



AGENDA

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

**Audit & Compliance Committee Meeting
February 15, 2018**

**University of West Florida Conference Center, Bldg. 22
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 Funding Data Integrity 17-18; Library Operations 17-18
2. Acceptance of Internal Auditing PCard Auditing Reports: Quarter 2 Update (October 2017 – December 2017)
3. Acceptance of External Audit: WUWF-FM Financial Statement Audit for Fiscal Year Ending June 30, 2017
4. Acceptance of External Audit: Financial Statement Audit of Direct Support Organization – Florida Institute of Human and Machine Cognition (IHMC) for Fiscal Year Ending June 30, 2017
5. Acceptance of External Audit: Intercollegiate Athletics Financial Statement Audit for Fiscal Year Ending June 30, 2017

Information Items:

1. Internal Auditing Update on Activities
2. Compliance Update on Activities

Other Committee Business:

Adjournment

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 15, 2018

Issue: UWF Internal Auditing Reports Issued

Proposed action: Acceptance

Background information:

Internal Auditing & Compliance (IAC) completed two audits during the period November 1, 2017, through January 31, 2018: Performance Funding Data Integrity and Library Operations.

Performance Funding Data Integrity 17-18 004

Our audit period was as of September 30, 2017. This audit was part of the work plan for 2017/18, conducted in accordance with a directive from the Board of Governors (BOG). We issued the audit report on January 23, 2018. The audit's objectives were to 1) verify the appointment of the Data Administrator by the UWF President, 2) evaluate the processes and controls used by the Data Administrator and data custodians to ensure the completeness and accuracy of data submitted to the BOG, 3) verify timely submission of data files to the BOG, 4) assess the consistency of data submissions with BOG data definitions and guidance, and 5) confirm the reporting to the BOG of all critical data errors.

Results:

We identified two Notable Strengths. Institutional Research and the Lead Scientific Analyst from Academic Affairs were found to be generating certain reports related to data submissions more frequently and earlier in the process, ensuring that corrections were made timelier and preventing late submission. In addition, a new process of sending a series of e-mail reminders to data functional leaders prior to submission deadlines had been implemented, which also served to minimize the risk of late or erroneous reporting of data files. This audit included two recommendations:

1. BOG Regulation 3.007 requires that the University Data Administrator be appointed by the President, with this appointment formalized in writing. We recommended that UWF update this appointment by having the current President replace the letter issued by a former President.
2. We recommended that ITS develop a template for departmental use in providing the protocols for their Business Continuity Plans. We also recommended that Departmental Business Continuity Plans be developed by the Offices of Admissions, Registrar, and Financial Aid, to augment the existing ITS Disaster Recovery Plan.

Management's Actions: Management has outlined courses of action with implementation by March 30, 2018.

Library Operations 17-18 003

Our audit period was July 1, 2016 through December 31, 2017 and was part of the work plan for 2017/18. We issued the audit report on January 31, 2018. The audit's objectives were to evaluate internal controls over the Library's mission, department administration, financial activities including purchasing and contracts, information technology, physical security, branch locations, property, and inventory.

Results:

We identified two Notable Strengths. The Dean had created an initiative to reserve a copy of every faculty-required textbook for 1000-4000 level courses, making them available for students to borrow. This a great response to the textbook affordability issue. The UWF Librarian at the Emerald Coast campus had created a web-based "Book Order Utility" that had increased efficiency and accuracy in the tracking of book orders and related processes, used by Library staff and faculty. We made seven recommendations related to the following conditions:

1. Standardization was needed in the use of General Ledger account codes and transaction descriptions, to provide for analysis of revenue levels between fiscal years.
2. Approval for the write-off of accounts receivable from Library users was needed from the Controller's Office.
3. Criteria used to determine which accounts receivable were selected for potential write-off needed to be formalized in writing.
4. Compensating controls within the Circulation Department needed to be established to overcome some difficulties in properly separating accounts receivable duties.
5. A receipting mechanism for casual book sales had not been established in accordance with University policy.
6. Some procedures had been formalized in writing for the management of the SkyLab; however, they had not been compiled in a complete, cohesive manner.
7. Monthly reconciliations were needed between collections at the SkyLab for 3D printing services, and the Library's auxiliary revenue account.

Management's Actions: Management has outlined a course of action to meet implementation by March 31, 2018.

Recommendation: Acceptance of the Internal Auditing reports

Implementation: Management will implement corrective actions. Internal Auditing & Compliance will follow-up to determine if adequate corrective actions occurred.

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Supporting documents

UWF 17-18_004 Performance Funding Data Integrity - 2017

UWF 17-18_003 Library Operations

Prepared by: Cindy Talbert, Interim Internal Audit Director, 850-474-2636, ctalbert@uwf.edu

Presenter: Cindy Talbert, Interim Internal Audit Director

EXECUTIVE SUMMARY

We audited Performance Funding Data Integrity as of September 30, 2017. This audit was part of our approved 2017/18 audit work plan, conducted in accordance with a Board of Governors (BOG) directive to audit university processes that ensure the completeness, accuracy, and timeliness of data submissions. Our specific objectives were to:

- Verify the appointment of the Data Administrator by the UWF President.
- Evaluate (by testing data accuracy) the processes and controls used by the Data Administrator and data custodians to ensure the completeness and accuracy of data submitted to the Board of Governors.
- Verify timely submissions of data files to the BOG.
- Assess the consistency of data submissions with BOG data definitions and guidance.
- Confirm the reporting to the BOG of all critical data errors.

Audit fieldwork began on September 21, 2017, and ended on November 2, 2017. 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, the BOG instituted a performance funding program that is based on 10 performance metrics. These metrics are used to evaluate the institutions on a range of issues including graduation rates, job placement, cost per degree, and retention rates, among other things.

Key components of the model:

- Institutions will be evaluated on either "Excellence" or "Improvement" for each metric.
- Data is based on one-year data.
- The benchmarks for Excellence were based on the Board of Governors' 2025 System Strategic Plan goals and analyses of relevant data trends, whereas the

benchmarks for Improvement were determined after reviewing data trends for each metric.

