool. Balances at June 30 were as follows:

	<u>2018</u>	<u>2017</u>
Certificates of deposit	\$ 586,890	\$ 601,800
Mutual funds	<u>112,800</u>	<u>102,113</u>
	<u>\$ 699,690</u>	<u>\$ 703,913</u>

As further discussed in Note 10, the fair market value of all endowed investments was at a level above the minimum required by donor stipulations, totaling \$13,416,917. However, individual donor-restricted endowment funds were deficient, totaling \$46,233, where the fair value of the investments at June 30, 2018 was less than the level required by the donor stipulations.

The net return on investments was as follows:

	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>
Year Ended June 30, 2018 -		
Dividends and interest	\$ 25,088	\$ 1,258,867
Net realized gain on investments	79,454	3,927,857
Unrealized gain on investments	<u>1,390,156</u>	<u>1,703,422</u>
Total return on investments	<u>\$ 1,494,698</u>	<u>\$ 6,890,146</u>
Year Ended June 30, 2017 -		
Dividends and interest	\$ 2,975	\$ 1,024,234
Net realized gain on investments	1,292	1,801,488
Unrealized gain on investments	<u>1,081,668</u>	<u>6,906,245</u>
Total return on investments	<u>\$ 1,085,935</u>	<u>\$ 9,731,967</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following at June 30:

	2018	2017
Land	\$ 1,454,483	\$ 1,454,483
Property held under capital lease	75,503,947	74,708,634
Timeless Tanglewood property	6,475,202	-
Office equipment and software	501,957	501,957
	83,935,589	76,665,074
Less accumulated depreciation	32,105,646	29,233,277
	51,829,943	47,431,797
Construction in progress	979,690	793,784
Idle property, net	769,650	846,391
	\$ 53,579,283	\$ 49,071,972

Depreciation expense for the years ended June 30, 2018 and 2017 was \$2,949,112 and \$2,800,621, respectively.

Property held under capital lease represents the University's Student Housing System, which consists of the following: the South Side facilities constructed in 1966 and 1972; the Villages Phase I (West) and II (East), completed in 1997 and 1999, respectively; the first (Martin Hall), the second (Pace Hall), and the third (Argo Hall) portions of Phase III completed in 2000, 2001, and 2004, respectively; and the first (Heritage Hall) and the second (President's Hall) portions of Phase IV completed in 2010 and 2012, respectively. The buildings under capital lease are depreciated over the lease term, which is effectively 30 years, and the furniture, fixtures, and equipment are depreciated over their useful life of 5 - 10 years. Amortization of property under capital lease is included in depreciation expense. At June 30, 2018 and 2017, amortization of the property under capital lease totaled \$2,864,997 and \$2,800,621, respectively. See Note 12 for further capital lease disclosure.

During the fiscal year 2018, the Foundation was gifted an estate known as "Timeless Tanglewood" that included land, a building, and furniture and fixtures with carrying values as of June 30, 2018 of \$880,000, \$5,135,697, and \$459,505, respectively. The estate also gifted the Foundation works of art with a total carrying value of \$1,388,420 that are included in other assets on the statement of financial position as of June 30, 2018.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 - PROPERTY AND EQUIPMENT (Continued)

This estate will be recognized as the UWF President's Club at Timeless Tanglewood and will be used to host related events. In addition, the estate will act as a lab for students in the University's Global Hospitality and Tourism Management program to immerse themselves in high-end hospitality entertainment services. At June 30, 2018, accumulated depreciation of the building and furniture and fixtures totaled \$61,140 and \$22,975, respectively.

The Foundation routinely evaluates the carrying value of its long-lived assets. The Foundation records impairment losses on long-term assets when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such assets are considered to be impaired, the charge to operations is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of June 30, 2018, none of the Foundation's long-lived assets were considered to be materially impaired.

NOTE 7 - RELATED PARTY TRANSACTIONS

At June 30, 2018 and 2017, the Foundation and the University jointly determined an amount for the Foundation to deposit with the University to be used to manage and pay expenses for the Foundation's operations. Payroll, other University departments, and program expenses that are funded from the Foundation are paid through the University utilizing these funds. At June 30, 2018 and 2017, the cash balances held by the University were \$378,796 and \$441,488 respectively, and were included in due from University.

In March of 2013, the Foundation entered into a Memorandum of Understanding with the University of West Florida Historic Trust ("WFHT"), another DSO of the University, where WFHT may transfer current cash assets to the Foundation to invest on their behalf. These funds are invested as a Quasi-Endowment with the Foundation and will be part of the overall investment pool subject to spending and investment policies of the Foundation as agreed to in the memorandum. Funds invested by WFHT in the Foundation's investment pool totaled \$1,238,296 and \$1,336,882 at June 30, 2018 and 2017, respectively, and are included in due to WFHT.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - RELATED PARTY TRANSACTIONS (Continued)

On July 1, 2016, the assets of Pensacola Museum of Art (“PMA”), an independent not-for-profit corporation, became part of the University. On that date, the Foundation was gifted a historic building, land, a fine arts collection, furniture and equipment, cash and cash equivalents, a permanent endowment, and other current assets from the dissolving entity totaling approximately \$4.2 million. The historic building and land were transferred to the University and the fine arts collection, furniture and equipment, and all other assets were transferred to WFHT, with the exception of the permanent endowment and cash and cash equivalents. On July 1, 2016, the Foundation entered into a cash and securities agreement with PMA for the furtherance of the PMA mission, as discussed in Note 5. As such, the permanent endowment and cash and cash equivalents remained with the Foundation, which stewards the endowment on behalf of PMA.

As a direct support organization, the Foundation received support from the University in performance of its mission. FASB ASC 958, *Not-for-Profit Entities*, requires recognition and measurement for services received from affiliated not-for-profit organizations when not charged. Salaries and benefits of University employees providing such support total approximately \$762,000 and \$776,000 in 2018 and 2017, respectively, and are included in general and administrative expenses. The University also provides centralized payroll processing and IT support that the Foundation estimates as immaterial to these financial statements.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 - BONDS PAYABLE

Revenue Bonds consist of the following at June 30:

	2018	2017
\$28,000,000 Dormitory Refunding Revenue Bonds, Series 2016A, due in annual installments of \$720,000 to \$1,780,000, from June 1, 2017 through June 1, 2040 with interest ranging from 3.375% to 5.00% due semiannually, June 1 and December 1	25,810,000	26,910,000
\$8,635,000 Dormitory Refunding Revenue Bonds, Series 2016B, due in annual installments of \$618,500 to \$830,500, from June 1, 2017 through June 1, 2028 with an interest rate of 2.75% due semiannually, June 1 and December 1	7,383,000	8,016,500
\$13,683,344 Dormitory Refunding Revenue Bonds, Series 2016C, due in annual installments of \$731,544 to \$1,120,171, from June 1, 2017 through June 1, 2031 with an interest rate of 3.10% due semiannually, June 1 and December 1	12,199,803	12,951,800
Bonds payable	45,392,803	47,878,300
Less unamortized premiums and issue costs	(332,864)	(333,164)
Bonds payable, net of unamortized premiums and issue costs	\$ 45,725,667	\$ 48,211,464

Interest of \$141,684 and \$149,662 was accrued on the bonds as of June 30, 2018 and 2017, respectively.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 - BONDS PAYABLE (Continued)

Maturities of the revenue bonds are as follows:

<u>For the year ending</u>	
2019	\$ 2,578,196
2020	2,680,371
2021	2,780,073
2022	2,878,587
2023	2,996,456
Thereafter	<u>31,479,120</u>
	<u>\$ 45,392,803</u>

During fiscal year 2017, the Foundation publicly issued advanced refunding revenue bonds (Series 2016A) of \$28,000,000 to defease the Series 2009 and 2011 outstanding housing revenue bonds for the purpose of consolidation and to achieve debt service coverage savings. The transaction reduced total debt service payments by approximately \$3,723,000, a net present value savings of approximately 9.96% or \$2,684,000. Additionally, Escambia County Housing Finance Authority was removed as sponsor. The Foundation has placed the proceeds from the refunding in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds. As a result, at June 30, 2018 and 2017, the trust account assets of \$26,149,592 and \$28,177,867, respectively, and liabilities of \$24,910,000 and \$25,949,000, respectively, for the defeased bonds were not included in the financial statements. Although defeased, the refunded debt from the earlier issue will not be retired until the call date June 1, 2019. For the year ended June 30, 2017, the difference between the reacquisition price and net carrying amount resulted in a loss on extinguishment of debt of \$3,693,269, which is reported in unrestricted student housing system expenses on the statement of activities.

Simultaneous with the issuance of the Series 2016A, the Series 2010 and 2015 bonds were reissued by private placement to the existing holders under Series 2016B and Series 2016C, respectively. The terms remain substantially the same with the exception of the removal of Escambia County Housing Finance Authority as sponsor.

The bonds are secured by mortgages on the student housing facilities in addition to a pledge of revenues earned from their operation. The bonds require the Foundation to maintain various covenants, including one that requires student housing room rates to be maintained at a level that provides net revenues at least equal to 120% of annual debt service. The debt service ratio for the year ended June 30, 2018 was 126%. The Foundation is not aware of any violations of the covenants at June 30, 2018.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - NET ASSETS

Temporarily restricted net assets at June 30 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Scholarships, student awards and loan funds	\$ 10,813,282	\$ 9,577,420
Faculty support, professorships and chairs	5,015,867	4,454,069
Foundation reserve fund	7,329,767	6,164,630
Programs and other	<u>22,326,308</u>	<u>14,712,375</u>
Total temporarily restricted net assets	<u>\$ 45,485,224</u>	<u>\$ 34,908,494</u>

Permanently restricted net assets consist of endowment fund assets to be held in perpetuity, with only the income to be expended. The following is a summary of permanently restricted net assets at June 30, 2018 and 2017, categorized by the purpose for which the income is expendable:

	<u>2018</u>	<u>2017</u>
Scholarships, student awards and loan funds	\$ 28,435,173	\$ 26,653,768
Faculty support, professorships and chairs	11,763,613	11,763,613
Programs and other	<u>23,176,148</u>	<u>23,546,975</u>
Total permanently restricted net assets	<u>\$ 63,374,934</u>	<u>\$ 61,964,356</u>

NOTE 10 - ENDOWMENTS

The Foundation's endowments consist of 281 individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

As discussed in Note 7, the Foundation acts as a steward of PMA's cultural endowment program. The endowment of \$699,690 does not follow the Foundation's spending policy. All income from the endowment will provide support to PMA's mission.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 - ENDOWMENTS (Continued)

Interpretation of Relevant Law -

The Foundation's governing board with guidance from legal counsel has interpreted the Florida Uniform Prudent Management of Institutional Funds Act ("Florida UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Florida UPMIFA. In accordance with the Florida UPMIFA, the Foundation's governing board considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Florida UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported as a loan from unrestricted net assets. For the period ending June 30, 2018 and 2017, the amount of the loan was \$16,370 and \$26,241, respectively. The loan considers donor-restricted endowments where the fair value of the investments was less than donor stipulations plus amounts available for spending. The loan is offset against the net assets released from restrictions on the statement of activities. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the governing board.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 - ENDOWMENTS (Continued)

Return Objectives and Risk Parameters -

The Foundation's governing board has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce the desired minimum rate of return which is equal to the Consumer Price Index ("CPI") plus 400 basis points (4%) for spending, plus an amount for the operating budget on an annualized basis.

The Foundation expects its endowment funds, over time, to provide an average annual rate of return of approximately CPI plus 600 basis points (6%). Actual returns in any year may vary from this amount. The Investment Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. Research has demonstrated that portfolio risk is best minimized through diversification of assets. The portfolio of funds is structured to maintain prudent levels of diversification. In terms of relative risk, the volatility of the portfolio is expected to be in line with general market conditions.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Foundation's spending rate is calculated on a three-year average of the market value of the endowments as of June 30. Spending is awarded for endowments greater than \$25,000 after a one year waiting period. The approved spending rate was 4.00% for fiscal years ended June 30, 2018 and 2017.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 - ENDOWMENTS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued) -

The Foundation strives to balance the donor's desire to fund current program, faculty, and scholarship needs with the commitment to preserve over time the donor's gifts to the endowment corpus. Furthermore, the Foundation takes seriously its responsibility to provide prudent fiduciary management, oversight of the endowments, and intergenerational equity. However, the Foundation is aware that despite utilizing a well-diversified investment portfolio strategy and the best good faith efforts of its governing board, there will be times when the fair market value of an endowment may fall below the endowment corpus value creating underwater endowments. In the event an endowment falls underwater, the Foundation will use a 25% step down spending allocation method to slow the spending from the endowment. For each 10% an endowment is underwater, the allocated endowment spending (exclusive of the operating allocation) will be reduced by 25%. Any endowment more than 30% underwater will receive no endowment spending allocation. The intent of this policy is to attempt to continue to provide spending to support the scholarships, programs, and faculty as designated by the donor and within the limits of Florida laws, while also allowing the endowment to recover more quickly from economic downturns.

The Foundation's operating budget has generally been two percent (2%) of the three-year average of the market value of the investment portfolio. Pursuant to the proposal adopted by the governing board, the goal is to reduce the operating budget to one and one-half percent (1.5%) of the total investment assets. As such, for each \$1,000,000 increase in market value of the investment portfolio above \$50,000,000, the percentage for the operating budget will decrease by one basis point (0.01%), reaching the objective of 1.5% with assets of \$100,000,000. Using this formula, the budget rate for fiscal year 2019 is 1.70%.

Changes in balances for donor and board restricted endowments by net asset class as of June 30, 2018 are as follows:

	Expendable		Nonexpendable	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Balance, July 1, 2017	\$ 1,825,566	\$ 10,906,819	\$ 61,964,356	\$ 74,696,741
Restricted contributions	240	175,672	1,408,116	1,584,028
Loss from cancelled restricted contributions	-	-	(3,637)	(3,637)
Investment income	122,255	5,156,400	-	5,278,655
Net appreciation	48,135	1,693,108	-	1,741,243
Other changes	-	(1,188,153)	6,099	(1,182,054)
Amounts appropriated for expenditures	(330,420)	(2,606,225)	-	(2,936,645)
Endowment Balance, June 30, 2018	\$ 1,665,776	\$ 14,137,621	\$ 63,374,934	\$ 79,178,331

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 - ENDOWMENTS (Continued)

Changes in balances for donor and board restricted endowments by net asset class as of June 30, 2017 are as follows:

	Expendable		Nonexpendable	Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Balance, July 1, 2016	\$ 1,587,798	\$ 5,075,167	\$ 55,095,558	\$ 61,758,523
Restricted contributions	-	129,029	6,895,569	7,024,598
Loss from cancelled restricted contributions	-	-	(2,289)	(2,289)
Investment income	67,009	2,790,294	-	2,857,303
Net appreciation	204,763	6,876,889	-	7,081,652
Other changes	-	(1,352,886)	(24,482)	(1,377,368)
Amounts appropriated for expenditures	(34,004)	(2,611,674)	-	(2,645,678)
Endowment Balance, June 30, 2017	<u>\$ 1,825,566</u>	<u>\$ 10,906,819</u>	<u>\$ 61,964,356</u>	<u>\$ 74,696,741</u>

The earnings from investments, and expenditures from those earnings, related to the permanently restricted nonexpendable balances for the years ended June 30, 2018 and 2017 are classified as temporarily restricted.

Endowment composition by net asset class as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment
Donor-restricted permanent endowments	\$ -	\$ -	\$ 59,353,792	\$ 59,353,792
Donor-restricted expendable balance from permanent endowments	-	13,416,917	-	13,416,917
Donor-restricted unconditional promises to give, at fair value	-	-	4,021,142	4,021,142
Donor-restricted quasi endowments	-	720,704	-	720,704
Board-designated quasi endowments	1,665,776	-	-	1,665,776
Total endowment balance	<u>\$ 1,665,776</u>	<u>\$ 14,137,621</u>	<u>\$ 63,374,934</u>	<u>\$ 79,178,331</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 - ENDOWMENTS (Continued)

Endowment composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment
Donor-restricted permanent endowments	\$ -	\$ -	\$ 57,413,712	\$ 57,413,712
Donor-restricted expendable balance from permanent endowments	-	10,405,920	-	10,405,920
Donor-restricted unconditional promises to give, at fair value	-	-	4,550,644	4,550,644
Donor-restricted quasi endowments	-	500,899	-	500,899
Board-designated quasi endowments	1,825,566	-	-	1,825,566
 Total endowment balance	 <u>\$ 1,825,566</u>	 <u>\$ 10,906,819</u>	 <u>\$ 61,964,356</u>	 <u>\$ 74,696,741</u>

As of June 30, 2018 and 2017, \$2,253,509 and \$2,326,465, respectively, of net assets have been designated as quasi-endowment funds to support the missions of the University. The quasi-endowments resulting from internal designations are classified as unrestricted net assets. The quasi-endowments resulting from donor designations are classified as temporarily restricted net assets.

NOTE 11 - RETIREMENT PLAN

Certain Foundation employees working in regularly established positions of the University are covered by the Florida Retirement System (“FRS”), a State-administered cost-sharing, multiple-employer, public employee defined benefit retirement plan (“Plan”). The Plan provisions are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code, wherein Plan eligibility, contributions, and benefits are defined and described in detail. The 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 non-integrated programs. These include the Plan, a Deferred Retirement Option Program (“DROP”), and a defined-contribution plan, referred to as the Public Employee Optional Retirement Program (“PEORP”). Participating employers include all State departments, counties, district school boards, universities and community colleges. Many municipalities and special districts have elected to be participating employers. Essentially all regular employees of participating employers are eligible.

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 four years of credit for military service.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 - RETIREMENT PLAN (Continued)

The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments. The University, as an employer participating in the Plan, paid an amount between 7.92% to 22.71% and 7.52% to 21.77% for 2018 and 2017, respectively, of each individual's salary to the retirement fund. Prior to July of 2011, the Plan was a non-contributory program for the employee. During 2018 and 2017, employees paid an amount of 3.00% into the Plan. Retirement expense for employees participating in this plan was \$68,371 and \$81,216 for the years ended June 30, 2018 and 2017, respectively.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the plan to defer receipt of monthly benefits payments while continuing employment with an FRS employer. An employer may participate in 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. No employees participated in DROP during the year ended June 30, 2018. Retirement expense for employees participating in this plan was \$652 for the year ended June 30, 2017.

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. 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. Retirement expenses for employees participating in this plan were \$31,236 and \$22,957 for the years ended June 30, 2018 and 2017, respectively.