- The Florida Legislature and Governor determine the amount of new state funding and an amount of institutional funding that would come from each university's recurring state base appropriation.

The results of this audit provide a basis for the University President and the Chairman of the Board of Trustees to complete the BOG "Data Integrity Certification," which is used to certify that all data submitted are reliable, accurate, and complete.

Notable Strengths

The Institutional Research department and the Lead Scientific Analyst from Academic Affairs collaborate to ensure that data for files submitted to the BOG are pulled correctly and accurately from the database. Reports are created, reviewed for errors, and corrected before submission to the BOG. During the past year, the two offices began running data reports more frequently and earlier in order to identify errors sooner in the process, make corrections timely, and prevent late report submissions. This also assisted the data functional users by providing more time to complete data updates.

Email reminders are generated automatically and sent to data functional leaders at 30, 10, and 5 days prior to submissions deadlines. This is a new process to assist data owners with planning and to minimize the risk of late or erroneous reporting of data files.

KEY OBSERVATIONS

We found that in general internal controls were strong, yet we make the following observations:

1. BOG Regulation 3.007 "State University System Management Information System" describes the appointment of an Institutional Data Administrator, who certifies and manages the submission of data to the State University System management information system (including data used in the Performance Based Funding Metrics calculations). This person is to be formally appointed by the

University President. We found that the most current appointment was made by letter to the BOG from the former UWF president in September 2014. With the transition to a new President in January 2017, this document might not be sufficient to demonstrate compliance with the BOG Regulation.

2. A departmental business continuity plan is a critical component of disaster recovery planning. We found that ITS had developed an ITS Disaster Recovery Plan that addressed many of the essential elements. A key component of a departmental business continuity plan is for trustees of critical data to ensure that data recovery is properly prioritized in the event of a disaster by defining recovery time and recovery point objectives for their systems. In our discussions with the Offices of Admissions, Registrar, and Financial Aid, it was noted that this information had not been developed and communicated to ITS. This process would be facilitated if a standard Business Continuity Plan template existed to aid in the development of department plans, but we found such a tool had not been developed by ITS.

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

Respectfully submitted,

Cindy Talbert

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

Recommended Management Actions

1. In order to ensure compliance with BOG Regulation 3.007, the current President should formalize in writing her appointment of the Institutional Data Administrator.
2. We recommend that ITS coordinate the creation and dissemination of a standard Department Business Continuity Template. This template should be used to formalize the plans in writing and to facilitate coordination with the appropriate department representatives regarding the expectations of these plans. We also recommend that the offices of Admissions, Registrar, and Financial Aid, each develop Departmental Business Continuity Plans, to augment the ITS University Disaster Recovery plan by completing the template developed by ITS.

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
Dr. George Ellenberg, Provost/Sr. Vice President
Dr. Joffrey Gaymon, Vice President
Betsy Bowers, Interim Vice President
Pamela Langham, General Counsel
Melanie Haveard, ITS Executive Director/CTO
Keith King, Institutional Research Director
Colleen Asmus, Associate Vice President
Shelly Blake, AVP Budgets & Financial Planning
Kelly Brundage, Registrar
Shana Gore, Financial Aid Director
Katie Condon, Admissions Director
Jaime Hoelscher, Manager, FL Auditor General
Ken Danley, Supervisor, FL Auditor General
Joe Maleszewski, BOG Chief Inspector General
Lori Clark, BOG Compliance and Audit Specialist
Rebecca Luntsford, BOT Liaison

MANAGEMENT RESPONSES TO RECOMMENDATIONS

Recommendation #1

Management Response:

The President will sign a new letter appointing a Data Base Administrator (DBA).

Responsible Party:

Dr. George Ellenberg, Executive Vice President and Provost

Targeted Implementation Date:

January 23, 2018

Recommendation #2

Management Response:

ITS will coordinate the creation and dissemination of a standard Department Business Continuity Template. The offices of Admissions, Registrar, and Financial Aid will each develop Departmental Business Continuity Plans using the standard Department Business Continuity Template and post them within the Business Process Library.

Responsible Parties:

Dr. Joffrey Gaymon, Vice President, Enrollment and Student Affairs

Melanie Haveard, Executive Director and CTO

Targeted Implementation Date:

March 30, 2018

EXECUTIVE SUMMARY

We audited Library Operations for the period of July 1, 2016, through June 30, 2017. This audit was included as part of our 2017/18 audit work plan, determined by our annual risk assessment. Our objectives were to evaluate internal controls over the Library's mission, department administration, financial activities including purchasing and contracts, information technology, physical security, branch locations, property, and inventory.

Audit fieldwork began on September 13, 2017, and ended on December 15, 2017. 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 mission of a modern library has evolved greatly over the years as technology has changed the way that information is provided. In order to meet the needs of students, faculty, staff, and the community, libraries have had to shift their focus to new methods of access to information, and new uses of their facilities. They have opportunities to support academic efforts like never before. The library can provide a spectrum of computer technology to which many students do not have access, enhancing the total educational experience. By providing resources that are attractive to users, the university becomes more integrated into their lives, with numerous benefits accruing to the institution. Students seek out cheerful, comfortable settings where they can work on projects, collaborate with groups around a smartboard, table, or in a study room, or access an online collection from a distant location.

The UWF Library seeks to attain a delicate balance between the modern library model and the historical model. Rather than staffing the Reference desk with students or even computer stations, professional librarians triage questions first-hand, a personal touch not often found in university libraries. A committee of librarians works to ensure that library funding is used prudently to add to the collection, and that the existing

collection is monitored and purged of unnecessary items. Statistics and metrics are routinely utilized to identify trends in the use of resources, whether in books, online journals, databases, computer equipment, or facilities. The Library offers training in how to do research and use digital tools. Laptops, iPads, projectors, cameras, and other items can be checked out, some for as long as three weeks.