Pursuant to Section 121.35, Florida Statutes, the Florida Legislature created an Optional Retirement Program ("Program") for eligible State University System faculty and administrators. 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 may make an irrevocable election to participate in the Program rather than the Plan, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes on behalf of the participant an amount equal to a percentage of the participant's gross monthly compensation. The participant may contribute by salary deduction an amount not to exceed the percentage contributed by the University to the participant's annuity account. Contributions made to the Program for fiscal years ended June 30, 2018 and 2017 totaled \$71,868 and \$76,066, respectively.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 11 - RETIREMENT PLAN (Continued)

The University has established a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (“Code”), that is a governmental plan as defined under Code Section 414(d), to provide retirement benefits to eligible employees. Retirement expenses paid by the Foundation in 2018 and 2017 for the University President participating in the plan totaled \$60,106 and \$48,651, respectively.

NOTE 12 - STUDENT HOUSING SYSTEM

The Foundation has a sublease agreement with the Florida Board of Education of the State of Florida on behalf of the University for use of land and certain existing student housing facilities. The lease requires the Foundation to construct additional student housing facilities and to operate the facilities as a consolidated housing system on behalf of the University.

The Student Housing System consists of eight projects, which are the following: the South Side facilities constructed in 1966 and 1972; the Villages Phase I (West) and II (East), completed in 1997 and 1999, respectively; the first (Martin Hall), the second (Pace Hall), and the third (Argo Hall) portions of Phase III completed in 2000, 2001, and 2004, respectively; and the first (Heritage Hall) and the second (President’s Hall) portions of Phase IV completed in 2010 and 2012, respectively.

The terms of the sublease require the Foundation to pay the University rents of \$10 per year plus variable rent equal to 100% of the Surplus Earnings from the Student Housing System. Surplus Earnings represent cash flows after payment of the operating costs, debt service and reserves. No variable rent was due for either 2018 or 2017. The sublease agreement was signed in 1998 and ends August 31, 2038.

The Foundation and the University have a management operating agreement outlining the responsibilities of both parties for the operations of the Student Housing System. The current agreement was signed on December 1, 2016 and is effective until all bonds outstanding are paid in full.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 13 - CONCENTRATIONS

Uninsured Cash Balances:

The Foundation's cash balances held at financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At June 30, 2018, the Foundation's uninsured cash balance at financial institutions totaled approximately \$700,000.

At June 30, 2018, the Foundation maintained approximately \$9,282,000 of cash and cash equivalent balances in the State of Florida's Division of Treasury's SPIA investment pool ("Pool"). This amount is the Foundation's pro-rata ownership in the Pool itself, not in the underlying securities. The Pool is invested in a combination of short-term liquid instruments and intermediate term fixed income securities. Federal depository insurance does not insure amounts in the Pool. At June 30, 2018, the Pool was rated at A+f by Standard and Poor's and had an effective duration of 3.00 years. Fair value for this account is determined by multiplying the Foundation's cost for its pro-rata share of the Pool by the Pool's Fair Value Factor ("Factor"). At June 30, 2018, the unaudited Factor was 0.9872. The Factor is determined by an independent pricing service which uses quoted market prices as well as multifactor models for securities which have no quoted market prices.

Additional information may be found in Note 2 to the State of Florida Comprehensive Annual Financial Report ("CAFR") and at the Treasury's website, www.fltreasury.org. Due to the dollar for dollar liquidity of the account, the cash amounts in the Foundation's financial statements that are held in SPIA have not been adjusted for the unaudited fair value factor.

Additional financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash deposits at brokerage firms. These accounts are not insured by the FDIC. At June 30, 2018, the Foundation maintained cash and cash equivalent balances at these institutions totaling approximately \$2,625,000.

Management monitors the soundness of the financial institutions and does not believe the Foundation is exposed to any significant credit risk on cash and cash equivalents.

Contributions Receivable:

For the year ended June 30, 2018, 51% of the Foundation's contributions receivable was due from one donor.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 14 - CONDITIONAL ASSET RETIREMENT OBLIGATIONS

The Foundation has conditional asset retirement obligations (“AROs”) primarily related to the encapsulated structural fireproofing in the older residence halls that is not subject to abatement unless the buildings are demolished and non-encapsulated asbestos that the Foundation would remediate only if it performed major renovations of those buildings. Under current accounting guidance, these AROs meet the definition of liabilities and should be recognized when incurred if their fair values can be reasonably estimated. Because there is no definitive timeframe in which these halls will be demolished and they are tied to the current bond funding that will not be alleviated until 2040, these conditional obligations are considered to have indeterminate settlement dates. Therefore, the Foundation could not develop a reasonable estimate of their fair values. However, the Foundation will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available.

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, restricted cash, other receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. Long-term investments are carried at fair value, as discussed in Note 5. Contributions receivable and assets held under split interest agreements, and the related liabilities, are reported at fair value based on life expectancy of the beneficiary and the present value of expected cash flows using a discount rate.

The fair value of bonds payable is estimated using discounted cash flow analyses based on the Foundation’s current incremental borrowing rates for similar types of bond arrangements.

A comparison of the carrying value of the bonds payable, net, as of June 30, is as follows:

	2018	2017
Carrying amount	\$ 45,725,667	\$ 48,211,464
Fair value	\$ 44,985,773	\$ 48,011,184

The Foundation determined the estimated fair value amounts by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Foundation or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS

The Foundation utilizes various methods to measure fair value of its assets and liabilities on a recurring basis. U.S. GAAP establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of hierarchy are:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than quoted market prices and can include active markets and markets not considered to be active.

Level 3: Unobservable inputs that are supported by little or no market activity.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level of any input that is significant to the fair value measurement in its entirety. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Changes in valuation techniques may result in transfers in or out of an investment's assigned level as described above.

The inputs used to measure the fair value of contributions receivable are categorized as Level 3. All information related to the fair value disclosure of these assets is described in Note 3.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

The fair value of the Foundation's assets and liabilities at June 30, 2018 is as follows:

Description	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value -				
Equity securities-Domestic & International	\$ 59,183,345	\$ 59,183,345	\$ -	\$ -
Debt securities	17,456,679	12,173,971	5,282,708	-
Alternative investments:				
Private equity investments	1,231,297	-	-	1,231,297
Real estate investment trust	3,174,114	-	-	3,174,114
Total alternative investments	4,405,411	-	-	4,405,411
Funds held in trust by others	3,208,207	3,208,207	-	-
Contributions receivable, net	7,336,118	-	-	7,336,118
Total assets measured at fair value	91,589,760	74,565,523	5,282,708	11,741,529
Assets measured at net asset value (NAV) -				
Fund of fund hedge funds	8,799,734			
Private equity investments	1,417,554			
Total assets measured at NAV	10,217,288			
Total assets	101,807,048			
Liabilities:				
Funds held in trust	1,604,792	-	-	1,604,792
Due to WFHT	1,238,296	-	1,238,296	-
Total liabilities	2,843,088	-	1,238,296	1,604,792
Total	\$ 98,963,960	\$ 74,565,523	\$ 4,044,412	\$ 10,136,737

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

The fair value of the Foundation's assets and liabilities at June 30, 2017 is as follows:

Description	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value -				
Equity securities-Domestic & International	\$ 53,422,205	\$ 53,422,205	\$ -	\$ -
Debt securities	14,399,904	9,102,445	5,297,459	-
Alternative investments:				
Private equity investments	1,214,879	-	-	1,214,879
Real estate investment trust	1,584,893	-	-	1,584,893
Total alternative investments	2,799,772	-	-	2,799,772
Funds held in trust by others	3,144,979	3,144,979	-	-
Contributions receivable, net	8,167,001	-	-	8,167,001
Total assets measured at fair value	81,933,861	65,669,629	5,297,459	10,966,773
Assets measured at net asset value (NAV) -				
Fund of fund hedge funds	15,900,120			
Private equity investments	1,100,024			
Total assets measured at NAV	17,000,144			
Total assets	98,934,005			
Liabilities:				
Funds held in trust	1,642,526	-	-	1,642,526
Due to WFHT	1,336,882	-	1,336,882	-
Total liabilities	2,979,408	-	1,336,882	1,642,526
Total	\$ 95,954,597	\$ 65,669,629	\$ 3,960,577	\$ 9,324,247

The following methods and assumptions were used to estimate the fair value for each class of asset and liability, measured at fair value:

Equity securities - Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

Debt securities - Investments in fixed income securities are classified as Level 1 as they trade with sufficient frequency and volume to enable the Foundation to obtain pricing information on an ongoing basis. However, a small segment of debt security holdings are in a High Yield Commingled Fund where there are inputs, other than quoted prices included in Level 1, that are observable, either directly or indirectly, and therefore included in Level 2.

Alternative investments - Investments in private equity partnerships for which there is no readily determinable fair value is classified as Level 3 as the valuation is based on significant unobservable inputs.

Private equity and real estate investment trust funds for which there are not readily determinable fair values are classified as Level 3 as the valuation is based on significant unobservable inputs. Private equity real estate are partnerships formed for the purpose of acquiring, holding, managing and selling income producing real estate and real estate related assets including interest in joint venture development projects for current income, investment and capital appreciation over a three to five year holding period.

Funds held in trust by others - Funds held in trust by others are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available. The liabilities are classified as Level 3 as they are measured at the present value of the future distributions the Foundation expects to receive over the term of the agreements.

Contributions receivable - Unconditional promises to give that are expected to be collected in future years are recorded at an estimated fair value determined using the discounted present value of expected cash flows. They are classified as Level 3 as the discounts on those amounts are computed using a risk adjusted discount rate applicable at the time promises are received.

Due to WFHT - The amount payable to WFHT is classified as Level 2 as the value correlates directly to the fair value of WFHT's interest in the Foundation's investment pool.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	Private Equity	Real Estate	Contributions Receivable, net	Funds Held in Trust by Others	Total
Assets:					
Beginning balance	\$ 1,214,879	\$ 1,584,893	\$ 8,167,001	\$ -	\$ 10,966,773
Total gains or losses:					
Included in change					
in net assets	97,027	355,098	-	-	452,125
Purchases, issuances, sales, and settlements:					
Purchases	216,816	1,547,796	-	-	1,764,612
Settlements	(297,425)	(313,673)	-	-	(611,098)
New pledges, payments, Write-offs:					
New pledges	-	-	560,157	-	560,157
Payments	-	-	(978,367)	-	(978,367)
Write-offs	-	-	(412,673)	-	(412,673)
Total assets	1,231,297	3,174,114	7,336,118	-	11,741,529
Liabilities:					
Beginning balance	-	-	-	1,642,526	1,642,526
Adjustments	-	-	-	(67,526)	(67,526)
Total gains or losses:					
Included in change					
in net assets	-	-	-	166,887	166,887
Purchases, issuances, sales, and settlements:					
Purchases	-	-	-	46,566	46,566
Settlements	-	-	-	(183,661)	(183,661)
Total liabilities	-	-	-	1,604,792	1,604,792
Total	\$ 1,231,297	\$ 3,174,114	\$ 7,336,118	\$ (1,604,792)	\$ 10,136,737

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

	Private Equity	Real Estate	Contributions Receivable, net	Funds Held in Trust by Others	Total
Assets:					
Beginning balance	\$ 958,869	\$ 1,912,513	\$ 2,802,212	\$ 3,121,850	\$ 8,795,444
Transfers out of Level 3	-	-	-	(3,121,850)	(3,121,850)
Total gains or losses:					
Included in change in net assets	54,250	231,463	-	-	285,713
Purchases, issuances, sales, and settlements:					
Purchases	793,914	-	-	-	793,914
Settlements	(592,154)	(559,083)	-	-	(1,151,237)
New pledges, payments, Write-offs:					
New pledges	-	-	7,590,155	-	7,590,155
Payments	-	-	(902,757)	-	(902,757)
Write-offs	-	-	(1,322,609)	-	(1,322,609)
Total assets	1,214,879	1,584,893	8,167,001	-	10,966,773
Liabilities:					
Beginning balance	-	-	-	1,795,555	1,795,555
Adjustments	-	-	-	(176,159)	(176,159)
Total gains or losses:					
Included in change in net assets	-	-	-	211,684	211,684
Purchases, issuances, sales, and settlements:					
Settlements	-	-	-	(188,554)	(188,554)
Total liabilities	-	-	-	1,642,526	1,642,526
Total	\$ 1,214,879	\$ 1,584,893	\$ 8,167,001	\$ (1,642,526)	\$ 9,324,247

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth a summary of valuation techniques and quantitative information utilized in determining the fair value of the Level 3 assets and liabilities as of June 30, 2018, excluding investments valued using the practical expedient or the net asset value (“NAV”).

<u>Asset or Liability Type</u>	<u>Fair Value</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Range (weighted average)</u>
Real Estate Investment Trust - Harbert IV:				
Real Estate Partnership Interest	\$ 43,637	Independent Appraisal	Capitalization Rate	8.30%
Real Estate Investment Trust - Harbert V:				
Real Estate Partnership Interest	\$ 591,258	Independent Appraisal	Capitalization Rate	6.33%
Real Estate Partnership Interest	\$ 691,553	Direct Capitalization	Capitalization Rate	7.02%
Real Estate Partnership Interest	\$ 212,658	Market Transactions (a)	N/A	N/A
Real Estate Investment Trust - Harbert VI:				
Real Estate Partnership Interest	\$ 38,243	Independent Appraisal	Capitalization Rate	N/A
Real Estate Partnership Interest	\$ 435,844	Direct Capitalization	Capitalization Rate	7.27%
Real Estate Partnership Interest	\$1,160,921	Market Transactions (a)	N/A	N/A
Private Equity Investments - Step Stone:				
Preferred Partnership Interest	\$ 435,027	Market Approach	LTM EBITDA Multiple (7.8X)	
Member or Partnership Interest	\$ 431,664	Market Approach; Recent Transaction Price (b)	LTM EBITDA Multiple (9.6X); Discount for lack of marketability	15%

(a) Market Transactions include related capital expenditures of a particular investment.

(b) Investment is valued based on pending transactions with an expended close date after valuation date.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

<u>Asset or Liability Type</u>	<u>Fair Value</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input</u>	<u>Range (weighted average)</u>
Private Equity Investments - Portfolio	Advisor Credit	Opportunities Fund:		
Common Securities	\$ 33,628	Market Comparable Companies	EBITDA Multiple (10.8X)	11.5x
Common Securities	\$ 9,029	Cost (Recent Transaction)	N/A	N/A
Preferred Securities	\$ 1,953	Cost (Recent Transaction)	N/A	N/A
Preferred Securities	\$ 4,621	Impairment analysis/Market comparable companies	EBITDA Multiple (10.8X)	11.1x
Debt Securities	\$ 129,206	Cost (Recent Transaction)	N/A	N/A
Debt Securities	\$ 186,169	Relative Value Analysis	Yield to Maturity 10.83%	12.22%
Contributions receivable, net	\$7,336,118	Discounted present value	Discounted present value of expected cash flows at a risk-adjusted discount rate applicable at the time promises are received	N/A
Funds Held in Trust - Liabilities	\$1,604,792	Factor times Annuity	Value of \$1 paid every year discounted for both mortality and interest multiplied by the annual amount paid to annuitant(s)	N/A

**UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

The following table lists investments in hedge funds and investment limited partnerships by strategy, excluding investments measured at fair value, as of June 30, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Fund of Fund Hedge Funds:				
Non-Directional absolute return	\$ 101,183	\$ -	Quarterly	90 Days
Equity market neutral	8,698,551	-	Quarterly to Semi-annual	95 Days
Private equity investments	<u>1,417,554</u>	<u>2,335,764</u>	N/A*	N/A*
	<u>\$ 10,217,288</u>	<u>\$ 2,335,764</u>		

* These funds are in private equity structures, with no ability to be redeemed.

** These funds are in trust that have no identifiable redemption period.

NOTE 17 - CONTINGENCY

During the year ended June 30, 2016, management decided to take the Southside units, which are part of the University's student housing system, off line. This action was compliant with the covenants in Section 5.14 of all the bond agreements, which allow housing facilities to be abandoned, sold, converted, razed or removed in the event that the facilities are found to be not capable of producing positive net revenues. Management has been considering this action as a portion of these units have been taken off line over the past few years. The Southside units, originally constructed in the 1960's, are the oldest units and maintenance costs have increased each year. It was economically unfeasible to continue to operate these units in their current capacity. Management continues to explore alternative uses of the Southside units, including Greek housing, that are in line with the University's master plan. Conversion costs and the highest and best use alternatives for these assets were uncertain at June 30, 2018.

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 18 - SUBSEQUENT EVENT

At its September 30, 2018 meeting, the Foundation Board voted to execute an amendment to the sublease, which is discussed in Note 12, to revert six of the fifteen Southside units back to the University. As a result, the Foundation will recognize a loss on disposal of property of approximately \$300,000 during fiscal year 2019.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
SCHEDULES OF STUDENT HOUSING SYSTEM REVENUES AND EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Revenues:		
Rent	\$ 8,848,847	\$ 9,949,539
Interest	168,220	146,617
Other	241,032	314,427
Total revenues	9,258,099	10,410,583
 Operating Expenses:		
Salaries and wages	2,031,881	2,181,272
Administrative and general	417,285	520,241
Loss on extinguishment of debt	-	3,693,269
Maintenance and repairs	1,294,057	1,175,478
Insurance	190,932	178,801
Utilities	1,130,193	1,154,017
Interest	1,745,791	1,928,670
Depreciation and amortization	2,906,869	2,829,877
Total operating expenses	9,717,008	13,661,625
 Deficiency of Revenues Under Expenses	\$ (458,909)	\$ (3,251,042)

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
SCHEDULES OF FINANCIAL POSITION
(EXCLUDING THE STUDENT HOUSING SYSTEM)
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
Cash and cash equivalents	\$ 2,304,203	\$ 1,686,740
Restricted cash equivalents	2,115,784	1,334,968
Contributions receivable, net	7,336,118	8,167,001
Other receivables, net	83,991	124,671
Due from University	378,796	146,229
Prepaid expenses	127,110	123,120
Long-term investments	91,849,613	88,223,825
Property and equipment, net	7,845,571	1,454,483
Assets held under split interest agreements	3,208,207	3,144,979
Other assets	1,741,780	326,276
Total Assets	\$ 116,991,173	\$ 104,732,292

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 752,210	\$ 560,024
Liabilities held under split interest agreements	1,604,792	1,642,526
Due to West Florida Historic Trust	1,238,296	1,336,882
Total liabilities	3,595,298	3,539,432
Commitments and Contingencies	--	--
Net Assets:		
Unrestricted	4,535,717	4,320,010
Temporarily restricted	45,485,224	34,908,494
Permanently restricted	63,374,934	61,964,356
Total net assets	113,395,875	101,192,860
Total Liabilities and Net Assets	\$ 116,991,173	\$ 104,732,292

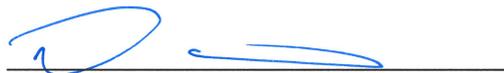
UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
SCHEDULES OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	Scholarships	Other Program Services	Student Housing System	Fundraising	General & Administrative	2018 Total	2017 Total
Bad debt expense	\$ -	\$ 6,564	\$ 18,412	\$ -	\$ 6	\$ 24,982	\$ 34,702
Bond expense	-	-	20,756	-	-	20,756	38,728
Depreciation and amortization	-	84,115	2,906,869	-	-	2,990,984	2,829,877
Equipment	-	57,056	2,660	-	-	59,716	101,694
Housing administrative and general	-	-	56,593	-	-	56,593	72,410
Insurance	-	33,749	190,932	-	20,655	245,336	200,432
Interest	-	-	1,745,791	-	-	1,745,791	1,928,670
Investment and consultant fees	-	5,304	-	-	262,068	267,372	259,665
Lobbying	-	30,000	-	-	90,000	120,000	95,000
Maintenance and repairs	-	-	1,294,057	-	-	1,294,057	1,175,478
Miscellaneous	-	243,022	-	7,186	15,728	265,936	208,086
Office	-	296,583	113,193	43,169	90,560	543,505	457,237
Professional development	-	99,134	3,567	16,091	3,856	122,648	99,740
Professional services	-	753,740	10,000	34,025	77,177	874,942	642,401
Public radio program	-	285,213	-	-	-	285,213	267,786
Public relations	-	80,255	-	26,929	19,022	126,206	156,300
Recruitment	-	34,832	1,552	418	1,093	37,895	54,479
Rental	-	41,698	-	6,945	294	48,937	60,998
Salaries and wages	-	1,368,863	2,031,881	143,700	1,536,786	5,081,230	5,118,442
Scholarships	1,947,358	-	-	-	-	1,947,358	1,240,964
Service charges and other fees	-	178,456	131,279	3,260	(108,067)	204,928	255,129
Loss on extinguishment of debt	-	-	-	-	-	-	3,693,269
Student and staff support	-	653	-	-	-	653	1,238
Travel and entertainment	-	348,937	59,273	64,532	35,254	507,996	523,975
University support	-	1,297,748	-	-	(33,038)	1,264,710	4,400,235
Utilities	-	-	1,130,193	-	-	1,130,193	1,154,017
	<u>\$ 1,947,358</u>	<u>\$ 5,245,922</u>	<u>\$ 9,717,008</u>	<u>\$ 346,255</u>	<u>\$ 2,011,394</u>	<u>\$ 19,267,937</u>	<u>\$ 25,070,952</u>

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
CHAIRS UNDER EMINENT SCHOLARS PROGRAM
SCHEDULE OF RECEIPTS, EXPENSES AND ENDOWMENT BALANCES
YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Name of Gift	Beginning Corpus Balance	Beginning Net Balance	Corpus Contributed During the Year	Net Investment Earnings	Expenditures	Other Expenditures and Transfers	Fund Balance Net of Earnings, Expense & Transfers	Ending Corpus Balance	Ending Total Balance
William Craig Nystul Chair	\$ 1,210,852	\$ 1,518,663	\$ -	\$ 153,069	\$ 5,835	\$ 81,052	\$ 1,584,845	\$ 1,210,852	\$ 1,584,845
John C. Pace, Sr., Business Chair	1,000,000	1,249,724	-	125,962	4,802	66,698	1,304,186	1,000,000	1,304,186
John C. Pace, Sr., Memorial Eminent Scholar	2,644,500	3,378,976	-	340,573	12,983	180,337	3,526,229	2,644,500	3,526,229
John C. Pace, Jr., Distinguished University Professorship	3,966,750	5,068,462	-	510,860	19,474	270,505	5,289,343	3,966,750	5,289,343
Mary Ball Washington Chair	1,320,155	1,554,354	-	156,666	5,972	82,956	1,622,092	1,320,155	1,622,092
Total - Eminent Scholars Program	<u>\$ 10,142,257</u>	<u>\$ 12,770,179</u>	<u>\$ -</u>	<u>\$ 1,287,130</u>	<u>\$ 49,066</u>	<u>\$ 681,548</u>	<u>\$ 13,326,695</u>	<u>\$ 10,142,257</u>	<u>\$ 13,326,695</u>

I hereby certify that the above is an accurate representation of the activity for this program.


 Daniel Lucas, Chief Financial Officer

October 23, 2018
 Date

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
MAJOR GIFTS PROGRAM
SCHEDULE OF RECEIPTS, EXPENSES AND ENDOWMENT BALANCES
YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Name of Gift	Corpus			Investments			Fund Balance		Reclass for Spending	Loan from Unrestricted Transfers	Ending Corpus Balance	Ending Total Balance
	Beginning Corpus Balance	Beginning Net Balance	Contributed During the Year	Investment Earnings	& Other Expenses	Spending Transfers	Net of Earnings, Expenses & Transfers					
Alexander Memorial Scholarship	\$ 282,852	\$ 304,684	\$ -	\$ 30,710	\$ 5,512	\$ 11,920	\$ 317,962	\$ -	\$ -	\$ 282,852	\$ 317,962	
Alfred duPont Foundation Scholarship	355,000	375,797	40,000	38,240	7,395	12,910	433,732	-	-	395,000	433,732	
Bank of America	150,000	166,814	-	16,814	3,018	6,526	174,084	-	-	150,000	174,084	
Baptist Hospital Fund	170,539	227,090	-	22,406	4,022	8,696	236,778	-	-	170,539	236,778	
Barnett Bank Endowment	166,692	222,199	-	22,879	4,107	8,880	232,091	-	-	166,692	232,091	
Blue Cross & Blue Shield Nursing Scholarship	155,673	161,867	-	16,315	2,929	6,307	168,946	-	-	155,673	168,946	
C. L. Fountain Family Business Ethics	100,000	107,073	-	10,792	1,937	4,189	111,739	-	-	100,000	111,739	
Cacilda Prado Pace Library Fund	150,346	155,274	-	15,651	2,809	6,042	162,074	-	-	150,346	162,074	
Chadbourne Foundation - PIC/UWF	186,434	229,537	5,000	-	4,228	8,548	221,761	-	-	191,434	221,761	
Chadbourne Foundation Business Ethics	300,000	315,972	-	31,848	5,716	12,307	329,797	-	-	300,000	329,797	
Charles & Fran Switzer Business Ethics	198,774	210,371	-	21,204	3,806	8,230	219,539	-	-	198,774	219,539	
CHARLOTTE	150,000	183,696	-	18,515	3,323	7,187	191,701	-	-	150,000	191,701	
Dorothy Martin Endowment	150,005	184,054	-	18,552	3,329	7,201	192,076	-	-	150,005	192,076	
E. W. Hopkins Jr., Professorship	175,343	231,647	-	23,349	4,192	9,062	241,742	-	-	175,343	241,742	
Elizabeth R. Woolf	275,412	340,297	-	34,299	6,156	13,313	355,127	-	-	275,412	355,127	
Gulf Power Electrical Engineering	152,700	158,653	-	15,991	2,870	6,182	165,592	-	-	152,700	165,592	
Harold E. & Pat Marcus History/Archaeology	150,000	175,759	-	17,715	3,180	6,876	183,418	-	-	150,000	183,418	
Jane & Fred Seligman Endowment	207,251	215,511	-	21,722	3,899	8,398	224,936	-	-	207,251	224,936	
John C. Pace, Jr., Memorial Endowment	8,592,090	10,840,047	-	1,092,589	196,093	424,093	11,312,450	-	-	8,592,090	11,312,450	
John C. Pace, Jr., Memorial Scholarship Fund	7,740,835	9,837,296	-	991,520	177,954	384,862	10,266,000	-	-	7,740,835	10,266,000	
John L. Switzer Business Ethics	195,688	206,835	-	20,847	3,742	8,092	215,848	-	-	195,688	215,848	
Katherine C. Pace Memorial Endowment	1,700,000	1,713,614	-	172,717	30,998	66,773	1,788,560	-	-	1,700,000	1,788,560	
Kerrigan Daughters' Endowment	340,204	353,253	-	35,605	6,389	13,765	368,704	-	-	340,204	368,704	
Levin Fund	251,906	305,378	-	30,779	5,525	11,947	318,685	-	-	251,906	318,685	
Mabie Fund	324,014	385,044	-	38,810	6,966	15,064	401,824	-	-	324,014	401,824	
Mattie M. Kelly Music Education Fund	163,443	215,083	-	21,679	3,891	8,414	224,457	-	-	163,443	224,457	
Maygarden Lecture Series	162,810	174,926	-	17,631	3,165	6,843	182,549	-	-	162,810	182,549	
Medical Center Clinic Endowment	164,306	207,195	-	20,884	3,748	8,106	216,225	-	-	164,306	216,225	

UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA
MAJOR GIFTS PROGRAM
SCHEDULE OF RECEIPTS, EXPENSES AND ENDOWMENT BALANCES
YEAR ENDED JUNE 30, 2018
(UNAUDITED)
(Continued)

Name of Gift	Beginning	Beginning	Corpus	Investments	Investments	Spending	Fund Balance	Reclass	Loan from	Ending	Ending
	Corpus	Net	Contributed				Net of				
	Balance	Balance	During the	Investment	& Other	Transfers	Earnings, Expenses	Spending	Transfers	Balance	Balance
			Year	Earnings	Expenses		& Transfers				
National Defense Industrial Assoc Sch End	150,000	154,468	-	15,569	2,795	6,019	161,223	-	-	150,000	161,223
Orville Beckford Scholarship Endowment	150,050	178,533	-	17,995	3,229	6,985	186,314	-	-	150,050	186,314
Pickens Foundation For Education	162,349	202,748	207	20,444	3,672	7,915	211,812	-	-	162,556	211,812
Pre Professional Endowment	165,338	232,510	-	23,435	4,206	9,096	242,643	-	-	165,338	242,643
Raymond C. Dyson Fund I	177,422	227,592	-	22,940	4,118	8,904	237,510	-	-	177,422	237,510
Raymond C. Dyson Fund II	162,282	204,553	-	20,617	3,700	8,002	213,468	-	-	162,282	213,468
Rotary Business Ethics	105,000	110,346	-	11,122	1,996	4,317	115,155	-	-	105,000	115,155
Sacred Heart Allied Health Endowment	163,947	218,370	-	22,010	3,950	8,543	227,887	-	-	163,947	227,887
Seymour Gitenstein Scholarship Endowment	200,000	176,822	-	17,822	3,198	10,383	181,063	-	-	200,000	181,063
Switzer Brothers Professorship Endowment	581,859	612,943	-	61,780	11,088	23,884	639,751	-	-	581,859	639,751
T. T. Wentworth, Jr. Historical Center	151,240	145,939	-	14,710	2,640	5,650	152,359	-	-	151,240	152,359
William D. Smart Seminar Series in Chem. End.	161,579	162,509	-	16,379	2,939	6,292	169,657	-	-	161,579	169,657
Women's Athletic Trust Fund	168,451	207,845	560	20,990	3,779	8,100	217,516	-	-	169,011	217,516
Total	\$ 25,611,834	\$ 31,040,144	\$ 45,767	\$ 3,105,876	\$ 562,209	\$ 1,214,823	\$ 32,414,755	\$ -	\$ -	\$ 25,657,601	\$ 32,414,755

I hereby certify that the above is an accurate representation of the activity for this program.


 Daniel Lucas, Chief Financial Officer

10/23/2018
 Date

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 14, 2019

Issue: External Audit: WUWF-FM Financial Statement Audit
for Fiscal Year Ending June 30, 2018

Proposed action: Acceptance

Background information:

Annually, a financial audit is conducted of the WUWF-FM, a public telecommunications entity operated by UWF. This is to comply with the Corporation for Public Broadcasting (CPB) community service grant requirements. The audit report was issued on December 14, 2018. To ensure compliance with these requirements, we performed a cursory review of these special purpose financial statements and determined WUWF Public Media was in compliance.

Results:

WUWF Public Media received a clean unqualified opinion. No deficiencies were identified in the internal controls over financial reporting that were considered to be material weaknesses. Results of testing disclosed no instances of noncompliance or other matters that were required to be reported.

Financial Highlights:

- Operating revenues increased by \$613,838 for the year ending June 30, 2018. These changes were mainly due to an increase of \$301,389 in appropriations from UWF primarily used to replace a damaged radio transmitter; approximately \$150,000 increase in membership income; and an approximate \$74,000 increase in administrative support from UWF.
- 2018 operating expenses increased \$383,384 compared to the prior year. This increase was spread across the categories of programming and production, broadcasting, and program information and promotion functional expenses and included the write-off of the old transmitter.

Recommendation: Acceptance

Implementation Plan: None

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees of activities affiliated with or through the University of West Florida.

Supporting documents:

WUWF-FM Financial Statements for fiscal year ended June 30, 2018

Prepared by: Auditor Elizabeth Mrachek, emrachek@uwf.edu, 474-2639

Presenter: AVP Vito Hite, white@uwf.edu, 474-2637

**WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE
UNIVERSITY OF WEST FLORIDA**

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
TABLE OF CONTENTS
JUNE 30, 2018 AND 2017

	Page(s)
Independent Auditors’ Report	1 – 3
Management’s Discussion and Analysis	4 – 8
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 22
Supplemental Information	23
Schedule of Functional Expenses (Exhibit I)	24
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	25 – 26

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees,
University of West Florida:

Report on the Financial Statements

We have audited the accompanying financial statements of WUWF-FM (the "Station"), a public telecommunications entity operated by the University of West Florida, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Station's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Station's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- 1 -

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WUWF-FM as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as indicated in the table of contents to be presented to supplement the basic financial statements. Such information, although not a 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise WUWF-FM's basic financial statements. The Schedule of Functional Expenses (Exhibit I) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Functional Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Functional Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018 on our consideration of WUWF-FM's internal control over financial reporting 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WUWF-FM's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive style with a large initial 'J'.

Tallahassee, Florida
December 14, 2018

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017

INTRODUCTION AND REPORTING ENTITY

The following discussion and analysis is an overview of the financial position and activities of WUWF Radio Station for the years ended June 30, 2018 and 2017. Management of WUWF Radio Station has prepared the following discussion, and it should be read with the financial statements and related footnotes which follow this section. Our discussion and analysis is required by accounting principles generally accepted in the United States of America in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Governmental Accounting Standards Board has not developed accounting standards for presentation of auxiliary (or departmental) entities. The Station's accounting policies and practices do, however, conform to those permitted or allowed by the Corporation for Public Broadcasting (CPB), which generally follow published Governmental Accounting Standards. The overview presented below highlights the significant financial activities that occurred during the past year and describes changes in financial activity from the prior year.

WUWF-FM Radio Station is a public telecommunications entity operated by the University of West Florida. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

Serving Northwest Florida and South Alabama, WUWF Public Radio is one of the most visible and active examples of the University of West Florida's public service and outreach mission, pursuing and nurturing mutually beneficial community partnerships and enhancing the educational, cultural and economic development of the region.

WUWF is a high profile, cost effective example of UWF's commitment to the citizens of Florida. WUWF delivers the university's resources daily to thousands who live in areas which might otherwise be culturally or educationally isolated. Businesses use access to WUWF's prestigious NPR programming to recruit quality employees with metropolitan expectations.

The station broadcasts 24 hours a day, delivering a 100,000 watt signal at the frequency 88.1FM. The station simultaneously broadcasts a hybrid digital (HD) signal delivering three distinct program services: HD-1 providing 24/7 local, regional & national news and musical arts programming; HD-2 providing 24/7 classical music; and HD-3 providing Sightline, a 24/7 reading service for the vision impaired. All of the program streams can also be accessed online at <http://wuwf.org> or through the WUWF Mobile App.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

WUWF supports the university's academic mission by providing opportunities for students to gain professional experience to supplement classroom instruction. Faculty have a platform for sharing their academic research with the general public. Through collaborative programs involving faculty, WUWF's audience is made aware of the university's connection and importance to the community.

With a professional staff of 12 and nearly 25 volunteers, WUWF is known for outstanding locally produced news coverage and programming like Unearthing Florida, Acoustic Interlude, 14/59, Big Bands & Jazz, Musical Gumbo and RadioLive.

As a founding member of the Florida Public Radio Emergency Network (FPREN), WUWF is recognized by the Florida Department of Emergency Management as the primary source of emergency information for Northwest Florida. In times of crisis, WUWF transcends its role of life enrichment to that of lifeline, partnering with regional governments and agencies in providing critical information.

As a listener supported station, WUWF operates largely with contributions from individual listeners and local businesses. The University of West Florida provides funds for salaries, facilities, and general upkeep and utility bills. Grants from the Corporation for Public Broadcasting and the Florida Department of Education provide funds for salaries and national program acquisition costs.

FINANCIAL HIGHLIGHTS

The Station's operating revenues totaled \$2,491,607 up \$613,838 from last year and operating expenses totaled \$2,230,155 which is up \$383,384. from last year. The increases in operating revenues were mainly due to a \$301,389 increase in appropriations from UWF which included a \$200K replacement of damaged radio transmitter; \$150K increase in membership income; almost \$70K increase in other sources for Radio Live, Capital Steps and other local production events; and a \$74K increase in administrative support from UWF. The increases in operating expenses were spread among the categories of programming and production, broadcasting, and program information and promotion functional expenses, with programming and production and Broadcasting see the largest share of the increase due to production events and writing off the old transmitter.

The Station experienced an overall decrease of (\$7,187) in non-operating revenue due more timid market gains on investments compared to the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Station is a unit of University of West Florida, and these financial statements include assets, liabilities and activity related to its public broadcasting function. This includes account activity in funds which are under the control of the Station manager within the University and University of West Florida Foundation.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

These financial statements consist of statements of net position and statements of revenues, expenses, and changes in net position. The statements of net position and the statements of revenues, expenses, and changes in net position are intended to demonstrate the Station's financial position as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The statement of net position and the statement of revenues, expenses, and changes in net position are valuable report information on WUWF's Current Fund and activities in a way that helps the reader determine if the Station is in a better position from one year to the next. When revenues and other support exceed expenses, the result is an increase in net position. The relationship between revenues and expenses may be thought of as WUWF's operating results.

These two statements report WUWF's net position and changes in them. The net position amount, the difference between assets and liabilities, is one way to measure WUWF's financial health or financial position. Over time, increases or decreases in WUWF's net position are one indicator of whether its financial health is improving or deteriorating. However, many other non-financial factors such as certain trends in funding, condition of facilities and sponsorships should be considered in assessing the overall health of the radio station.

These statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The statement of net position presents the assets, liabilities, and net position of WUWF's Current Fund as of the end of the fiscal year. Its purpose is to present to the readers of the financial statements a fiscal snapshot of the station's current fund at a certain point in time. The statement of net position presents end-of-year data concerning assets, (current and non-current), liabilities (current and non-current), and net position (assets minus liabilities).