Library administration has been working in recent years to renovate space to provide better services, for example, the Great Good Place. This room currently provides the only microwave oven available for general student use, space for tutoring, space for academic programming by individual faculty members, and occasional use for faculty office hours in a relaxed atmosphere. The Instruction Room is used by the librarians to increase information literacy, and by faculty members who use the room for a multiplicity of needs. The Instruction Room is also used by students for collaboration, practice for class presentations, and as an additional computer lab.

The Library participates in the Inter-Library Loan system. This program makes available materials that are not readily accessible or owned by UWF Libraries. The Library is a "net lender," a metric sometimes used to illustrate collection strength.

Despite its small staff size (which has been benchmarked against institutional peers), the Library is kept open 112 hours per week during the 14 weeks of the Fall and Spring Semesters, even expanding hours during the last two weeks of each semester.

Library employees include a Dean, with 11 other professional librarians and 24 staff positions, distributed within Administration, Technologies, Cataloging, Circulation, Reference, Archives/West Florida History Center, the Professional Services Library, and the Emerald Coast Library.

The primary facility is the John C. Pace Library, a five story building on the main campus, along with a

basement that houses the University Archives and the West Florida History Center.

Notable Strengths

The Dean created an initiative to reserve a copy of every faculty-required textbook for 1000 – 4000 level courses. Students may borrow these textbooks for two hour intervals from the main library and its two branches. Students took advantage of this benefit a total of 16,486 times during the 2016/17 fiscal year. We view this as an impressive response to textbook affordability, retention, and other current State system concerns.

The UWF Librarian at the Emerald Coast campus library identified a need to manage various activities related to the ordering of books in a more effective and efficient manner. He created the “Book Ordering Utility,” a web-based utility designed for use by UWF librarians and faculty. This allows all parties to submit orders, confirm accurate bibliographic information, check for current holdings or duplicate orders, record purchase information, register receipt and processing of materials, track the progress of book orders, and monitor departmental budgets. The “Textbook Ordering Utility,” an expanded version, was also created to import course and textbook information from the registrar and bookstore websites, in support of ordering materials for the Textbook Reserves program described above. During audit interviews, various Library employees commented on the efficiencies and additional accuracies that had been obtained from the creation of these utilities.

KEY OBSERVATIONS

We found that in general internal controls were strong, yet we make the following observations:

1. The Library charges a variety of fees and fines to UWF-affiliated users for items that are returned late, lost, or damaged. These charges are posted to student accounts receivable on the Banner financial system. There was significant fluctuation over the past three years in revenue from these charges. We attempted to analyze the revenue further, however, this was not

possible due to methods used to post the charges. General Ledger account codes used often did not accurately describe the actual type of charge, and were used inconsistently. In addition, transaction descriptions data-entered while booking the charges were often ambiguous and also inconsistently used. Revenue transactions that are booked with standardized, descriptive general ledger codes and transaction descriptions provide for analysis of trends over time and aid in management decision-making.

2. The Circulation department extracts user charge information from the library management system and from other sources and, for UWF-affiliated users, enters charges into the Banner Financial system. This creates a balance on the users’ UWF account. Charges assessed to community patrons are generally processed only through the library management system. Periodically the Circulation department identifies charges that they deem uncollectible, or don’t want a financial hold on the account, and submit them to the Dean to approve them for write-off. Records provided by the Library show that since 2015 the amount of accounts receivable written off is over \$8,000; however, the department did not seek approval of write-offs from the Controller’s Office, as required by University policy.
3. The Circulation department manager described a process in which she reviews Library users’ unpaid charges and presents them to the Dean to obtain authorization for writing them off. Although she may use a logical methodology in selecting accounts for write off, she had not formalized the criteria used in this process in writing. This lack of policy formalization increases the likelihood that users may not receive consistent treatment over time.
4. Fees and fines charged to community patrons (i.e., not student, faculty, or staff) are generally computed within “Aleph,” the state-wide university library management system in use. These charges are not entered into the UWF Banner Financial system. The Circulation department is responsible for creating

bills for these patrons. We found that the Accounts Specialist had duties/capabilities assigned to her that did not provide for proper separation of duties, which would serve to mitigate the potential for irregularities. In discussions with the Circulation employees, we were not able to identify a re-assignment of duties that would provide for better controls; however, compensating controls can be established that include the routine review of transactions on Aleph by multiple staff members.

5. Sales of mostly donated books are held twice a year at the Library. The Cash Collection Policy issued by the Controller's Office states that when money is collected, a receipting mechanism should be utilized; however, a receipting mechanism was not being utilized in these sales.
6. The fifth floor of Pace Library is known as the Skylab. Computer equipment and applications that have a specialized nature and are more likely to require guidance from an experienced technician are located in the Skylab. We found that although some procedures had been formalized in writing for activities required to manage the Skylab, they had not been compiled in a cohesive fashion. This creates the risk that established procedures may not be followed, especially since the Skylab manager is not always on site.
7. The Skylab has a source of revenue related to the use of 3D printers. Five 3D printers are available to users. Plastic material is provided as needed for each user project at 10 cents per gram. This fee is reportedly set at an amount that covers the cost of the materials to the Library. Users are required to sign a form that documents their charge, which is paid on site using their Nautilus Card. The Skylab manager is not always available to ensure that these transactions are processed as required. Good accounting practices dictate that routine reconciliations be performed between these charge forms and revenue posted to the Library auxiliary revenue account. We found that reconciliations were not being done.

Recommended Management Actions

1. We recommend that the Library consult with the Controller's Office to identify or create General Ledger codes that accurately identify the types of charges entered, and that standardized transaction descriptions be developed for accounts receivable transactions.
2. We recommend that the Library obtain authorization from the Controller's Office prior to writing off any accounts receivable.
3. Criteria for the write off of accounts receivable for Library charges should be formalized in writing, dated, and reviewed at least annually for potential changes.
4. Reports of charges reversed on Aleph for community patrons should be routinely reviewed by the Accounts Specialist's supervisor. Billing procedures should be converted to a system more easily monitored, such as by email. Billings should be reviewed by the Accounts Specialist's supervisor and compared to Aleph reports of unpaid balances.
5. We recommend that the Library consult with the Controller's Office as to an acceptable method for receipting book sales. Totals of proceeds resulting from this process should be reconciled with money deposited with the Cashier's Office. The reconciliation should be assigned to a Library employee who does not handle book sale proceeds. Documentation supporting book sale proceeds should be kept in the custody of a Library employee who does not make the deposits.
6. We recommend that procedures related to the management of the Skylab be formalized in writing.
7. We recommend that reconciliations (at least monthly) be performed between Skylab charge documents and revenue posted to the Library auxiliary revenue account.

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

Respectfully submitted,

Cindy Talbert

**Cindy Talbert, CIA, CICA, CPA
Interim Internal Audit Director**



Nautilus logo created by the Skylab Manager on a 3-D printer.

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
Dr. George Ellenberg, Provost/Sr. Vice President
Betsy Bowers, Interim Vice President
Robert Dugan, Dean of the Libraries
Colleen Asmus, Associate Vice President
Jaime Hoelscher, Manager, FL Auditor General
Ken Danley, Supervisor, FL Auditor General
Joe Maleszewski, BOG Chief Inspector General
Lori Clark, BOG Compliance and Audit Specialist
Rebecca Luntsford, BOT Liaison

MANAGEMENT RESPONSES TO RECOMMENDATIONS

Recommendation #1

Management Response: The Circulation Department Head and Circulation Accounts Specialist will work with the Controller's Office to develop General Ledger codes that will allow us to more accurately identify the types of charges. We will develop standardized transaction descriptions for accounts receivable transactions so that our records are clearer, and analyzation of data is possible going forward.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: March 1, 2018

Recommendation #2

Management Response: The Circulation Department Head will revise the write-off procedures to include final authorization from the Controller's Office. The updated procedures will be shared with the Controller's Office before implementing to ensure we will be providing the information they will need to make a final authorization.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: March 1, 2018

Recommendation #3

Management Response: The Circulation Department Head will write a procedure for how write offs of accounts receivable are determined. The procedure will be reviewed annually and updated as needed.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: February 1, 2018

Recommendation #4

Management Response: Community patron billing will be done by email. The Circulation Accounts Specialist and Circulation Supervisor will revise procedures to reflect this change as well as write the procedure for review of billings and comparison to Aleph reports.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: February 1, 2018

Recommendation #5

Management Response: A receipts system will be implemented for book sales. The library will seek technical assistance from the appropriate University office for adopting and implementing an appropriate receipt. Reconciliation will be conducted by a Library employee not participating in the book sale. The Senior Administrative Assistant makes the deposit; custody of receipt book will be assigned to another member of the Library Administration staff.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: March 1, 2018

Recommendation #6

Management Response: A document outlining general Skylab management procedures has been created and will be updated annually. This document, in addition to the Skylab Manager's job description in the Human Resources system, provides documentation in order to assure that the established operational procedures are followed in Skylab.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: January 31, 2018

Recommendation #7

Management Response: The Skylab manager now receives monthly emails from the Nautilus Card Office with the total monthly revenue collected from 3D printing fees in Skylab. This monthly total from the Nautilus Card Office is compared to the monthly total from the 3D printing forms used to document charges for 3D printing for that specific month in order to verify that 3D printing transactions are being processed as required.

Responsible Party: Dean of the Libraries

Targeted Implementation Date: January 31, 2018

UWF Board of Trustees Meeting
 Audit & Compliance Committee
 February 15, 2018

Issue: Internal Auditing PCard Audit Reports
 Quarter 2 Update (October 2017 – December 2017)
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 417 PCard holders distributed across 152 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 2017)

Ten (10) departments¹ encompassing 24 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 ten 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	24	2,211	518	\$718,303	\$388,781
Audit Opinion for the PCard Audit¹					
EXCELLENT	GOOD	FAIR	POOR	Total	
5	2	3	0	10	

¹ Departments audited (listed by audit opinion): **Excellent** –Health Sciences, Psychology, CUTLA, Math and Statistics, Testing Services; **Good** –Chemistry, Electrical and Computer Engineering; **Fair** – Exercise Science, Library, Global Hospitality and Tourism.

Most Common Findings for Quarter 2 (October – December 2017)

1. The Department Head did not review and sign the monthly reconciliation reports.
2. The monthly reconciliation report was not prepared timely.

Recommendation: Acceptance of the Internal Auditing PCard Reports for the Second Quarter of Fiscal Year 2017-2018.

Implementation: For PCard audit reports issued during the second quarter (October - December 2017), management will implement corrective actions to be completed in fiscal year 2017/18. Internal Auditing will follow up to determine if adequate corrective actions occurred.