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of WUWF Radio Station. They are also able to determine how much the current fund owes vendors, employees, and others. Finally, the statement of net position provides a picture of the net position (assets minus liabilities) and their availability for use by WUWF.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

CONDENSED STATEMENTS OF NET POSITION
TABLE 1

	June 30, 2018	June 30, 2017	June 30, 2016
Current assets	\$ 997,222	\$ 734,243	\$ 599,005
Noncurrent assets	647,383	613,922	671,517
Total assets	<u>1,644,605</u>	<u>1,348,165</u>	<u>1,270,522</u>
Current liabilities	80,460	92,916	79,657
Noncurrent liabilities	151,659	132,783	135,152
Total liabilities	<u>232,119</u>	<u>225,699</u>	<u>214,809</u>
Net position			
Invested in capital assets	647,383	613,922	671,517
Restricted	314,643	313,867	318,328
Unrestricted	450,460	194,677	65,868
Total net position	<u>\$ 1,412,486</u>	<u>\$ 1,122,466</u>	<u>\$ 1,055,713</u>

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
TABLE 2

	June 30, 2018	June 30, 2017	June 30, 2016
Revenues			
Operating revenues	\$ 2,491,607	\$ 1,877,769	\$ 1,871,693
Non-operating revenues	28,568	35,755	(10,992)
Total revenues	<u>2,520,175</u>	<u>1,913,524</u>	<u>1,860,701</u>
Expenses			
Total expenses	2,230,155	1,846,771	1,940,498
Increase (decrease) in net position	<u>\$ 290,020</u>	<u>\$ 66,753</u>	<u>\$ (79,797)</u>

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

REQUEST FOR INFORMATION

This financial narrative is designed to provide a general overview of the Station's finances and to show accountability for the contributions received by the Station. If you have questions about this report or a need for additional financial information, contact the Station at:

WUWF
11000 University Parkway
Pensacola, FL 32514
(800) 239-9893 (850) 474-2787

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 551,274	\$ 435,413
Funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station	413,758	250,417
Accounts and grants receivable	6,980	9,910
Prepaid program costs	25,210	38,503
Total current assets	997,222	734,243
Noncurrent assets		
Capital assets, net of accumulated depreciation	647,383	613,922
Total assets	1,644,605	1,348,165
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable and accrued expenses	37,216	42,099
Unearned revenue	34,575	43,065
Current portion of compensated absences	8,669	7,752
Total current liabilities	80,460	92,916
Noncurrent liabilities		
Long-term portion of compensated absences	151,659	132,783
Total liabilities	232,119	225,699
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	647,383	613,922
Unrestricted	450,460	194,677
Restricted:		
Expendable	164,643	163,867
Nonexpendable - Endowment	150,000	150,000
Total net position	\$ 1,412,486	\$ 1,122,466

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

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenues		
Community service grants donated by the Corporation for Public Broadcasting	\$ 145,839	\$ 149,704
Community service grants donated by the Florida Department of Education	99,548	100,000
Appropriations from the University of West Florida	899,585	598,196
Business and industry support	247,520	232,312
Membership income	646,902	496,236
Donated facilities and administrative support from the University of West Florida	344,907	270,358
In-kind contributions	17,039	8,931
Other sources	90,267	22,032
Total operating revenues	<u>2,491,607</u>	<u>1,877,769</u>
Operating expenses (Exhibit I)		
Programming and production	1,106,189	933,529
Broadcasting	402,631	264,745
Program information and promotion	25,158	54,607
Management and general	277,118	239,678
Fundraising and membership development	295,545	261,507
Underwriting and grant solicitation	123,514	92,705
Total operating expenses	<u>2,230,155</u>	<u>1,846,771</u>
Operating gain	<u>261,452</u>	<u>30,998</u>
Non-operating revenues		
Interest income	6,054	3,707
Net increase in fair value of investments	22,514	32,048
Total non-operating revenues	<u>28,568</u>	<u>35,755</u>
Increase in net position	<u>290,020</u>	<u>66,753</u>
Net position, beginning of year	1,122,466	1,055,713
Net position, end of year	<u>\$ 1,412,486</u>	<u>\$ 1,122,466</u>

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

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from grants, donors and fundraising activities	\$ 1,018,290	\$ 1,011,879
Cash paid to suppliers and vendors	(354,457)	(557,272)
Cash paid to employees for salaries and benefits	(402,291)	(353,310)
Net cash provided by operating activities	<u>261,542</u>	<u>101,297</u>
Cash flows from investing activities		
Purchases of equipment	(10,908)	-
Purchases of funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station, net of fees	(140,827)	3,667
Investment income	6,054	3,707
Net cash provided by (used in) investing activities	<u>(145,681)</u>	<u>7,374</u>
Net increase in cash and cash equivalents	<u>115,861</u>	<u>108,671</u>
Cash and cash equivalents, beginning of year	435,413	326,742
Cash and cash equivalents, end of year	<u>\$ 551,274</u>	<u>\$ 435,413</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	<u>\$ 261,452</u>	<u>\$ 30,998</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	59,512	57,596
Loss on disposal of asset	124,161	-
Fixed asset appropriations received from the University	(206,226)	-
(Increase) decrease in certain assets:		
Accounts and grants receivable	2,930	4,362
Prepaid program costs	13,293	(2,548)
Increase (decrease) in certain liabilities:		
Accounts payable and accrued expenses	(4,883)	5,837
Compensated absences	19,793	(2,180)
Unearned revenue	(8,490)	7,232
Total adjustments	<u>90</u>	<u>70,299</u>
Net cash provided by operating activities	<u>\$ 261,542</u>	<u>\$ 101,297</u>
Supplemental schedule of non-cash investing activities:		
Fixed asset appropriations received from the University	<u>\$ 206,226</u>	<u>-</u>

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

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(1) **Summary of Significant Accounting Policies:**

The following is a summary of the more significant accounting policies of WUWF-FM (the “Station”), which affect significant elements of the accompanying financial statements:

(a) **Reporting entity**—The Station is a department of the University of West Florida (the “University”) located in Pensacola, Florida and conducts various public broadcasting functions. The President of the University of West Florida is responsible for the management of the University and the Station operates as a department of the University under the control of the Station manager. The financial statements include only those funds under the administrative control of the Vice President for Advancement, that relate directly to the operations of the Station, including funds held by University of West Florida Foundation, Inc. (the “Foundation”). These statements do not purport to present the financial position or results of operations for the University as a whole.

(b) **Basis of accounting**—For financial reporting purposes, the Station is considered a special-purpose government engaged only in business-type activities. Accordingly, the Station prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which is similar to those of private business enterprises. Accordingly, revenues are recorded when earned and expenses are recorded when incurred. The Station’s accounting policies conform with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

(c) **Net position**—In the statements of net position, net position include the following:

Net investment in capital assets, net of related debt—This is the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unexpended proceeds, that is directly attributable to the acquisition, construction or improvement of those assets. At June 30, 2018 and 2017, there is no related debt.

Restricted—The component of net position that reports the constraints placed on the use of net position by either external parties and/or enabling legislation. At June 30, 2018 and 2017 the expendable portion of restricted net position includes certain grant funds and endowment earnings. At June 30, 2018 and 2017, the nonexpendable portion of restricted net position represents endowment funds established by donors.

Unrestricted assets—The difference between assets and liabilities that is not reported in Net Investment in capital assets and Restricted net position.

It is the Station’s policy to expend restricted resources first and to use unrestricted resources when the restricted resources have been depleted.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(1) **Summary of Significant Accounting Policies:** (Continued)

(d) **Cash and cash equivalents**—For purposes of reporting cash flows, cash and cash equivalents include cash on hand and cash in demand accounts with original maturities of three months or less. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by federal depository insurance up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool in accordance with Florida statutes.

(e) **Investments**—Investments are carried at fair value, and realized and unrealized gains and losses are reflected in the statements of revenues, expenses and changes in net position.

(f) **Costs incurred for programs not yet broadcast**—Costs incurred for programs not yet broadcast (prepaid program costs) are recorded as a deferred asset. Such costs relate to programs purchased or produced by the Station that will be broadcast subsequent to year end. Programs to be completed and broadcast within one year are classified as current assets whereas programs to be completed and broadcast in more than one year are classified as long-term. At June 30, 2018 and 2017, there were no long-term costs incurred for programs not yet broadcast. As the programs are broadcast, the costs incurred will be included in program services. Program status is evaluated annually. Costs associated with programs not considered to have future benefit are adjusted to net realizable value.

(g) **Capital assets**—Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of the assets ranging from five to fifty years.

(h) **Revenue recognition**—State appropriations are recorded as support in the statements of revenues, expenses and changes in net position when an expenditure is recorded.

Membership contributions are recognized as support in the period they are received.

Program production grants are reported as unearned revenues for programs not yet broadcast until the specific program is broadcast. At such time, amounts are included as revenues and the expenditures are recorded.

Revenue related to program underwriting for subsequent fiscal years is reflected as unearned revenues in the accompanying statements of net position. Revenue is recognized when the related program is aired.

Contributed support represents expenses paid on behalf of the Station by others outside the reporting entity, and includes contributed professional services, donated materials or facilities, and indirect administrative support.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(1) **Summary of Significant Accounting Policies:** (Continued)

(i) **In-kind contributions**—Contributed materials, supplies, facilities, and property are recorded at their estimated fair value at the date of donation. The Station reports gifts of equipment, materials and other nonmonetary contributions as support in the accompanying statements of revenues, expenses, and changes in net position.

If the fair value of contributed materials, supplies, facilities, and property cannot be reasonably determined they are not recorded. Donated personal services of nonprofessional volunteers, as well as national and local programming services, are not recorded as revenue and expense as there is no objective basis available to measure the value of such services.

(j) **Pledges and contributions**—The Station engages in periodic fundraising campaigns manifested by offering some special programs and on-air and mail fundraising appeals. These appeals encourage supporters, both individuals and organizations, to provide financial contributions to the Station for enhancement of program offerings and other expenses. Financial contributions are frequently evidenced by pledges received from responding listeners. Contributions including unconditional promises to give and membership receipts are recognized as revenue in the period received or given. However, uncollected pledges are not enforceable against contributors and not shown as assets on the statements of net position. Contributions and collected pledges are components of the unrestricted operating fund in as much as their usage is not limited to specific activities of the Station. This usage is consistent with appeals for contributions and pledges.

(k) **Corporation for Public Broadcasting Community Service Grants**—The Corporation for Public Broadcasting (CPB) is a private, nonprofit grantmaking organization responsible for helping fund more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public broadcasting entities. CSGs are used to augment the financial resources of public broadcasting entities and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two Federal fiscal years as described in the Communications Act, 47 United States Code Annotated, Section 396(k)(7). In any event, each grant must be expended within two years of the initial grant authorization.

According to the Communications Act, funds may be used at the discretion of recipients for purposes relating primarily to production and acquisition of programming. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years. Certain *General Provisions* must be satisfied in connection with application for and use of the grants to maintain eligibility and meet compliance requirements. These *General Provisions* pertain to the use of grant funds, record keeping, audits, financial reporting, mailing lists, and licensee status with the Federal Communications Commission.

(l) **Indirect support provided by the University of West Florida**—Indirect support from the University consists of allocated institutional support and physical plant costs incurred by the University for which the Station receives benefits. The fair value of this support is recognized in the statements of revenues, expenses, and changes in net position as donated facilities and administrative support and is allocated as an expense to each of the functional expense categories.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(1) **Summary of Significant Accounting Policies:** (Continued)

(m) **Production revenue**—The Station uses the percentage-of-completion method of accounting for production revenue, whereby the cumulative production revenue earned equals the ratio of costs incurred to the estimated total costs at completion applied to the total committed revenues from outside sponsors. Production costs include charges by subcontractors plus all direct labor and other direct costs. Indirect and general and administrative expenses are charged to expense as incurred. Cost estimates on programs are reviewed periodically as the work progresses and adjustments, if needed, are reflected in the period in which the estimates are revised.

(n) **Program and production underwriting**—Revenue for program underwriting is recorded on a pro-rata basis for the period covered and for production underwriting on an estimated percentage-of-completion basis.

(o) **Operating activities**—The Station’s policy for defining operating activities as reported on the statements of revenues, expenses, and changes in net position are those that generally result from the provision of public broadcasting and instructional technology services, and from the production of program material for distribution in those services. Revenues associated with, or restricted by donors to use for capital improvements, and revenues and expenses that result from financing and investing activities are recorded as non-operating revenues.

(p) **Income taxes**—The Station is owned and operated by the University of West Florida which is a part of the State of Florida’s educational system. Accordingly, the Station is exempt from Federal income taxes.

(q) **Functional allocation of expenses**—The costs of providing the various programs and other activities have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited based on total personnel costs or other systematic bases.

(r) **Use of estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, accordingly, results could differ from those estimates.

(s) **Compensated absences**—The liability for compensated absences represents employees’ accrued annual and sick leave based on length of service subject to certain limitations as defined by state statute and University policies.

(t) **Advertising Costs**—Advertising costs are expensed in the period in which they are incurred. The advertising expenses were \$778 and \$22 as of June 30, 2018 and June 30, 2017, respectively.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(2) Funds Held by the University of West Florida Foundation, Inc. on Behalf of the Station:

The Station has an agreement with the University of West Florida Foundation, Inc., whereby Station funds are held and invested by the University of West Florida Foundation, Inc. on behalf of the Station. These amounts are included in the accompanying financial statements of the Station as “Funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station.” Total funds held and invested by the Foundation were \$413,758 and \$250,417 as of June 30, 2018 and 2017, respectively.

All funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station are invested in uninsured and unregistered investments, which are held in the name of the University of West Florida Foundation, Inc. All funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station are reflected at fair value. Fair value for mutual funds is determined based upon publicly available trading values. Fair value for hedge funds and private equities are determined based upon values provided to the University of West Florida Foundation, Inc. by the respective hedge fund’s and private equity fund’s manager.

(3) Capital Assets:

Capital asset activity for the years ended June 30, 2018 and 2017, was as follows:

	July 1, 2017 Beginning Balance	Increases	Decreases	June 30, 2018 Ending Balance
Building	\$ 1,202,643	\$ -	\$ -	\$ 1,202,643
Furniture and fixtures	708,926	217,134	(181,699)	744,361
Total	<u>1,911,569</u>	<u>217,134</u>	<u>(181,699)</u>	<u>1,947,004</u>
Less: Accumulated depreciation	(1,297,647)	(59,512)	57,538	(1,299,621)
Capital assets, net	<u>\$ 613,922</u>	<u>\$ 157,622</u>	<u>(\$124,161)</u>	<u>\$ 647,383</u>

	July 1, 2016 Beginning Balance	Increases	Decreases	June 30, 2017 Ending Balance
Building	\$ 1,202,643	\$ -	\$ -	\$ 1,202,643
Furniture and fixtures	726,490	-	17,564	708,926
Total	<u>1,929,133</u>	<u>-</u>	<u>17,564</u>	<u>1,911,569</u>
Less: Accumulated depreciation	(1,257,616)	(57,595)	17,564	(1,297,647)
Capital assets, net	<u>\$ 671,517</u>	<u>\$ (57,595)</u>	<u>\$ -</u>	<u>\$ 613,922</u>

In July of 2017 the radio station’s transmitter was struck by lightning and was mostly inoperable. The old transmitter costing \$181,699 was written off, and the university funded a replacement of the transmitter totaling \$206,226 in August of 2017.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(4) **State Retirement Plans:**

General State Employees' Retirement System

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

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to four years of credit for military service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (DROP) subject to provisions of Sections 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.

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

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.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(4) **State Retirement Plans:** (Continued)

State University System Optional Retirement Program

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

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. For the fiscal years ended June 30, 2018 and June 30, 2017, the employing university contributed on behalf of the participant 8.65 and 7.98 percent, respectively, of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. 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.

Disclosures pertaining to the University's retirement plans that are required by Statement No. 68 of the Governmental Accounting Standards Board are included in the University's financial statements for the years ended June 30, 2018 and 2017. The Department's contributions to the plans for the years ended June 30, 2018 and 2017 were \$45,450 and \$44,391, respectively.

(5) **Postemployment Benefits**

Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University or its component units, University of West Florida Foundation, Inc., West Florida Historic Preservation, Inc., and UWF Business Enterprises, Inc., are eligible to participate in the State Group Health Insurance Program, an agent multiple employer defined-benefit plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The benefits provided under this defined benefit plan are provided for a fixed number of years determined at the time of retirement based on the number of years worked for the University. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Disclosures pertaining to the University's postemployment benefits are required by Statement No. 75 of the Governmental Accounting Standards Board are included in the University's financial statements for the years ended June 30, 2018 and 2017

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(6) Risk Management Programs:

Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance coverage for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal civil rights, and employment discrimination liability. During the 2017-18 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 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 \$92.5 million for named wind and flood. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$225 million starting February 15, 2018; 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 \$200,000 per person and \$300,000 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. There have been no significant reductions in insurance coverage from the prior year coverage. Settlements have not exceeded insurance coverage during the past three years.

Pursuant to Section 110.123, Florida Statutes, University 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.

(7) Significant Concentrations:

Information related to significant concentrations of revenues and credit risk for financial instruments owned by the Station, except as otherwise disclosed, is as follows:

- (a) **Cash and cash equivalents**—The Station has demand deposits held at financial institutions for the University which are secured up to FDIC limits. Amounts in excess of this limit are secured by collateral held by the financial institution which is pledged to the State of Florida Public Deposits Trust Fund. These deposits amounted to \$551,274 and \$435,413 at June 30, 2018 and 2017, respectively.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(7) **Significant Concentrations:** (Continued)

(b) **Funds held by the Foundation**—The Foundation holds cash/investments for the Station. The amount held by the Foundation for the Station was \$413,758 and \$250,417 at June 30, 2018 and 2017, respectively. The Station has no policy requiring collateral or other security to support these amounts.

(c) **Revenues**—The Station received significant revenue from three sources. The CPB provided approximately 6% and 8%, Florida DOE provided 4% and 5%, and the University provided approximately 50% and 46% in cash support and donated facilities during the years ended June 30, 2018 and 2017, respectively.

(d) **Accounts, grants and pledges receivable**—The Station has grants and accounts receivable of \$6,980 and \$9,910 at June 30, 2018 and 2017, respectively. The Station has no policy requiring collateral or other security to support these amounts.