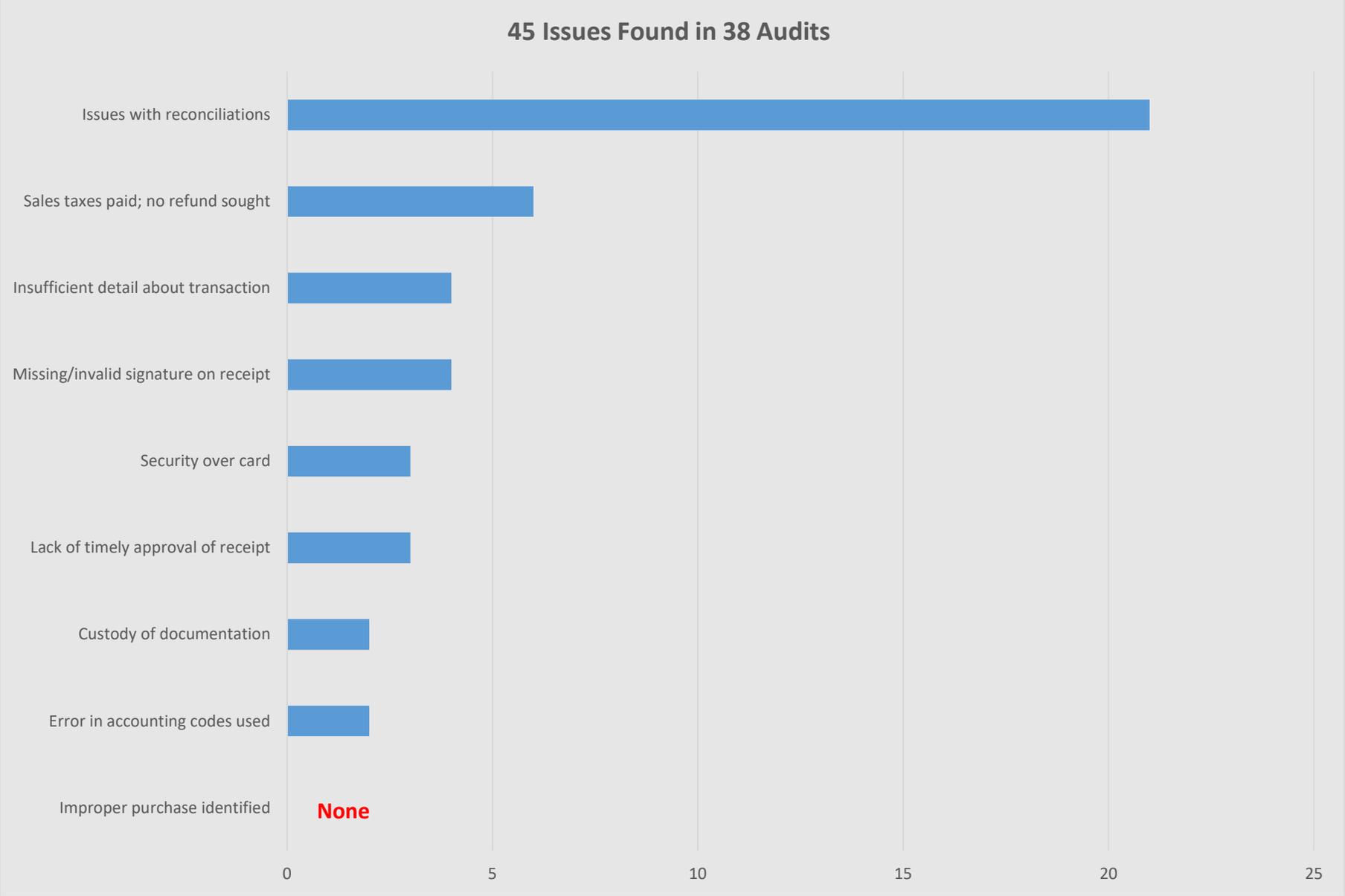
Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

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

Presenter: Cindy Talbert, Interim Director Internal Auditing & Compliance, ctalbert@uwf.edu, 850-474-2638

PCard Audit Findings Grouped by Type of Issue

Audits Completed during Calendar Year 2017



UWF Board of Trustees Meeting
Audit & Compliance Committee
February 15, 2018

Issue: External Audit: WUWF-FM Financial Statement Audit for Fiscal Year Ending June 30, 2017

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. 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. The audit was conducted by James Moore & Co., CPAs.

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:

- 2017 operating revenues were \$1,877,679 and operating expenses were \$1,846,771 (a decrease in expenses of \$93,727 from prior year). The decrease in operating expenses was spread across the categories of programming and production, broadcasting, and program information and promotion functional expenses.
- WUWF-FM experienced an increase of \$46,747 in non-operating revenue due to market gains on investments.

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, 2017

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

Presenter: Cindy Talbert, Interim Internal Audit Director, 850-474-2637, ctalbert@uwf.edu

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

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
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JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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.

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, 2017 and 2016, 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 on pages 4 to 7 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 21, 2017 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" and a stylized "M".

Tallahassee, Florida
December 21, 2017

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
THE UNIVERSITY OF WEST FLORIDA
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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, 2017 and 2016. 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.

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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 14 and nearly 25 volunteers, WUWF is known for outstanding locally produced programming like 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

2017: The Station's operating revenues totaled \$1,877,769, up \$6,076 from the prior year and operating expenses totaled \$1,846,771, which is down \$93,727 from the prior year. The small increases in operating revenues was due to an increase in membership income, used for programming production expenses, and an increase in business and industry support used for underwriting and grant solicitation. The decrease in operating expenses was spread among the categories of programming and production, broadcasting, and program information and promotion functional expenses.

The Station experienced an overall increase of \$46,747 in non-operating revenue due to market gains on investments.

2016: The Station's operating revenues totaled \$1,871,693, up \$91,221 from the prior year and operating expenses totaled \$1,940,498, which is down \$16,578 from the prior year. The increase in operating revenues was due to an increase in the community service grant funds from the Corporation for Public Broadcasting, used for programming production expenses, an increase in business and industry support used for underwriting and grant solicitation, and an increase in other sources of revenue primarily due to Capitol Steps performance and used for programming production expenses. The small decrease in operating expenses was spread equally among each category of functional expenses.

The Station experienced a decrease of \$16,548 in non-operating revenue due to market losses on investments.

WUWF-FM
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MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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.

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.

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MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

CONDENSED STATEMENTS OF NET POSITION
TABLE 1

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current assets	\$ 734,243	\$ 599,005	\$ 626,677
Noncurrent assets	613,922	671,517	735,176
Total assets	<u>1,348,165</u>	<u>1,270,522</u>	<u>1,361,853</u>
Current liabilities	92,916	79,657	80,909
Noncurrent liabilities	132,783	135,152	145,434
Total liabilities	<u>225,699</u>	<u>214,809</u>	<u>226,343</u>
Net position			
Net investment in capital assets	613,922	671,517	735,176
Restricted	313,867	318,328	350,825
Unrestricted	194,677	65,868	49,509
Total net position	<u>\$ 1,122,466</u>	<u>\$ 1,055,713</u>	<u>\$ 1,135,510</u>

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues			
Operating revenues	\$ 1,877,769	\$ 1,871,693	\$ 1,780,472
Non-operating revenues	35,755	(10,992)	5,556
Total revenues	<u>1,913,524</u>	<u>1,860,701</u>	<u>1,786,028</u>
Expenses			
Total expenses	1,846,771	1,940,498	1,957,076
Increase (decrease) in net position	<u>\$ 66,753</u>	<u>\$ (79,797)</u>	<u>\$ (171,048)</u>

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
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THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 435,413	\$ 326,741
Funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station	250,417	222,036
Accounts and grants receivable	9,910	14,273
Prepaid program costs	38,503	35,955
Total current assets	734,243	599,005
Noncurrent assets		
Capital assets, net of accumulated depreciation	613,922	671,517
Total assets	1,348,165	1,270,522
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable and accrued expenses	42,099	36,262
Unearned revenue	43,065	35,832
Current portion of compensated absences	7,752	7,563
Total current liabilities	92,916	79,657
Noncurrent liabilities		
Long-term portion of compensated absences	132,783	135,152
Total liabilities	225,699	214,809
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	613,922	671,517
Unrestricted	194,677	49,509
Restricted:		
Expendable	163,867	200,825
Nonexpendable - Endowment	150,000	150,000
Total net position	\$ 1,122,466	\$ 1,071,851

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

WUWF-FM
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STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Community service grants donated by the Corporation for Public Broadcasting	\$ 149,704	\$ 169,015
Community service grants donated by the Florida Department of Education	100,000	99,922
Appropriations from the University of West Florida	598,196	580,987
Business and industry support	232,312	190,278
Membership income	496,236	462,119
Donated facilities and administrative support from the University of West Florida	270,358	308,100
In-kind contributions	8,931	12,482
Other sources	22,032	48,790
Total operating revenues	<u>1,877,769</u>	<u>1,871,693</u>
Operating expenses (Exhibit I)		
Programming and production	933,529	979,859
Broadcasting	264,745	289,055
Program information and promotion	54,607	77,212
Management and general	239,678	248,905
Fundraising and membership development	261,507	253,884
Underwriting and grant solicitation	92,705	91,583
Total operating expenses	<u>1,846,771</u>	<u>1,940,498</u>
Operating gain (loss)	<u>30,998</u>	<u>(68,805)</u>
Non-operating revenues		
Interest income	3,707	4,217
Net increase (decrease) in fair value of investments	32,048	(15,209)
Total non-operating revenues	<u>35,755</u>	<u>(10,992)</u>
Increase (decrease) in net position	<u>66,753</u>	<u>(79,797)</u>
Net position, beginning of year	1,055,713	1,135,510
Net position, end of year	<u>\$ 1,122,466</u>	<u>\$ 1,055,713</u>

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

WUWF-FM
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THE UNIVERSITY OF WEST FLORIDA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from grants, donors and fundraising activities	\$ 1,011,880	\$ 961,462
Cash paid to suppliers and vendors	(557,271)	(594,063)
Cash paid to employees for salaries and benefits	(353,310)	(401,385)
Net cash provided by (used in) operating activities	<u>101,299</u>	<u>(33,986)</u>
Cash flows from investing activities		
Net sales (purchases) of funds held and invested by the University of West Florida Foundation, Inc. on behalf of the Station, net of fees	(28,383)	41,009
Investment income (loss)	35,755	(10,992)
Net cash provided by investing activities	<u>7,372</u>	<u>30,017</u>
Net increase (decrease) in cash and cash equivalents	<u>108,671</u>	<u>(3,969)</u>
Cash and cash equivalents, beginning of year	326,742	330,711
Cash and cash equivalents, end of year	<u>\$ 435,413</u>	<u>\$ 326,742</u>
Reconciliation of operating gain (loss) to net cash provided by (used in) operating activities		
Operating gain (loss)	<u>\$ 30,998</u>	<u>\$ (68,805)</u>
Adjustments to reconcile operating gain (loss) to net cash provided by (used in) operating activities		
Depreciation	57,596	63,659
(Increase) decrease in certain assets:		
Accounts and grants receivable	4,363	(6,165)
Prepaid program costs	(2,548)	(11,141)
Increase (decrease) in certain liabilities:		
Accounts payable and accrued expenses	5,837	2,500
Compensated absences	(2,180)	(11,537)
Unearned revenue	7,233	(2,497)
Total adjustments	<u>70,301</u>	<u>34,819</u>
Net cash provided by (used in) operating activities	<u>\$ 101,299</u>	<u>\$ (33,986)</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, 2017 AND 2016

(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 includes the following:

Net investment in capital assets —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, 2017 and 2016, 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, 2017 and 2016, the expendable portion of restricted net position includes certain grant funds and endowment earnings. At June 30, 2017 and 2016, the nonexpendable portion of restricted net position represents endowment funds established by donors.

Unrestricted—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.

(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.

WUWF-FM
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

(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, 2017 and 2016, 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.

(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.

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JUNE 30, 2017 AND 2016

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

(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.

(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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

(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. Any taxable income is aggregated at the University level and taxes, if any, are paid by the University.

(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. Advertising expenses were \$22 during the year ended June 30, 2017. There were no advertising expenses during the year ended June 30, 2016.

(u) **Fair value measurement**—The Station categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

WUWF-FM
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(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 statements of net position 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 \$250,417 and \$222,036 as of June 30, 2017 and 2016, 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 is determined based upon values provided to the University of West Florida Foundation, Inc. by the respective hedge fund’s manager (Level 3 inputs).