(8) **Compensated Absences:**

Compensated absences liability activity for the years ended June 30, 2018 and 2017, was as follows:

<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amount Due</u> <u>Within 1</u> <u>Year</u>
\$ 140,535	\$ 154,230	\$ 134,437	\$ 160,328	\$ 8,669

<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amount Due</u> <u>Within 1</u> <u>Year</u>
\$ 142,715	\$ 74,100	\$ 76,280	\$ 140,535	\$ 7,752

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(9) **Community Service Grants:**

The Station receives a CSG from the Corporation for Public Broadcasting annually. The CSGs received and expended during the most recent fiscal years were as follows:

Year of Grant	Grants Received	Expended			Uncommitted Balance at June 30, 2018
		2015-16	2016-17	2017-18	
2015-17	\$ 169,015	\$ 29,166	\$ 139,849	\$ -	\$ -
2016-18	110,676	-	7,555	99,495	3,626
2016-18 Restricted	39,028	-	19,514	19,514	-
2017-19	107,910	-	-	42,477	65,433
2017-19 Restricted	38,370	-	-	9,593	28,777

(10) **Nonfederal Financial Support (NFFS):**

The Corporation for Public Broadcasting (CPB) allocates a portion of its funds annually to public broadcasting entities, primarily based on NFFS. NFFS is defined as the total value of cash and the fair market value of property and services received as either a contribution or a payment and meeting all of the respective criteria for each.

A “contribution” is cash, property or services given to a public broadcasting entity for general operational purposes. Support received as a contribution by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source may be an entity except the Federal government or any other public broadcasting entity; (2) the contribution may take the form of a gift, grant, bequest, donation or appropriation; (3) the purpose must be for the construction or operation of a noncommercial, educational public broadcast station or for the production, acquisition, distribution or dissemination of educational television or radio program and related activities; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

A “payment” is cash, property or services received by a public broadcasting entity from specific sources in exchange for specific services or materials. Support received as a payment by a public broadcasting entity must meet the following criteria to be includable as NFFS: (1) the source must be a state, any agency or political subdivision of a state, an educational institution or organization or a nonprofit entity; (2) the form of the payment must be appropriations or contract payments in exchange for specific services or materials; (3) the purpose must be for any related activity of the public broadcast station; and (4) the recipient must be a public broadcasting entity on behalf of a public broadcast station.

Reported NFFS for the Station was \$2,311,064 and \$1,709,704 for the years ended June 30, 2018 and 2017, respectively.

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(11) **Pronouncements Issued:**

GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The provisions in GASB 87 are effective for periods beginning after December 15, 2019.

GASB also issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB No. 84 seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2018.

The Station is currently evaluating the effects that implementation of the new standards will have on its financial position, results of operations, and cash flows.

SUPPLEMENTAL INFORMATION

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018 WITH SUMMARIZED
INFORMATION FOR THE YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services				Total Expenses	2017 Total Expenses
	Programming and Production	Broadcasting	Program Information and Promotion	Total	Management and General	Fundraising and Membership Development	Underwriting and Grant Solicitation	Total		
Salaries, payroll taxes and employee benefits	\$ 444,517	\$ 88,976	\$ 7	\$ 533,500	\$ 181,071	\$ 154,390	\$ 99,361	\$ 434,822	\$ 968,322	\$ 880,802
Professional services	15,673	78,867	250	94,790	18,238	2,541	-	20,779	115,569	92,342
Facilities and administrative support from the University of West Florida	159,937	30,913	17,928	208,778	64,732	53,873	24,153	142,758	351,536	279,044
Office supplies	21,333	22,715	1,628	45,676	1,473	4,576	-	6,049	51,725	35,541
Telephone and utilities	787	45,505	13	46,305	283	-	-	283	46,588	54,184
Postage and freight	-	1,136	2,828	3,964	-	3,078	-	3,078	7,042	5,221
Advertising	-	-	-	-	778	-	-	778	778	22
Repairs and maintenance of equipment	-	3,838	-	3,838	-	-	-	-	3,838	836
Printing and publications	460	162	636	1,258	-	13,776	-	13,776	15,034	10,623
Travel and training	11,213	1,198	621	13,032	2,706	1,419	-	4,125	17,157	7,409
Programming	378,635	665	1,213	380,513	-	-	-	-	380,513	359,196
Subscriptions and fees	18,532	85	34	18,651	7,837	61,892	-	69,729	88,380	63,955
Depreciation	17,854	41,658	-	59,512	-	-	-	-	59,512	57,596
Loss on disposal of capital assets	37,248	86,913	-	124,161	-	-	-	-	124,161	-
	<u>\$ 1,106,189</u>	<u>\$ 402,631</u>	<u>\$ 25,158</u>	<u>\$ 1,533,978</u>	<u>\$ 277,118</u>	<u>\$ 295,545</u>	<u>\$ 123,514</u>	<u>\$ 696,177</u>	<u>\$ 2,230,155</u>	<u>\$ 1,846,771</u>

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

**INDEPENDENT AUDITORS' 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 Trustees,
University of West Florida

We have audited, in accordance with the 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, the financial statements of WUWF-FM (the "Station"), a public telecommunications entity operated by the University of West Florida, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered WUWF-FM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of WUWF-FM's internal control. Accordingly, we do not express an opinion on the effectiveness of WUWF-FM's internal control.

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 Station's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

- 25 -

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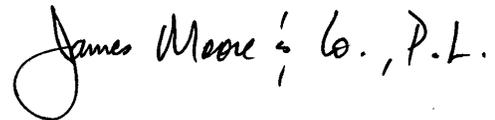
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether WUWF-FM's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Station's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Station's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.

Tallahassee, Florida
December 14, 2018

December 14, 2018

To the Board of Trustees
WUWF-FM
11000 University Parkway
Pensacola, FL 32514

We have audited the financial statements of WUWF-FM, for the year ended June 30, 2018 and 2017, and have issued our report thereon dated December 14, 2018. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 30, 2018 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of WUWF-FM solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, other individuals in our firm, and our firm has complied with all relevant ethical requirements regarding independence.

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Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by WUWF-FM is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of depreciation expense is based on the underlying assets depreciation calculated using the straight-line method over the assets' useful lives. We evaluated the key factors and assumptions used to develop the estimate of depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of functional expense allocation is based on the costs of providing the various programs and other activities. We evaluated the key factors and assumptions used to develop the functional expense allocation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of indirect support provided by the University of West Florida is based on the allocation of institutional support and physical plant cost incurred by the Station. We evaluated the key factors and assumptions used to develop the estimate of indirect support provided by the University of West Florida in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements are the disclosures relating to commitments and contingencies.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of our audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to WUWF-FM's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain representations from management which are included in the attached letters dated December 14, 2018.

Management Consultations with Other Accountants

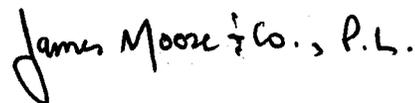
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In our normal course of our professional association with WUWF-FM, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as WUWF-FM's auditors.

This report is intended solely for the information and use of the Board of Trustees and management of WUWF-FM and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



JAMES MOORE & CO., P.L.

December 14, 2018

James Moore & Co., P.L.
2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308

This representation letter is provided in connection with your audit of the basic financial statements of WUWF-FM as of June 30, 2018 and 2017 and for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of WUWF-FM in conformity with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 30, 2018 for the preparation and fair presentation of the financial statements of in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

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- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- We have complied with all contractual agreements, grants, and donor restrictions.
- We have maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.
- We have accurately presented the entity's position regarding taxation and tax-exempt status.
- The bases used for allocation of functional expenses are reasonable and appropriate.
- We have included in the financial statements all assets and liabilities under the entity's control.
- We have designed, implemented, and maintained adequate internal controls over the receipt and recording of contributions.
- Reclassifications between net asset classes are proper.
- The governing board's interpretations concerning whether laws place restrictions on net appreciation of donor-restricted endowments are reasonable and have been disclosed to you.
- Methods and significant assumptions used by management to determine fair values, their consistency in application, and the completeness and adequacy of fair value information for financial statement measurement and disclosure purposes are appropriate.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

- There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
- With respect to the supplementary information accompanying the financial statements:
 - We acknowledge our responsibility for the presentation of the schedule of functional expenses in accordance with accounting principles generally accepted in the United States of America.
 - We believe the schedule of functional expenses, including its form and content, is fairly presented in accordance with generally accepted accounting principles.
 - The methods of measurement or presentation have not changed from those used in the prior period.
 - We believe the cost allocations underlying the measurement or presentation of the schedule of functional expenses, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - When the schedule of functional expenses is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of functional expenses no later than the date of issuance by the entity of the schedule of functional expenses and the auditor’s report thereon.
- With respect to the required supplementary information accompanying the financial statements:
 - We acknowledge our responsibility for the presentation of Management’s Discussion and Analysis in accordance with Governmental Accounting Standards.
 - We believe Management’s Discussion and Analysis, including its form and content, is measured and fairly presented in accordance with Governmental Accounting Standards.
 - The methods of measurement or presentation have not changed from those used in the prior period.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
 - We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
 - We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
 - We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
 - We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
 - There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
 - WUWF-FM has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
 - We have disclosed to you all guarantees, whether written or oral, under which WUWF-FM University of West Florida is contingently liable.
 - WUWF-FM has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
 - We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Signature: J. D. Delle CPA
Title: Asst. Controller

December 14, 2018

James Moore & Co., P.L.
Certified Public Accountants
2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308

We are providing this letter in connection with your examination of the Schedule of Non-Federal Financial Support during the fiscal year ended 2018, for the purpose of expressing an opinion as to whether the Schedule of Non-Federal Financial Support is presented fairly, in all material respects, in conformity with the CPB's Fiscal Year 2017-2018 Annual Financial Report Handbook of Instructions.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of December 14, 2018 the following representations made to you during the course of your examination.

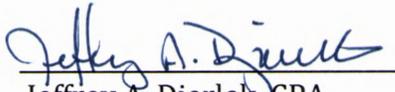
1. We affirm our assertion about Schedule of Non-Federal Financial Support based on CPB's Fiscal Year 2017-2018 Annual Financial Report Handbook of Instructions.
2. We affirm that all relevant matters are reflected in the measurement or evaluation of the subject matter or assertion.
3. We affirm that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the practitioner, including communications received between the end of the period addressed in the written assertion and the date of the practitioner's report.
4. We acknowledge responsibility for:
 - a. The subject matter and the assertion;
 - b. Selecting the criteria, when applicable; and
 - c. Determining that such criteria are appropriate for the responsible party's purposes.
5. We affirm that any known events subsequent to the period of the subject matter being reported on that would have a material effect on the subject matter or assertion have been disclosed to the practitioner.
6. We affirm that we have provided you with all relevant information and access.
7. We have responded fully to all inquiries made to us by you during the examination.
8. We believe that the effects of uncorrected misstatements are immaterial, individually and in

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the aggregate, to the subject matter.

9. We believe that significant assumptions used in making any material estimates are reasonable. We have disclosed to you:
 - a. All deficiencies in internal control relevant to the engagement of which we are aware.
 - b. Our knowledge of any actual, suspected, or alleged fraud affecting the subject matter
 - c. Our knowledge of any actual, suspected, or alleged noncompliance with laws or regulations affecting the subject matter
10. We understand that your examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and was designed for the purpose of expressing an opinion on the fairness of the presentation of the Schedule of Non-Federal Financial Support in accordance with *CPB's Fiscal Year 2017-2018 Annual Financial Report Handbook of Instructions*, based on your examination, and that your procedures were limited to those that you considered necessary for that purpose.



Jeffrey A. Djerlek, CPA
Associate Controller

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 14, 2019

Issue: External Audit: Intercollegiate Athletics Financial Statement Audit for Fiscal Year Ending June 30, 2018

Proposed action: Acceptance

Background information:

A financial audit of UWF Intercollegiate Athletics has been completed. Every third year NCAA Agreed Upon Procedures are audited, and our practice has been to have an audit conducted by a public accounting firm in the other two years, including 2017/18. We performed a cursory review of the documents.

Results:

Intercollegiate Athletics received a clean unqualified opinion. No deficiencies were identified in the internal controls over financial reporting that were considered to be material weaknesses. Results of testing disclosed no instances of noncompliance or other matters that were required to be reported.

Financial Highlights:

- \$5.5 million in revenues were provided by Athletic Fees. Direct institutional support (administrative overhead fees, student fee waivers, and university scholarship support) was approximately \$3 million, an increase of \$580,268 compared to the prior year.
- Operating expenditures increased approximately \$1.3 million primarily due to an increase in personnel services and increase in supplies and equipment expenses.
- Total net position increased by \$201,902 over the prior year.

Recommendation: Acceptance

Implementation Plan: None

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees of activities affiliated with or through the University of West Florida.

Supporting documents:

Intercollegiate Athletics Financial Statements for fiscal year ended June 30, 2018
Intercollegiate Athletics Auditor Communication Letter June 30, 2018

Prepared by: Auditor Elizabeth Mrachek, emrachek@uwf.edu, 474-2639

Presenter: AVP Vito Hite, white@uwf.edu, 474-2637

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS**

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
TABLE OF CONTENTS
JUNE 30, 2018 AND 2017**

	Page(s)
Independent Auditors' Report	1 – 2
Required Supplementary Information	
Management's Discussion and Analysis	3 – 9
Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13 – 22
Additional Information	23
Schedule of Revenues	24
Schedule of Expenses	25
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26 – 27

INDEPENDENT AUDITORS' REPORT

The Board of Trustees,
University of West Florida:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of West Florida Department of Intercollegiate Athletics as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University of West Florida Department of Intercollegiate Athletics basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

University of West Florida Department of Intercollegiate Athletics management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

- 1 -

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial net position of the University of West Florida Department of Intercollegiate Athletics as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements of the University of West Florida Department of Intercollegiate Athletics are intended to present the financial position, changes in financial position and cash flows of only that portion of the University of West Florida that is attributable to the transactions of the University of West Florida Department of Intercollegiate Athletics. They do not purport to, and do not, present fairly the financial position of the University of West Florida, as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

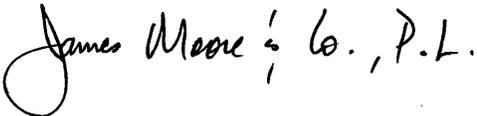
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as indicated in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University of West Florida Department of Intercollegiate Athletics basic financial statements. The additional information included as indicated in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion on or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2019, on our consideration of the University of West Florida Department of Intercollegiate Athletics internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University of West Florida Department of Intercollegiate Athletics' internal control over financial reporting and compliance.



Tallahassee, Florida
January 23, 2019

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

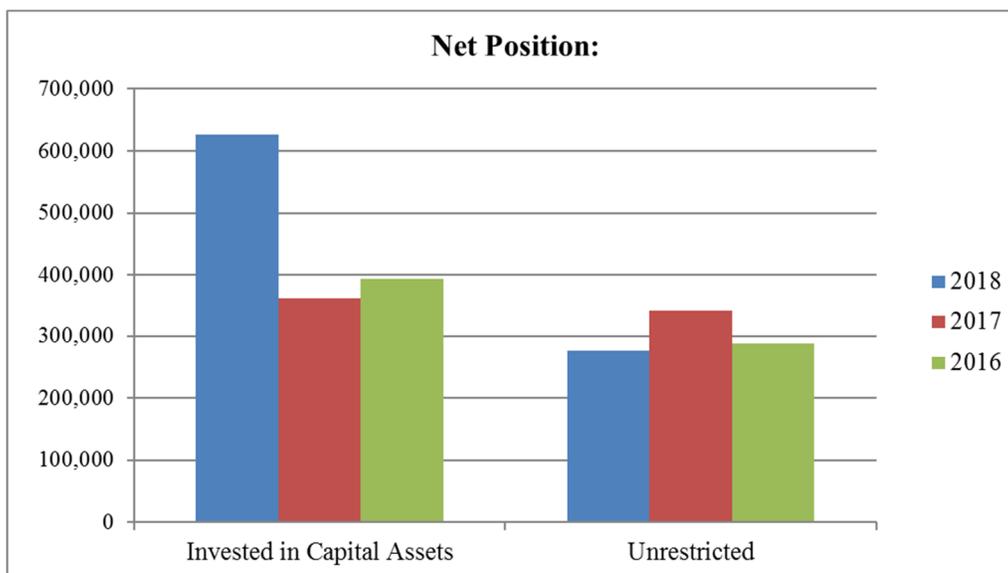
Management's discussion and analysis (MD&A) of the University of West Florida Department of Intercollegiate Athletics (the Department) financial statements provides an overview of the Department's financial position and activities for the fiscal years ended June 30, 2018 and June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB 35, the Department's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

FINANCIAL HIGHLIGHTS

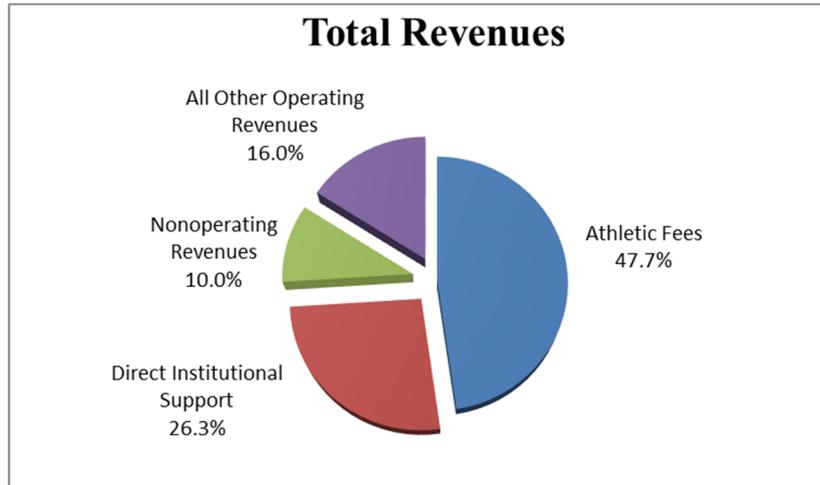
The Department's net position by category at June 30, 2018, 2017, and 2016 is shown in the following graph:



Unrestricted net position decreased by \$63,181 during fiscal year ended June 30, 2018, which can be attributed to decreases in available cash reserves used to support operations, as well as a decrease of accounts receivable. Prepaid expenses also decreased during 2018, due to timing of self-funded medical insurance payments, which attributed to a decreased unrestricted net position. Net investment in capital assets increased by \$265,083 due to athletic equipment purchased for the recently constructed University Park Center building, which is partially occupied by the Department.

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

The following chart provides a graphical presentation of the Department's revenues by category for the fiscal year ended June 30, 2018:



The economic position of the Department is closely tied to enrollment. For the fiscal year ended June 30, 2018, fee revenues comprised approximately 47.7 percent of the Department's total operating and nonoperating revenues and were the largest source of funding. Direct institutional support comprised 26.3 percent of total revenues, which primarily consisted of administrative overhead fee support and out of state student fee waivers. All other operating revenues, comprising 16 percent of total revenue, was predominantly from booster contributions, sponsorships, National Collegiate Athletic Association (NCAA) distributions, and sport camp revenues. Nonoperating revenues were substantially from state appropriations and amounted to 10 percent of total revenues.