(3) Capital Assets:

Capital asset activity for the years ended June 30, 2017 and 2016, was as follows:

	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	1,929,133	-	(17,564)	1,911,569
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>

	July 1, 2015 Beginning Balance	Increases	Decreases	June 30, 2016 Ending Balance
Building	\$ 1,202,643	\$ -	\$ -	\$ 1,202,643
Furniture and fixtures	743,454	-	16,964	726,490
Total	1,946,097	-	16,964	1,929,133
Less: Accumulated depreciation	(1,210,921)	(63,659)	16,964	(1,257,616)
Capital assets, net	<u>\$ 735,176</u>	<u>\$ (63,659)</u>	<u>\$ -</u>	<u>\$ 671,517</u>

WUWF-FM
A PUBLIC TELECOMMUNICATIONS ENTITY OPERATED BY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

(4) **State Retirement Plans:**

(a) 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.

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

(b) 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 eight 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, 2017 and 2016, the employing university contributed on behalf of the participant 7.98 and 7.80 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, 2017 and 2016. The Department's contributions to the plans for the years ended June 30, 2017 and 2016, were \$44,391 and \$44,350, respectively.

(5) **Post-Employment 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 included in the University's financial statements for the years ended June 30, 2017 and 2016.

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(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 2017-16 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 \$85 million for named wind and flood. For perils other than named wind and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million through February 14, 2017 and increased to \$225 million starting February 15, 2017; 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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

(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 \$435,413 and \$326,711 at June 30, 2017 and 2016, respectively.

(b) **Funds held by the Foundation**—The Foundation holds investments for the Station. The amount held by the Foundation for the Station was \$250,417 and \$222,036 at June 30, 2017 and 2016, 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 8% and 9%, Florida DOE provided 5% and 6%, and the University provided approximately 46% and 48% in cash support and donated facilities during the years ended June 30, 2017 and 2016, respectively.

(d) **Accounts and grants receivable**—The Station has grants and accounts receivable of \$9,910 and \$14,272 at June 30, 2017 and 2016, 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, 2017 and 2016, was as follows:

Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due Within 1 Year
\$ 142,715	\$ 74,100	\$ 76,280	\$ 140,535	\$ 7,752
Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Amount Due Within 1 Year
\$ 154,252	\$ 69,821	\$ 81,358	\$ 142,715	\$ 7,563

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(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, 2017
		2014-15	2015-16	2016-17	
2014-16	\$ 152,411	\$ 22,890	\$ 121,072	\$ 8,449	\$ -
2015-17	\$ 169,015	\$ -	\$ 29,166	\$ 139,849	\$ -
2016-18	\$ 110,676	\$ -	\$ -	\$ 7,555	\$ 103,121
2016-18 Restricted	\$ 39,028	\$ -	\$ -	\$ 19,514	\$ 19,514

(10) **Operating Lease:**

The Station leases a tower under an operating lease that expires January 31, 2018. Rent expense for the years ended June 30, 2017 and 2016, was \$20,312 and \$20,189, respectively.

Minimum future rental payments under the noncancellable operating lease having a remaining term in excess of one year as of June 30, 2017, for the remaining year is:

Year Ending June 30,	Amount
2018	\$ 11,949

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NOTES TO FINANCIAL STATEMENTS
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(11) **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 \$1,709,704 and \$1,677,659 for the years ended June 30, 2017 and 2016, respectively.

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, 2017 WITH SUMMARIZED
INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	Program Services				Supporting Services				Total Expenses	2016 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	\$ 395,098	\$ 79,635	\$ 30,865	\$ 505,598	\$ 157,344	\$ 139,670	\$ 78,190	\$ 375,204	\$ 880,802	\$ 899,564
Professional services	12,879	52,611	20	65,510	21,828	5,004	-	26,832	92,342	94,630
Facilities and administrative support from the University of West Florida	130,418	24,328	16,605	171,351	50,984	42,194	14,515	107,693	279,044	316,693
Office supplies	12,480	13,613	3,086	29,179	875	5,487	-	6,362	35,541	23,305
Telephone and utilities	1,308	52,615	14	53,937	247	-	-	247	54,184	55,765
Postage and freight	97	186	3,094	3,377	37	1,807	-	1,844	5,221	5,683
Advertising	22	-	-	22	-	-	-	-	22	-
Repairs and maintenance of equipment	-	836	-	836	-	-	-	-	836	7,263
Printing and publications	348	148	690	1,186	1,204	8,233	-	9,437	10,623	6,660
Travel and training	2,113	374	223	2,710	2,833	1,866	-	4,699	7,409	7,999
Programming	359,196	-	-	359,196	-	-	-	-	359,196	406,072
Subscriptions and fees	2,291	82	10	2,383	4,326	57,246	-	61,572	63,955	53,205
Depreciation	17,279	40,317	-	57,596	-	-	-	-	57,596	63,659
	<u>\$ 933,529</u>	<u>\$ 264,745</u>	<u>\$ 54,607</u>	<u>\$ 1,252,881</u>	<u>\$ 239,678</u>	<u>\$ 261,507</u>	<u>\$ 92,705</u>	<u>\$ 593,890</u>	<u>\$ 1,846,771</u>	<u>\$ 1,940,498</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, 2017, 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 21, 2017.

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.

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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 21, 2017

UWF Board of Trustees Meeting
Audit and Operations Committee
February 15, 2018

Issue: External Audit: Financial Statement Audit of Direct Support Organization—Florida Institute of Human and Machine Cognition (IHMC) for Fiscal Year Ending June 30, 2017

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 with statements presented to the University of West Florida. The Florida Institute for Human and Machine Cognition (IHMC) audit has been completed for fiscal year ending June 30, 2017. This audit was conducted by Saltmarsh, Cleaveland & Gund, CPAs.

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.

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."

Financial Highlights:

- An increase in Buildings and corresponding decrease in Construction in Progress of approximately \$9.2 million represented the completion of a new research facility.
- Subsequent to year end IHMC purchased land for \$2 million financed with a note secured by the mortgage on the land.

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, 2017.

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

Presenter: Cindy Talbert, Interim Internal Auditor Director, 850-474-2636, ctalbert@uwf.edu

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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.