In the fiscal year ended June 30, 2018, the Department's revenues and other support exceeded expenses, creating an increase in net position of \$201,902. Revenue from student athletic fees decreased slightly from \$5,549,507 in 2017 to \$5,524,730 in 2018. Although, revenue from direct institutional support, including administrative overhead fee support, matriculation waivers, out of state student fee waivers, and university scholarship support increased from \$2,468,109 in 2017 to \$3,048,377 in 2018. Total operating expenses increased from \$10,073,395 in 2017 to \$11,371,204 in 2018. Personnel services rose from \$3,594,146 in 2017 to \$4,053,656 in 2018. Additionally, student athlete scholarships marginally increased from \$2,883,660 in 2017 to \$2,884,477 in 2018. Travel expenses increased by \$212,810 during 2018 as tournament travel increased, as well as travel for various men's and women's sports including baseball, men's golf, football, women's soccer, and softball. The other operating expenses rose from \$2,537,678 in 2017 to \$3,173,303 in 2018. Other operating expenses increased primarily due to more money spent on supplies, game officials, repairs and maintenance, food and refreshments, contractual services, as well as game day expenditures for football.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

In the fiscal year ended June 30, 2017, the Department's revenues and other support exceeded expenses, creating an increase in net position of \$20,365. Revenue from student athletic fees decreased from \$5,639,464 in 2016 to \$5,549,507 in 2017. Although, revenue from direct institutional support including administrative overhead fee support, matriculation waivers, out of state student fee waivers, and university scholarship support increased from \$1,170,848 in 2016 to \$2,468,109 in 2017. Total operating expenses increased from \$9,276,689 in 2016 to \$10,073,395 in 2017. Personnel services rose from \$3,436,725 in 2016 to \$3,594,146 in 2017. Additionally, scholarship expenditures increased from \$2,631,549 in 2016 to \$2,883,660 in 2017. Travel expenses increased by \$112,170 during 2017, while other operating expenses rose from \$2,276,335 in 2016 to \$2,537,678 in 2017. Other operating expenses increased primarily due to more money spent on supplies, medical expenses and insurance, as well as game day expenditures for the inaugural playing season of the football program.

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

The statement of net position and the statement of revenues, expenses, and changes in net position report information on the Department and on its activities in a way that helps the reader determine if the Department is in a better condition from one year to the next. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the Department's operating results.

These two statements report the Department's net position and changes in it. The Department's net position amount, the difference between assets and liabilities, is one way to measure the Department's financial health or financial condition. Over time, the increases or decreases in the Department's net position are an indicator of whether its financial health is improving or deteriorating. However, many other non-financial factors—such as certain trends in the NCAA funding, NCAA ranking, student enrollment and retention, recruitment, condition of facilities and sponsorships— is also essential in assessing the overall health of the Department.

The statements are prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The statement of net position presents the assets, liabilities, and net position of the Department as of the end of the fiscal year. Its purpose is to present to the readers of the financial statements a fiscal snapshot of the Department at a certain point in time. The statement of net position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities).

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of the Department. Readers are also able to determine how much the Department owes vendors, employees, and others. Finally, the statement of net position provides a picture of the net position (assets minus liabilities) and its availability for use by the Department. Net position for the Department is classified as either invested in capital assets or unrestricted. Unrestricted net position is available for any lawful purpose.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

The following table summarizes the Department's assets, liabilities, and net position at June 30:

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current Assets	\$ 1,033,413	\$ 1,136,265	\$ 1,052,766
Capital Assets, Net	<u>626,385</u>	<u>361,302</u>	<u>393,707</u>
Total Assets	<u>1,659,798</u>	<u>1,497,567</u>	<u>1,446,473</u>
Liabilities			
Current Liabilities	253,943	328,082	333,417
Noncurrent Liabilities	<u>502,379</u>	<u>467,911</u>	<u>431,847</u>
Total Liabilities	<u>756,322</u>	<u>795,993</u>	<u>765,264</u>
Net Position			
Invested in Capital Assets	626,385	361,302	393,707
Unrestricted	<u>277,091</u>	<u>340,272</u>	<u>287,502</u>
Total Net Position	<u>\$ 903,476</u>	<u>\$ 701,574</u>	<u>\$ 681,209</u>
Increase (Decrease) in Net Position	<u>\$ 201,902</u>	<u>\$ 20,365</u>	<u>\$ (851,405)</u>

Current Assets decreased by \$102,852 for fiscal year ended June 30, 2018, due to a decrease in cash reserves, a decrease in accounts receivable, and a decrease in prepaid insurance amounts. During the fiscal year ended June 30, 2017, current assets increased by \$83,499. Net depreciable capital assets increased by \$265,083 in 2018 because of increased equipment purchases, as well as capital contributions via Foundation accounts for the building space that is occupied by Athletics in the University Park Center. However, in 2017, net depreciable capital assets had decreased by \$32,405 because of increased depreciation and obsolete equipment disposal.

Changes in total net position, as presented on the statement of net position, are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of the statement of revenues, expenses, and changes in net position is to present the revenues received, both operating and nonoperating, and the expenses paid, both operating and nonoperating, and any other revenues, expenses, gains, and losses received or incurred by the Department.

Operating revenues are received for providing goods and services to the various customers and constituencies of the Department. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Department. Nonoperating revenues are revenues received for which goods and services are not provided. For example, State appropriations are nonoperating because they are provided by the Legislature without the Legislature directly receiving commensurate goods and services for those revenues.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

A summary of revenues and expenses of the Department for the fiscal years ended June 30, 2018, 2017, and 2016 is presented in the following table:

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 10,421,482	\$ 9,267,328	\$ 7,601,154
Operating Expenses	(11,371,204)	(10,073,395)	(9,276,689)
Operating Income (Loss)	(949,722)	(806,067)	(1,675,535)
Nonoperating Revenues	1,151,624	826,432	824,130
Excess (Deficiency) of Revenues over Expenses	201,902	20,365	(851,405)
Net Position, Beginning of Year	701,574	681,209	1,532,614
Net Position, End of Year	<u>\$ 903,476</u>	<u>\$ 701,574</u>	<u>\$ 681,209</u>

Student athletic fees of \$5,524,730, \$5,549,507, and \$5,639,464 for 2018, 2017, and 2016, respectively, are included in operating revenues and are shown at gross amounts received.

The Department's operating expenses by natural classification for the fiscal years ended June 30, 2018, 2017, and 2016 are presented in the following table:

Operating Expenses						
<u>Natural Classification</u>	<u>2018</u>	<u>Percent</u>	<u>2017</u>	<u>Percent</u>	<u>2016</u>	<u>Percent</u>
Personnel Services	\$ 4,053,656	35.6%	\$ 3,594,146	35.7%	\$ 3,436,725	37.0%
Athletic Scholarships	2,884,477	25.4%	2,883,660	28.6%	2,631,549	28.4%
Other Scholarships	88,299	0.8%	106,073	1.1%	90,903	1.0%
Travel	1,122,201	9.9%	909,391	9.0%	797,221	8.6%
Depreciation	49,268	0.4%	42,447	0.4%	43,956	0.5%
Other Operating Expenses	3,173,303	27.9%	2,537,678	25.2%	2,276,335	24.5%
Total	<u>\$ 11,371,204</u>	<u>100%</u>	<u>\$ 10,073,395</u>	<u>100%</u>	<u>\$ 9,276,689</u>	<u>100%</u>

Personnel Service expenses increased by \$459,510 for the fiscal year ended June 30, 2018, due to University salary bonuses and salary increases for all faculty and staff, with primary increases occurring within administration, football, and women's sport programs.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

THE STATEMENT OF CASH FLOWS

Another important factor to consider when evaluating the Department's financial viability is its ability to meet its financial obligations as they become due. The statement of cash flows helps in this evaluation. The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities. The statement of cash flows also helps users assess:

- The Department's ability to generate future net cash flows.
- The need for external financing.

A summary of the Department's cash flows for the fiscal years ended June 30, 2018, 2017, and 2016 is presented in the following table:

Condensed Statements of Cash Flows

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash Provided by (Used in):			
Operating Activities	\$ (904,203)	\$ (825,115)	\$ (1,354,916)
Noncapital Financing Activities	903,024	819,621	805,416
Capital and Related Financing Activities	(74,081)	(11,333)	(334,938)
Investing Activities	8,330	8,102	18,714
Net Increase in Cash and			
Cash Equivalents	(66,930)	(8,725)	(865,724)
Cash and Cash Equivalents, Beginning of the Year	939,839	948,564	1,814,288
Cash and Cash Equivalents, End of the Year	<u>\$ 872,909</u>	<u>\$ 939,839</u>	<u>\$ 948,564</u>

The primary cash receipts from operating activities consist of student athletic fees and direct institutional support. Primary cash outlays include payment of salaries, benefits, supplies, travel expenses, and scholarships.

State of Florida appropriations are the primary source of noncapital financing inflows. During fiscal year June 30, 2018 the state appropriations increased by \$83,240.

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)**

CONTACTING MANAGEMENT

This financial narrative is designed to provide the reader with a general overview of the University of West Florida's Department of Intercollegiate Athletics finances and to show the Department's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the University of West Florida, Controller's Office:

University of West Florida
Attn: Controller's Office
11000 University Parkway
Bldg 20-E, Room 108-E
Pensacola, FL 32514
850-474-2759

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 872,909	\$ 939,839
Accounts receivable, net of allowance for doubtful accounts of \$40,819 and \$42,084 at June 30, 2018 and 2017, respectively	154,606	166,578
Due from other funds	4,150	3,321
Prepaid expenses	1,748	26,527
Total current assets	1,033,413	1,136,265
Capital assets, net of accumulated depreciation of \$394,375 and \$349,233 in 2018 and 2017, respectively	626,385	361,302
Total Assets	1,659,798	1,497,567
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	16,060	38,183
Accrued expenses	132,303	98,217
Compensated absences, current	43,774	52,360
Unearned revenue	61,806	139,322
Total current liabilities	253,943	328,082
Noncurrent Liabilities		
Compensated absences, less current portion	502,379	467,911
Total Liabilities	756,322	795,993
<u>Net Position</u>		
Net Position		
Net investment in capital assets	626,385	361,302
Unrestricted	277,091	340,272
Total Net Position	\$ 903,476	\$ 701,574

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

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Student athletic fees	\$ 5,524,730	\$ 5,549,507
Direct institutional support	3,048,337	2,468,109
Sales and services of auxiliary enterprises	306,984	296,207
Other operating revenue	1,541,431	953,505
Total revenues	<u>10,421,482</u>	<u>9,267,328</u>
 Operating Expenses		
Personnel services	4,053,656	3,594,146
Athletic scholarships	2,884,477	2,883,660
Other scholarships	88,299	106,073
Travel	1,122,201	909,391
Depreciation	49,268	42,447
Other	3,173,303	2,537,678
Total expenses	<u>11,371,204</u>	<u>10,073,395</u>
 Operating Loss	<u>(949,722)</u>	<u>(806,067)</u>
 Nonoperating Revenues (Expenses)		
State appropriations	903,908	820,668
Capital contributions	241,197	1,460
Interest income	8,330	8,102
Loss on disposal of capital assets	(927)	(2,751)
Other nonoperating expenses	(884)	(1,047)
Total nonoperating revenues (expenses)	<u>1,151,624</u>	<u>826,432</u>
 Excess of Revenues Over Expenses	<u>201,902</u>	<u>20,365</u>
 Net Position, beginning of year	701,574	681,209
 Net Position, end of year	<u>\$ 903,476</u>	<u>\$ 701,574</u>

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

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Student athletic fees	\$ 5,524,730	\$ 5,549,507
Direct institutional support	2,251,802	1,699,704
Sales and services of auxiliary enterprises	306,984	296,207
Other operating receipts	1,475,058	911,051
Payments to employees	(3,993,688)	(3,555,412)
Payments to suppliers for goods and services	(4,292,848)	(3,504,844)
Payments to students for scholarships	(2,176,241)	(2,221,328)
Net cash used in operating activities	<u>(904,203)</u>	<u>(825,115)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	903,908	820,668
Other non-operating revenue (expenses)	(884)	(1,047)
Net cash provided by noncapital financing activities	<u>903,024</u>	<u>819,621</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of fixed assets	<u>(74,081)</u>	<u>(11,333)</u>
Cash Flows from Investing Activities		
Interest income	8,330	8,102
Decrease in Cash and Cash Equivalents	<u>(66,930)</u>	<u>(8,725)</u>
Cash and Cash Equivalents, beginning of year	939,839	948,564
Cash and Cash Equivalents, end of year	<u>\$ 872,909</u>	<u>\$ 939,839</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (949,722)	\$ (806,067)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	49,268	42,447
Changes in assets and liabilities:		
Accounts receivable, net	11,972	(66,705)
Due from other funds	(829)	(355)
Prepaid expenses	24,779	(25,164)
Accounts payable and accrued expenses	11,963	(43,245)
Compensated absences	25,882	49,368
Unearned revenues	(77,516)	24,606
Net cash used in operating activities	<u>\$ (904,203)</u>	<u>\$ (825,115)</u>
Supplemental schedule of non cash investing and financing activities		
Capital contributions from UWF Foundation	\$ 241,197	\$ 1,460
Loss on disposal of capital assets	<u>\$ (927)</u>	<u>\$ (2,751)</u>

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

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the University of West Florida Department of Intercollegiate Athletics (the Department), which affect significant elements of the accompanying basic financial statements.

Reporting Entity

The Department is an auxiliary enterprise of the University of West Florida (the University) located in Pensacola, Florida and conducts various intercollegiate athletic programs. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members, and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law, the Board of Governors regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

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

Basis of Presentation

The Department's accounting policies conform to accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB).

In November 1999, the Governmental Accounting Standards Board issued GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. This Statement includes public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB allows departments of public universities various reporting options. The Department has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity-wide reporting including the following components:

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

Basis of Accounting

Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis 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 non-exchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

As stated previously, the Department follows the reporting guidelines of the University. The financial statements of the Department include those economic resources of the University that are expendable for operational purposes in performing the primary objectives of the Department. The financial statements of the Department do not purport to present the financial position or results of operations of the University as a whole. A portion of the Department is, however, accounted for and reported by the University of West Florida Foundation, Inc. (Foundation), which is a separate legal entity.

The Statement of Net Position is presented in a classified format to distinguish between current and noncurrent assets and liabilities.

The Statement of Revenues, Expenses and Changes in Net Position is presented by major sources and is reported at gross amounts received.

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 WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The amount reported as cash and cash equivalents consists of cash on hand and cash in demand accounts. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral required by Chapter 280, Florida Statutes.

Accounts Receivable

Accounts receivable are stated at their net realizable value. Allowances for doubtful accounts are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Management has concluded that realization of losses on balances outstanding at year end will be immaterial.

Capital Assets

Capital assets of the Department consist of building structures, furniture, equipment, and computer software. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$50,000 for new buildings and building improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives of the assets.

- Building Structures – 10 to 50 years
- Furniture and Equipment – 5 to 20 years
- Computer Software – 5 years

Unearned Ticket Sales Revenue

Unearned revenue consists of funds received by the Department before the end of the 2017-18 fiscal year and earned the following fiscal year. The Department issued advance ticket sales for football games played during the following fiscal year of 2018-19.

Income Taxes

The Department is an auxiliary enterprise of the University, which is a part of the State University System of Florida. Accordingly, substantially all income generated by the Department is exempt from federal and state income taxes. Any income tax incurred is reported within the nonoperating expense category.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Athletic Fees

The University charges an athletic fee to students for each semester enrolled and for each enrolled credit hour. Athletic fees for semesters that cross fiscal years are recognized during the year in which the semester is predominantly conducted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Department to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Sales Tax on Athletic Event Tickets

In accordance with Chapter 1006, Section 71, Florida Statutes, the Department retains an amount equal to the sales taxes collected from ticket sales to athletic events for use in the support of women's athletic programs.

Net Position

Net position is classified and displayed in three components:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets.
- Restricted – consists of net assets that have constraints placed upon their use either by external donors or creditors or through laws, regulations or constraints imposed by law through constitutional provision or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted – consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the Department's policy to use the restricted resources first, followed by the use of the unrestricted resources, as they are needed.

NOTE 2 – CASH AND CASH EQUIVALENTS

At June 30, 2018, all of the Department's cash and cash equivalents were held with the University's pooled funds. At June 30, 2018 and 2017, the carrying amount and fair value of the Department's cash and cash equivalents were \$872,909 and \$939,839, respectively.

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following amounts at June 30:

	2018	2017
University of West Florida	\$ 191,006	\$ 192,998
Other	4,419	15,664
Total	195,425	208,662
Less: Allowance for doubtful accounts	(40,819)	(42,084)
Accounts receivable, net	\$ 154,606	\$ 166,578

The Department has no policy requiring collateral or other security to support its accounts receivable.

NOTE 4 – UNEARNED REVENUE

Unearned revenue for advanced ticket sales decreased by \$77,516 from the inaugural football season of 2017 to the 2018 football season. Additional 2018 football season ticket sales were received in the current fiscal year, beginning July 1, 2018 through June 30, 2019.

Unearned revenue consists of the following amounts for advanced ticket sales for football at June 30:

	2018	2017
Advance Ticket Sales	\$ 61,806	\$ 139,322

NOTE 5 – COMPENSATED ABSENCES

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 University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. Consequently, the recording of a liability for compensated absences without the corresponding recognition of such future resources results in a reduction of current year Net Position.

At June 30, 2018 and 2017, the estimated liability for compensated absences was \$546,153 and \$520,271, respectively. The current compensated absences liability, totaling \$43,774 and \$52,360 at June 30, 2018 and 2017, respectively, is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 – COMPENSATED ABSENCES (Continued)

Changes in the liability for compensated absences for the years ended June 30, 2018 and 2017 were as follows:

Beginning Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2018	Current Portion
<u>\$ 520,271</u>	<u>\$ 588,161</u>	<u>\$ 562,279</u>	<u>\$ 546,153</u>	<u>\$ 43,774</u>
Beginning Balance June 30, 2016	Additions	Reductions	Ending Balance June 30, 2017	Current Portion
<u>\$ 470,903</u>	<u>\$ 563,552</u>	<u>\$ 514,184</u>	<u>\$ 520,271</u>	<u>\$ 52,360</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance July 1, 2017	Additions	Decreases	Ending Balance June 30, 2018
Capital assets being depreciated:				
Building Structures	\$ 272,942	\$ -	\$ -	\$ 272,942
Furniture and fixtures	67,914	-	5,053	62,861
Equipment	<u>369,679</u>	<u>315,278</u>	<u>-</u>	<u>684,957</u>
Total capital assets being depreciated	710,535	315,278	5,053	1,020,760
Less: Accumulated depreciation	<u>349,233</u>	<u>49,268</u>	<u>4,126</u>	<u>394,375</u>
Total capital assets, net	<u>\$ 361,302</u>	<u>\$ 266,010</u>	<u>\$ 927</u>	<u>\$ 626,385</u>

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance July 1, 2016	Additions	Decreases	Ending Balance June 30, 2017
Capital assets being depreciated:				
Building Structures	\$ 272,942	\$ -	\$ -	\$ 272,942
Furniture and fixtures	57,327	10,587	-	67,914
Equipment	391,625	5,798	27,744	369,679
Total capital assets being depreciated	721,894	16,385	27,744	710,535
Less: Accumulated depreciation	328,187	42,447	21,401	349,233
Total capital assets, net	<u>\$ 393,707</u>	<u>\$ (26,062)</u>	<u>\$ 6,343</u>	<u>\$ 361,302</u>

NOTE 7 – THE UNIVERSITY OF WEST FLORIDA FOUNDATION, INC.

The Foundation serves as the official legal conduit for the acceptance, investment, and distribution of private gifts in support of the activities and programs of the University. The Foundation expends significant resources for, or on behalf of, the Department. The other revenues category on the Statements of Revenues, Expenses and Changes in Net Position includes revenue from the Foundation in the amounts of \$797,929 and \$313,814 for the fiscal years ended June 30, 2018 and 2017, respectively. Revenue from the Foundation during the fiscal year ended June 30, 2018 includes capital contributions of \$241,197 for capital asset equipment additions. Revenues and expenditures for, or on behalf of, the Department that flow through the Foundation are included in the records of the Department.

Although the Foundation is chartered as a private nonprofit organization, it is operated solely for the benefit of the University and its mission of teaching, research, and service. It serves as the vehicle whereby taxpayers who want to advance the cause of higher education and to pay more than their share of the cost of education may do so. It does not serve any private causes but benefits the public generally.

NOTE 8 – RETIREMENT PLANS

General State Employees' Retirement System

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

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 – RETIREMENT PLANS (Continued)

General State Employees' Retirement System (Continued)

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, 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. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost - of - living adjustments.

A Deferred Retirement Option Program (DROP) subject to provisions of Sections 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 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.

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

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 8 or more years.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 – RETIREMENT PLANS (Continued)

State University System Optional Retirement Program (Continued)

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. For the fiscal years ended June 30, 2018 and June 30, 2017, the employing university contributed on behalf of the participant 8.65 and 7.98 percent, respectively, of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. 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.

Disclosures pertaining to the University's retirement plans that are required by Statement No. 68 of the Governmental Accounting Standards Board are included in the University's financial statements for the years ended June 30, 2018 and 2017. The Department's contributions to the plans for the years ended June 30, 2018 and 2017 were \$195,166 and \$169,368, respectively.

NOTE 9 – POSTEMPLOYMENT BENEFITS

Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University or its component units, University of West Florida Foundation, Inc., West Florida Historic Preservation, Inc., and UWF Business Enterprises, Inc., are eligible to participate in the State Group Health Insurance Program, an agent multiple employer defined-benefit plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Disclosures pertaining to the University's postemployment benefits are required by Statement No. 75 of the Governmental Accounting Standards Board are included in the University's financial statements for the years ended June 30, 2018 and 2017.

NOTE 10 – RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2017-18 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 10 – RISK MANAGEMENT PROGRAMS (Continued)

per occurrence were commercially insured up to \$92.5 million for named windstorm and flood. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$225 million through February 15, 2018; 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 \$200,000 per person and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

Pursuant to Section 110.123, Florida Statutes, University 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.

Medical insurance coverage for the Department's student athletic programs is provided through purchased commercial insurance.

ADDITIONAL INFORMATION

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
SCHEDULE OF REVENUES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
UNAUDITED**

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Student Athletic fees	\$ 5,524,730	\$ 5,549,507
Direct Institutional Support:		
Administrative Overhead Fee Support	1,687,574	1,196,763
Athletic Matriculation	453,205	495,441
Out of State Fee Waivers	796,535	768,405
University Scholarship Support	111,023	7,500
Total Direct Institutional Support	<u>3,048,337</u>	<u>2,468,109</u>
Sales and Services of Auxiliary Enterprises		
Ticket Sales	285,566	275,541
Surcharge on Admissions	21,418	20,666
Total Sales and Services of Auxiliary Enterprises	<u>306,984</u>	<u>296,207</u>
Other Operating Revenue		
Awards	896	2,400
Booster Contributions--UWF Foundation	797,929	313,814
Field and Facility Rentals	15,301	17,068
Fundraising	19,349	21,899
Game Guarantees	5,000	15,000
NCAA Distribution/Reimbursements	236,038	139,808
Program Sales/Concessions/Novelty Sales	24,360	27,013
Royalties/Advertisements/Sponsorships	290,958	224,469
Sports Camps	88,873	100,882
Tournament Entry/Cancellation Fees/Banquet Fees	42,181	48,853
Other Operating Revenue -- Misc	20,546	42,299
Total Other Operating Revenue:	<u>1,541,431</u>	<u>953,505</u>
Total Operating Revenue	<u>10,421,482</u>	<u>9,267,328</u>
Nonoperating Revenues		
Education and General	903,908	820,668
Capital Contributions	241,197	1,460
Interest Income	8,330	8,102
Total Nonoperating Revenues	<u>1,153,435</u>	<u>830,230</u>
Total Operating and Nonoperating Revenues	<u>\$ 11,574,917</u>	<u>\$ 10,097,558</u>

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017
UNAUDITED

	<u>2018</u>	<u>2017</u>
Operating Expenses		
Personnel Services		
Salary Expenditures	\$ 3,623,705	\$ 3,214,175
Other Personnel Services	429,951	379,971
Total Personnel Services	<u>4,053,656</u>	<u>3,594,146</u>
Athletic Scholarships	2,884,477	2,883,660
Other Scholarships	88,299	106,073
Travel	1,122,201	909,391
Depreciation	49,268	42,447
Other Operating Expenses		
Direct Facilities and Maintenance	175,447	180,975
Dues and Memberships	39,662	49,542
Equipment, Uniforms, Supplies	1,364,803	858,348
Fundraising, Marketing and Promotion	4,834	12,655
Game Guarantees	400	840
Game Officials	124,316	96,937
Insurance	87,830	87,002
Medical Expenses and Insurance	157,276	254,575
Spirit Groups	6,233	7,853
Other Operating Expenses--Misc	1,212,502	988,951
Total Other Operating Expenses	<u>3,173,303</u>	<u>2,537,678</u>
Total Operating Expenses	<u>11,371,204</u>	<u>10,073,395</u>
Nonoperating Expenses		
Nonoperating Expenses	884	1,047
Loss on disposal of Capital Assets	927	2,751
Total Nonoperating Expenses	<u>1,811</u>	<u>3,798</u>
Total Operating and Nonoperating Expenses	<u>\$ 11,373,015</u>	<u>\$ 10,077,193</u>

**INDEPENDENT AUDITORS' 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 Trustees,
University of West Florida:

We have audited in accordance with the 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, the financial statements of the University of West Florida Department of Intercollegiate Athletics (the "Department") as of and for the year ended June 30, 2018, and related notes to the financial statements which collectively comprise the Department's basic financial statements and have issued our report thereon dated January 23, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

- 26 -

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James Moore & Co., P.L.

Tallahassee, Florida
January 23, 2019

January 23, 2019

To the Finance Committee,
University of West Florida
Department of Intercollegiate Athletics

We have audited the financial statements of University of West Florida Department of Intercollegiate Athletics (the Department) as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated January 23, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 30, 2018, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Department solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Department is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the years ended June 30, 2018 and 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the depreciation expense is based on the underlying assets depreciation calculated using the straight-line method over the assets' useful lives. We evaluated the key factors and assumptions used to develop the estimate of depreciation expense in determining that it is reasonable in relation to the basic financial statements.

Management's estimate of the allowance for doubtful accounts is based on the expected collectability of receivables. We evaluated the key factors and assumptions used to develop the estimate of allowance for doubtful accounts in determining that it is reasonable in relation to the basic financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Department's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated January 23, 2019.

Management's Consultations with Other Accountants

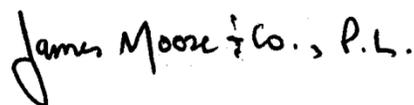
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Department, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Department's auditors.

This report is intended solely for the information and use of management and the Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "James Moore & Co., P.L." The signature is written in a cursive, slightly slanted style.

JAMES MOORE CO., P.L.

January 23, 2019

James Moore & Co., P.L.
2477 Tim Gamble Place, Suite 200
Tallahassee, FL 32308

This representation letter is provided in connection with your audit of the financial statements of University of West Florida Athletics Department of Intercollegiate Athletics (the Department), which comprise the statement of financial position as of June 30, 2018 and 2017 and the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of January 23, 2019

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 30, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

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- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, GASB Statement No. 37, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus as amended, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.
- With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
- There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud, suspected fraud, or abuse that affects the Department and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, suspected fraud, or abuse affecting the Department's financial statements communicated by employees, former employees, grantors, regulators, or others.
- We have disclosed to you all known actual or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the Department's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Department has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Department is contingently liable.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
 - We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- The Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- Required supplementary information (MD&A) is measured and presented within the prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information.

Signature: Jeffrey A. Duvette
 Title: Assoc. Controller

Signature: Amy Palmer
 Title: Asst Athletic Director - Financial Operations

UWF Board of Trustees Meeting
Audit and Operations Committee
February 14, 2019

Issue: External Audit: Financial Statement Audit — Florida Institute of Human and Machine Cognition (IHMC) for Fiscal Year Ending June 30, 2018

Proposed action: Acceptance

Background information:

The Florida Institute for Human and Machine Cognition (IHMC) audit has been completed for fiscal year ending June 30, 2018.

Per the Affiliation Agreement between UWF Board of Trustees and the IHMC, dated April 30, 2004, Item 9 states:

“9. Financial Audit. The IHMC, at its sole expense, shall have an independent certified public accountant prepare an annual postaudit of the corporation’s financial accounts and the financial accounts of any authorized and approved subsidiary. Copies of the annual audit report shall include management letters and the IHMC shall submit to the University of West Florida Board of Trustees, the Auditor General, and the Board of Governors for review.”

Results:

To ensure compliance with the agreement, we performed a cursory review and determined that compliance regarding the annual financial audit exists.

The independent auditor’s report expressed an unmodified opinion. The audit report did not identify any material weaknesses in the internal control system and no instances of non-compliance were noted. The auditor’s report on compliance for major federal award programs and the state project for IHMC expressed an unmodified opinion.

Financial Highlights:

- In 2018 IHMC purchased land for \$2 million financed with a note secured by the mortgage on the land. Net property and equipment as of June 30, 2018 was \$18,481,425.
- Long term debt as of June 30, 2018 was \$11,188,792.

Recommendation: Acceptance

Implementation Plan: None

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees of organizations affiliated with or through the University of West Florida.

Supporting document:

Financial Statement Audit Report for the Florida Institute of Human and Machine Cognition for fiscal year ending June 30, 2018

Prepared by: Auditor Elizabeth Mrachek, emrachek@uwf.edu, 474-2639

Presenter: AVP Vito Hite, vHITE@uwf.edu, 474-2637

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

CONTENTS

	PAGE
Audited Financial Statements:	
Independent Auditor's Report	1
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information:	
Schedules of General and Administrative Expenses	16
Schedule of Expenditures of Federal Awards	17
Other Reports and Schedule:	
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 <i>Government Auditing Standards</i>	19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	21
Schedule of Findings and Questioned Costs	23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Florida Institute for Human and Machine Cognition, Inc.
Pensacola, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Institute for Human and Machine Cognition, Inc. ("IHMC") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Since 1944

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IHMC as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of general and administrative expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of IHMC’s internal control over financial reporting 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHMC’s internal control over financial reporting and compliance.



Pensacola, Florida
October 23, 2018

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
Cash	\$ 5,115,590	\$ 3,034,112
Restricted cash held by trustee	688,624	883,416
Grants and contracts receivables	2,984,530	3,266,078
Other receivables	17,703	-
Pledge receivable	97,794	97,794
Prepaid expenses	89,771	91,186
Property and equipment, net	18,481,425	16,902,170
Deposits	12,522	19,196
	\$ 27,487,959	\$ 24,293,952

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 1,007,973	\$ 390,740
Accrued payroll and related liabilities	485,820	461,637
Accrued interest	88,624	78,398
Refundable advances	43,802	42,283
Long-term debt	11,188,792	9,924,838
Total liabilities	12,815,011	10,897,896

Commitments and Contingencies

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Net Assets:

Unrestricted	14,337,171	13,150,609
Temporarily restricted	335,777	245,447
Total net assets	14,672,948	13,396,056

Total Liabilities and Net Assets

\$ 27,487,959 \$ 24,293,952

The accompanying notes are an integral
part of these financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Change in Unrestricted Net Assets:		
Support, Revenue and Reclassifications:		
Research and development grants and contracts -		
Federal, state and pass-through grants	\$ 6,844,604	\$ 6,586,932
Other grants and contracts	7,094,765	6,235,658
Legislative appropriation	3,739,184	4,739,184
Contributions	1,420,708	1,038,158
Other revenue	237,354	50,246
Net assets released from restrictions	153,468	185,824
Total support, revenue and reclassifications	19,490,083	18,836,002
Expenses:		
Program services -		
Research and development grants and contracts	14,968,177	13,241,227
Other program services	304,750	133,438
Total program services	15,272,927	13,374,665
Supporting services -		
Fundraising services -		
Salaries and employee benefits	58,436	57,043
Other fundraising expenses	8,441	2,113
	66,877	59,156
General and administrative	2,963,717	3,277,997
Total supporting services	3,030,594	3,337,153
Total expenses	18,303,521	16,711,818
Change in unrestricted net assets	1,186,562	2,124,184

The accompanying notes are an integral
part of these financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017
(Continued)

	<u>2018</u>	<u>2017</u>
Change in Temporarily Restricted Net Assets:		
Contributions	243,798	293,098
Net assets released from restrictions	<u>(153,468)</u>	<u>(185,824)</u>
Change in temporarily restricted net assets	<u>90,330</u>	<u>107,274</u>
Change in Net Assets	1,276,892	2,231,458
Net Assets, Beginning of Year	<u>13,396,056</u>	<u>11,164,598</u>
Net Assets, End of Year	<u><u>\$ 14,672,948</u></u>	<u><u>\$ 13,396,056</u></u>

The accompanying notes are an integral
part of these financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,276,892	\$ 2,231,458
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	863,421	738,467
Amortization of debt issuance costs	5,465	5,464
Bad debt expense	35,674	106,007
Donated stock	(1,117,535)	-
Gain on sale of donated stock	(206)	-
Changes in operating assets and liabilities -		
Grants and contracts receivables	245,874	(1,456,227)
Pledge receivable	-	(97,794)
Other receivables	(17,703)	7,495
Prepaid expenses	1,415	(38,280)
Other assets	6,674	(88,969)
Accounts payable	617,233	(264,510)
Retainage payable	-	(131,475)
Accrued payroll and related liabilities	24,183	28,260
Accrued interest	10,226	(5,315)
Refundable advances	1,519	25,275
Net cash provided by operating activities	1,953,132	1,059,856
Cash Flows From Investing Activities:		
Proceeds from sale of investments	1,117,741	-
Purchases of property and equipment	(442,676)	(1,734,609)
Net cash provided by (used in) investing activities	675,065	(1,734,609)
Cash Flows From Financing Activities:		
Proceeds from note issuance	223,351	-
Principal payments of long-term debt	(741,511)	(677,000)
Increase in restricted cash for debt service	(28,559)	(12,185)
Net cash used in financing activities	(546,719)	(689,185)
Net Increase (Decrease) in Cash	2,081,478	(1,363,938)
Cash at Beginning of Year	3,034,112	4,398,050
Cash at End of Year	\$ 5,115,590	\$ 3,034,112
Supplemental Disclosure of Cash Flow Information:		
Interest paid	\$ 308,659	\$ 322,450
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Purchase of land with long-term debt	\$ 2,000,000	\$ -

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

Florida Institute for Human and Machine Cognition, Inc. (“IHMC”) was organized as a Florida not-for-profit corporation on February 25, 2004, pursuant to Section 1004.447, Florida Statutes, exclusively as an information-technology related organization for research, education, scientific advancement, and economic development.

Basis of Accounting:

IHMC follows standards of accounting and financial reporting prescribed for not-for-profit organizations. It uses the accrual basis of accounting, which recognizes revenue when earned and expenses as incurred.

Basis of Presentation:

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of IHMC and changes therein are classified as follows:

Permanently restricted net assets are subject to donor-imposed stipulations that the assets be maintained permanently, but permit IHMC to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes. IHMC had no permanently restricted net assets at June 30, 2018 and 2017.

Temporarily restricted net assets are subject to donor-imposed stipulations that can be fulfilled by actions of IHMC pursuant to those stipulations or that expire by the passage of time.

Unrestricted net assets are not subject to donor-imposed stipulations, or the donor-imposed restrictions have expired. Unrestricted net assets may be designated for specific purposes by the action of the Board of Directors, or may otherwise be limited by contractual agreements with outside parties.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Legislative Appropriation:

Support from legislative appropriation represents amounts received from the Florida state budget, general revenue fund.

Contributions:

Contributions are reported as temporarily restricted if the donor limits the use of the donated assets. When the restrictions expire, these temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as *net assets released from restrictions*. Donor-restricted contributions are classified as unrestricted revenues if the restrictions are met in the same reporting period in which the contributions are received.

Unconditional promises to give are reported when the pledges are received at the present value of their net realizable value. Conditional promises to give are not recorded in the financial statements.

Noncash contributions are recorded at fair market value at the time of donation.

In-Kind Contributions:

Donated services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by IHMC. The computation of value for the contributions is based on the fair value of the contributed occupancy and donated services at the date received. These in-kind contributions are reported as support and expense in the period received.

Grants and Contracts:

Revenue from grants and contracts, awarded to and accepted by IHMC, is recognized as earned, that is, as the related allowable costs are incurred or the performance of milestones is achieved under the grant or contract agreements. Management considers all grants and contracts receivables at June 30, 2018 and 2017 to be fully collectible; therefore, no allowance for uncollectible accounts has been established.

Facilities and administrative costs recovered on grants and contracts are recorded at rates established by IHMC with its Federal cognizant agency, or predetermined by the non-Federal sponsor. Facilities and administrative cost rates for government grants and contracts are subject to audit, and subsequent final settlements, if any, are recorded as current period adjustments. Management believes the impact of any future settlements to be immaterial to the financial statements.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash:

Restricted cash represents funds held by the note trustee for construction of a new research facility and debt service.

Debt Issuance Costs:

Debt issuance costs are amortized over the term of the debt using the straight-line method since the difference between this method and the effective interest method is not material to the financial statements. Amortization of debt issuance costs is reported as interest expense in the schedules of general and administrative expenses and totaled \$5,465 for each of the years ended June 30, 2018 and 2017.

Property and Equipment:

Property and equipment are recorded at cost or at their estimated fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Building	30 years
Computers and software	3-5 years
Machinery and equipment	5-10 years
Robotics	3-5 years
Furniture and fixtures	5 years
Vehicle	5 years

Additions and betterments of \$5,000 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Costs of equipment that are acquired or constructed for research and development activities are generally expensed; however, equipment acquired or constructed which have alternative future uses in research and development projects or otherwise are also capitalized.

Refundable Advances:

Refundable advances represent funds received by IHMC, from grantor agencies that have not been spent at the end of the year. Advances must be returned to the grantor agency if not spent for their intended purpose within the grant period unless re-appropriated or extended by the grantor.

Advertising Costs:

Advertising costs are expensed when incurred.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes:

IHMC is a nonprofit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and has been classified by the Internal Revenue Service as a public charity. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

Subsequent Events:

Management has evaluated subsequent events through October 23, 2018, the date which the financial statements were available for issue.

NOTE 2 - RESTRICTED CASH HELD BY TRUSTEE

Restricted cash is comprised of the following:

	2018	2017
Undisbursed debt proceeds - construction	\$ -	\$ 223,351
Debt service -		
Note principal	600,000	581,667
Note interest	88,624	78,398
	\$ 688,624	\$ 883,416

NOTE 3 - PLEDGE RECEIVABLE

Pledge receivable at June 30, 2018 and 2017 consists of the following:

	2018	2017
In one year or less	\$ 100,000	\$ 50,000
Between one and five years	-	50,000
Total pledges receivable	100,000	100,000
Less discounts to net present value	2,206	2,206
	\$ 97,794	\$ 97,794

The discount rates used to calculate net present value is 1.5%.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,316,994	\$ 1,302,872
Buildings	16,439,720	15,524,976
Computers and software	1,524,188	1,482,656
Machinery and equipment	1,463,774	1,405,746
Robotics	939,919	823,054
Furniture and fixtures	771,849	737,600
Vehicle	68,625	68,625
Art collection	5,950	5,950
Construction in progress	92,678	837,891
	<u>24,623,697</u>	<u>22,189,370</u>
Less accumulated depreciation and amortization	<u>6,142,272</u>	<u>5,287,200</u>
	<u>\$ 18,481,425</u>	<u>\$ 16,902,170</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$863,421 and \$738,467, respectively.

Construction in progress at June 30, 2018 represent costs for a new roof at the Ocala location. Construction in progress at June 30, 2017 represent costs for a drainage project.

IHMC capitalized interest costs on borrowings incurred during the construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. IHMC capitalized approximately \$108,000 of interest in connection with the construction of the new research facility for the year ended June 30, 2017.

Certain fixed assets of IHMC were purchased with federal, state and local grants and contracts. As a result, if such assets are disposed, the granting agency that participated in the funding of the purchase has a contractual right to participate in the proceeds from the disposition. Also, at the end of the project for which the asset was purchased, the granting agency has the right to reclaim such equipment. IHMC accounts for these items separately until final release of the item has been received by IHMC.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 4 - PROPERTY AND EQUIPMENT (Continued)

In September 2008, IHMC received a grant for \$958,300 from the U.S. Department of Commerce's Economic Development Administration ("EDA") for the renovation of the Ocala, Florida facility. The grant restricts the use of the building to research and development, unless an alternate purpose is approved by the grantor agency administrators. The EDA has determined the useful life of the project for purposes of this restriction to be 20 years.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	2018	2017
\$12,000,000 Industrial Development Revenue Note, Series 2013, due in monthly installments of \$84,274 to \$101,179, from December 1, 2013 through September 1, 2028 with an interest rate of 3.14%, secured by mortgage and security agreement	\$ 9,289,000	\$ 9,987,000
\$2,000,000 Note, due in monthly installments of \$10,557, from August 21, 2017 through June 21, 2027, balloon payment due July 21, 2027, with an interest rate of 4%, secured by mortgage and security agreement	1,956,489	-
	11,245,489	9,987,000
Less unamortized debt issuance costs	56,697	62,162
Long-term debt, net of unamortized debt issuance costs	\$ 11,188,792	\$ 9,924,838

Maturities of the revenue note are as follows:

<u>Year ending June 30,</u>	
2019	\$ 769,319
2020	794,328
2021	819,420
2022	845,596
2023	872,861
Thereafter	7,143,965
	\$ 11,245,489

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - LONG-TERM DEBT (Continued)

In November 2013, Escambia County, Florida (“the County”), issued a \$12,000,000 industrial development revenue note to provide financial assistance to IHMC for the refunding of the Commission’s 2008 \$4,292,500 industrial revenue bonds, and for the financing of the construction of a new research facility. The note is payable solely from the payments received from the underlying financing agreement. Pursuant to the financing and construction agreements, IHMC agreed to make monthly installments to the County sufficient to pay all principal and interest amounts. IHMC executed and delivered a promissory note to the County, who is assigned all rights to receive payments from IHMC related to these agreements. The County has no obligation in any manner for repayment of the note. During 2014 and 2015, the County disbursed \$6,460,476 to IHMC to refund the Commission’s bonds payable, pay for new debt issuance costs, pay for architect costs and construction costs of the new research facility. During 2016, the County disbursed \$5,316,173 to IHMC to pay for construction costs of the new research facility. The remaining \$223,351 was disbursed by the County during 2018 as IHMC received the certificate of occupancy for the new research building.

NOTE 6 - NET ASSETS

Temporarily restricted net assets include contributions restricted by donors for specific purposes that have not yet been accomplished and unconditional promises to give with payments due in future periods to be used for the activities of IHMC. Temporarily restricted net assets at June 30, 2018 and 2017 are presented as follows:

	2018	2017
Educational Outreach Youth Programs	\$ 69,049	\$ 39,099
Research projects	100,000	100,000
Future periods	48,533	97,794
Capital improvements	107,322	-
Other	10,873	8,554
	\$ 335,777	\$ 245,447

NOTE 7 - RETIREMENT PLANS

IHMC established a defined contribution retirement plan that operates under Section 403(b) of the Internal Revenue Code on March 1, 2005. The purpose of the plan is to provide retirement benefits for participating employees. Benefits are provided through Teachers Insurance and Annuity Association (“TIAA”), College Retirement Equities Fund (“CREF”). The plan year begins on July 1 and ends on June 30. All benefits under the Plan are fully funded and provided through the funding vehicle(s) selected by the participant. Benefits are not subject to, nor covered by, federal plan termination insurance.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - RETIREMENT PLANS (Continued)

The plan covers substantially all employees except part-time and leased. IHMC contributes 11% of eligible employee's compensation on a bi-weekly basis. Contributions to the plan amounted to \$971,864 in 2018 and \$919,178 in 2017.

In addition to the defined contribution plan, IHMC also established an elective deferral plan with TIAA CREF. To participate, an eligible employee must enter into a written salary reduction agreement with IHMC. Under the salary reduction agreement, the employee's salary (paid after the agreement is signed) is reduced and the amount of the reduction is applied as premiums to the funding vehicles available under this plan.

IHMC has established an elective deferral plan that operates under Section 457(b) of the Internal Revenue Code. To participate, an eligible employee must enter into a written salary reduction agreement with IHMC. Under the salary reduction agreement, the employee's salary (paid after the agreement is signed) is reduced and the amount of the reduction is applied as premiums to the funding vehicles available under this plan's provider, Edward Jones.

NOTE 8 - RELATED PARTY TRANSACTIONS

Prior to the creation of IHMC as a separate nonprofit entity, the University of West Florida Institute for Human and Machine Cognition ("UWF IHMC") performed information-technology research as a research division of the University. To assist in the transition of UWF IHMC activities to IHMC, the University of West Florida ("the University") and IHMC have entered into an affiliation agreement ("the agreement") that addresses IHMC's use of or participation in University programs and services, including monies, personnel or services, and the use of facilities. One member of IHMC's Board of Directors serves on the Board of Trustees for the University. This individual is asked to abstain from voting on items before the Board of Directors that will be funded by the University.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk - Uninsured Cash Balances:

IHMC maintains cash balances with two banks. In addition to the FDIC coverage provided by the two banks, the demand deposit accounts held at one bank are also protected under the Chapter 280, Florida Statutes, Public Deposits Trust Fund. At June 30, 2018, IHMC had cash balances in excess of insured limits of approximately \$1,949,000.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Line of Credit:

IHMC has a revolving, unsecured, \$2,000,000 line of credit with a financial institution. The line of credit carries interest of 2.5% over the one-month LIBOR rate and expires on February 25, 2019. IHMC had no amounts outstanding as of June 30, 2018 and 2017 under the line of credit.

Lease Commitments:

During fiscal year 2017, IHMC leased property located at 201 East Wright Street which was used as a robot lab. This lease expired in December 2015 but IHMC continued to occupy the property on a month-to-month lease through October 2016.

Rental expense for operating leases for the year ended June 30, 2017 was \$18,842.

Contingencies:

The Defense Contract Agency (“DCAA”) is the federal agency tasked with auditing grant compliance on behalf of the Office of Naval Research (“ONR”), which is IHMC’s cognizant agency. As noted in their audit reports for the fiscal years ended June 30, 2008 through 2013, DCAA had questioned a portion of indirect costs included in the indirect cost pool. In 2017 and 2018, ONR issued final indirect cost rates for the fiscal years ended June 30, 2008 through 2015. Some of the finalized rates were lower than those rates applied by IHMC during the time under audit. The overall effects of the lower rates cannot accurately be determined and as such, no provision for any possible payback has been recorded in the financial statements.

Grants and contracts require the fulfillment of certain conditions as set forth in the applicable agreements. Failure to fulfill the conditions could result in the return of funds to the grantors or contracting agencies. Although that is a possibility, IHMC deems the contingency remote, since by acceptance of the grants and contracts and their terms, it has structured the objectives of IHMC to meet the provisions of the agreements.

In July 2008, IHMC received an Economic Incentive Grant for \$550,000 from the Marion County, Florida, Board of County Commissioners. The grant funding is to be used at IHMC’s discretion for recruitment, advertising, operations and administration associated with the startup of the research facility in Ocala, Florida. The grant required IHMC to comply with various conditions for the employment and compensation of employees at the facility through April 2017. Failure to comply with these conditions would have resulted in the return of all or part of the grant funding to Marion County.

SUPPLEMENTARY INFORMATION

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Salaries	\$ 2,950,634	\$ 2,979,806
Payroll taxes	186,220	180,470
Employee benefit programs	491,826	493,667
Administrative travel	133,965	100,641
Meals and entertainment	19,756	24,124
Insurance	208,503	203,544
Legal and professional	410,804	451,992
Occupancy, including in-kind	505,929	430,211
Interest expense	396,963	214,526
Repairs and maintenance	7,577	8,725
Office expenses	235,044	299,376
Bad debt	35,674	106,007
Telephone	68,856	61,769
Lobbying costs	153,913	150,574
Licenses and fees	44,379	17,245
Memberships and continuing education	40,225	42,790
Employee morale and welfare	22,033	21,761
Other	62,638	46,415
Depreciation	863,421	738,467
Indirect applied overhead, payroll taxes and employee benefits	<u>(3,874,643)</u>	<u>(3,294,113)</u>
Total General and Administrative Expenses	<u><u>\$ 2,963,717</u></u>	<u><u>\$ 3,277,997</u></u>

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<u>Research and Development Cluster:</u>				
<u>National Oceanic and Atmospheric Administration (NOAA)</u>				
<u>Cooperative Institutes</u>				
Passed through Florida Atlantic University				
The Cooperative Institute for Ocean Exploration, Research and Technology (CIOERT) Years 6-10	11.432	NA14OAR4320260	\$ 127,152	\$ -
<u>U.S Department of Commerce</u>				
Cross-Field Methodologies for Research in Data Science	11.609	70NANB17H210	106,310	-
<u>Office of Naval Research</u>				
Human Fuel for Optimizing Cold Water Performance	12.300	N00014-18-1-2115	121,751	-
Concept Map-Based Knowledge Modeling of Undersea Medicine	12.300	N00014-16-P-3025	59,023	-
Total Office of Naval Research			180,774	-
<u>Department of the Army</u>				
CWC DARPA - Communication with a Learning Collaborative Problem Solving Agent	12.910	W911NF-15-1-0542	1,578,521	467,628
<u>Army Research Laboratory</u>				
Deep Reading to Understand Mechanisms	12.431	W911NF-14-1-0391	365,881	39,561
WorldModeler	12.431	W911NF-167-1-0047	906,972	388,442
Intelligent Systems to Support Information Management, Soldier Interfaces, and Decision Making	12.431	W911NF-15-2-0076	411,071	-
Total Army Research Laboratory			1,683,924	428,003
<u>Department of the Air Force.</u>				
<u>Air Force Research Laboratory</u>				
CUBISM: Conversation Understanding through Belief Interpretation Sociolinguistic Modeling	12.300	FA8750-12-2-0348	86,867	45,253
Wearable Sensor Suite and Cognitive Gauges for a Quantified Warrior	12.800	FA8650-16-1-6771	812,913	211,691
Naturalistic Decision Making Foundations of Explainable AI	12.910	FA8650-17-2-7711	470,552	251,348
Total Department of the Air Force			1,370,332	508,292

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018
(Continued)

Federal Grantor, Pass-through Grantor, Program or Cluster Title	CFDA Number	Pass-through Agency's Identifying Number	Expenditures	Transfer to Subrecipients
<u>National Aeronautics and Space Administration,</u>				
<u>NASA Shared Services Center</u>				
Mobility and Planning Algorithms for NASA JSC Valkyrie Robot	43.001	80NSSC18M0071	75,805	-
Cervical Lymphatic	43.003	NNX16A069A	46,517	-
Grasshopper Exercise Prototype	43.003	NNX17AJ56A	587,698	-
			<u>634,215</u>	<u>-</u>
NRI LG: Toward Humanoid Avatar Robots for Co-Exploration of Hazardous Environments	43.009	NNX12AP97G	690,315	-
Research, Development and Support of Open-Source Humanoid Robot Walking and Manipulation Algorithms and Diagnostic Software for NASA JSC Valkyrie Robot	43.009	NNX15AK18A	38,045	-
			<u>728,360</u>	<u>-</u>
Total National Aeronautics and Space Administration			<u>1,438,380</u>	<u>-</u>
<u>National Science Foundation</u>				
NRI: Collaborative: Optimal Interaction Design Framework for Powered Lower-Extremity Exoskeletons	47.070	IIS-1427213	32,558	-
Collaborative Research: FITTLE+: Theory and Models for Smartphone Ecological Momentary Intervention	47.070	IIS-1757520	182,202	92,157
Total National Science Foundation			<u>214,760</u>	<u>92,157</u>
<u>National Institute on Aging</u>				
Passed through University of Miami				
A Personalized Health Behavior System to Promote Well-Being in Older Adult	93.866	SPC-000464	120,545	-
Passed through Cornell University				
A Personalized Health Behavior System to Promote Well-Being in Older Adult	93.866	SPC-000464	23,906	-
Total National Institute on Aging			<u>144,451</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 6,844,604</u>	<u>\$ 1,496,080</u>

NOTE: This schedule is presented on the accrual basis of accounting in accordance with generally accepted accounting principles.

OTHER REPORTS AND SCHEDULE

**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
Florida Institute for Human and Machine Cognition, Inc.
Pensacola, Florida

We have audited, 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, the financial statements of Florida Institute for Human and Machine Cognition, Inc. ("IHMC"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IHMC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IHMC's internal control. Accordingly, we do not express an opinion on the effectiveness the IHMC's internal control.

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 IHMC's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Florida Institute for Human and Machine Cognition, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IHMC's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of IHMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IHMC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pensacola, Florida
October 23, 2018

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Florida Institute for Human and Machine Cognition, Inc.
Pensacola, Florida

Report on Compliance for Each Major Federal Program

We have audited Florida Institute for Human and Machine Cognition, Inc.'s (“IHMC”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on IHMC’s major federal program for the year ended June 30, 2018. IHMC’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for IHMC’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about IHMC’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of IHMC’s compliance.

Opinion on Each Major Federal Program

In our opinion, IHMC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of IHMC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered IHMC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of IHMC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Pensacola, Florida
October 23, 2018

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The independent auditor's report expresses an unmodified opinion on the financial statements of Florida Institute for Human and Machine Cognition, Inc.
2. No significant deficiencies in internal control relating to the audit of the financial statements are reported 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*.
3. No instances of noncompliance material to the financial statements of Florida Institute for Human and Machine Cognition, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for Florida Institute for Human and Machine Cognition, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major federal program for Florida Institute for Human and Machine Cognition, Inc. which are required to be reported in accordance with Section 2 CFR section 200.516(a) of the Uniform Guidance.
7. The program tested as the major program included the following:

Federal Program

Research and Development Cluster:

National Oceanic and Atmospheric Administration (NOAA)	
Cooperative Institutes	CFDA No. 11.432
Measurement and Engineering Research and Standards	CFDA No. 11.609
Basic and Applied Scientific Research	CFDA No. 12.300
Basic Scientific Research	CFDA No. 12.431
Air Force Defense Research Sciences Program	CFDA No. 12.800
Research and Technology Development	CFDA No. 12.910
Science	CFDA No. 43.001
Exploration	CFDA No. 43.003
Cross Agency Support	CFDA No. 43.009
Computer and Information Science and Engineering	CFDA No. 47.070
Aging Research	CFDA No. 93.866

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018
(Continued)

A. SUMMARY OF AUDITOR'S RESULTS (Continued)

8. The threshold used for distinguishing between Type A and B programs was \$750,000 for major federal programs.
9. Florida Institute for Human and Machine Cognition, Inc. was determined to be a low-risk auditee pursuant to the Uniform Guidance.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

There were no findings and questioned costs relating to the major federal award program which are required to be reported in accordance with the Uniform Guidance.

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 14, 2019

Issue: Internal Auditing - Update on Activities
Proposed action: Informational

To provide the Committee with an overview of activities within Internal Auditing & Management Consulting.

1. Status of audits in process
2. Status of advisory/consulting activities
3. Miscellaneous items

Recommendation: Information only
Implementation: None
Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Prepared by: Internal Auditor Cindy Talbert, ctalbert@uwf.edu, 474-2638
Presenter: AVP Vito Hite, white@uwf.edu, 474-2637

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 14, 2019

Issue: Compliance & Ethics - Update on Activities
Proposed action: Informational

To provide the Committee with an overview of activities within Compliance & Ethics.

1. Status of the System-Wide Compliance Gap Analysis
2. Status of UWF's PCI DSS Compliance
3. Update from the SUS Compliance and Ethics Consortium
4. Status of the UWF Integrity Helpline
5. Upcoming Initiatives

Recommendation: Information only
Implementation: None
Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Prepared by: Matthew Packard, 857-6070, mpackard@uwf.edu
Presenter: Matthew Packard