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

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, 2017 and 2016, 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*, and the schedule of expenditures of state financial assistance, as required by Chapter 10.650, Rules of the Auditor General, are presented for purposes of additional analysis and are 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 19, 2017, 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 19, 2017

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
Cash	\$ 3,034,112	\$ 4,398,050
Restricted cash held by trustee	883,416	871,231
Grants and contracts receivables	3,266,078	1,915,858
Pledge receivable	97,794	-
Other receivables	-	7,495
Prepaid expenses	91,186	52,906
Property and equipment, net	16,902,170	15,588,162
Deposits	19,196	248,093
Total Assets	\$ 24,293,952	\$ 23,081,795

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 390,740	\$ 655,250
Retainage payable	-	131,475
Accrued payroll and related liabilities	461,637	433,377
Accrued interest	78,398	83,713
Refundable advances	42,283	17,008
Long-term debt	9,924,838	10,596,374
Total liabilities	10,897,896	11,917,197

Commitments and Contingencies

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Net Assets:

Unrestricted	13,150,609	11,026,425
Temporarily restricted	245,447	138,173
Total net assets	13,396,056	11,164,598

Total Liabilities and Net Assets

\$ 24,293,952 **\$ 23,081,795**

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, 2017 AND 2016

	2017	2016
Change in Unrestricted Net Assets:		
Support, Revenue and Reclassifications:		
Research and development grants and contracts -		
Federal, state and pass-through grants	\$ 6,586,932	\$ 5,436,155
Other grants and contracts	6,235,658	4,613,229
Legislative appropriation	4,739,184	4,289,184
Contributions	1,038,158	483,432
Other revenue	50,246	18,127
Net assets released from restrictions	185,824	267,201
	18,836,002	15,107,328
 Expenses:		
Program services -		
Research and development grants and contracts	13,241,227	11,665,443
Other program services	133,438	120,886
Total program services	13,374,665	11,786,329
Supporting services -		
Fundraising services -		
Salaries and employee benefits	57,043	12,210
Other fundraising expenses	2,113	39
	59,156	12,249
General and administrative	3,277,997	2,733,769
Total supporting services	3,337,153	2,746,018
	16,711,818	14,532,347
 Change in unrestricted net assets	2,124,184	574,981

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, 2017 AND 2016
(Continued)

	<u>2017</u>	<u>2016</u>
Change in Temporarily Restricted Net Assets:		
Contributions	293,098	83,120
Net assets released from restrictions	<u>(185,824)</u>	<u>(267,201)</u>
Change in temporarily restricted net assets	<u>107,274</u>	<u>(184,081)</u>
Change in Net Assets	2,231,458	390,900
Net Assets, Beginning of Year	<u>11,164,598</u>	<u>10,773,698</u>
Net Assets, End of Year	<u>\$ 13,396,056</u>	<u>\$ 11,164,598</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,231,458	\$ 390,900
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation and amortization	743,931	573,455
Loss on sale of donated investments	-	2,507
Bad debt expense	106,007	25,000
Changes in operating assets and liabilities -		
Grants and contracts receivables	(1,456,227)	(14,681)
Pledge receivable	(97,794)	-
Other receivables	7,495	1,004,729
Prepaid expenses	(38,280)	65,356
Other assets	(88,969)	(237,653)
Accounts payable	(264,510)	(485,245)
Retainage payable	(131,475)	(19,935)
Accrued payroll and related liabilities	28,260	124,044
Accrued interest	(5,315)	(5,149)
Refundable advances	25,275	8,334
Net cash provided by operating activities	<u>1,059,856</u>	<u>1,431,662</u>
Cash Flows From Investing Activities:		
Purchases of property and equipment	<u>(1,734,609)</u>	<u>(6,425,662)</u>
Cash Flows From Financing Activities:		
Proceeds from note issuance	-	5,316,173
Principal payments of long-term debt	(677,000)	(656,000)
Increase in restricted cash for debt service	(12,185)	(12,351)
Net cash provided by (used in) financing activities	<u>(689,185)</u>	<u>4,647,822</u>
Net Decrease in Cash	(1,363,938)	(346,178)
Cash at Beginning of Year	<u>4,398,050</u>	<u>4,744,228</u>
Cash at End of Year	<u>\$ 3,034,112</u>	<u>\$ 4,398,050</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u>\$ 322,450</u>	<u>\$ 348,897</u>

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, 2017 AND 2016

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, 2017 and 2016.

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, 2017 AND 2016

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, 2017 and 2016 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, 2017 AND 2016

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 \$5,464 for each of the years ended June 30, 2017 and 2016.

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, 2017 AND 2016

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 19, 2017, the date which the financial statements were available for issue.

NOTE 2 - RESTRICTED CASH HELD BY TRUSTEE

Restricted cash is comprised of the following:

	2017	2016
Undisbursed debt proceeds - construction	\$ 223,351	\$ 223,351
Debt service -		
Note principal	581,667	564,167
Note interest	78,398	83,713
	\$ 883,416	\$ 871,231

NOTE 3 - PLEDGE RECEIVABLE

Pledge receivable at June 30, 2017 and 2016 consists of the following:

	2017	2016
In one year or less	\$ 50,000	\$ -
Between one and five years	50,000	-
Total pledges receivable	100,000	-
Less discounts to net present value	2,206	-
	\$ 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, 2017 AND 2016

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,302,872	\$ 1,302,872
Buildings	15,524,976	6,132,442
Computers and software	1,482,656	1,310,261
Machinery and equipment	1,405,746	1,036,917
Robotics	823,054	810,638
Furniture and fixtures	737,600	264,293
Vehicle	68,625	68,625
Art collection	5,950	5,950
Construction in progress	837,891	9,204,900
	<u>22,189,370</u>	<u>20,136,898</u>
Less accumulated depreciation and amortization	<u>5,287,200</u>	<u>4,548,736</u>
	<u>\$ 16,902,170</u>	<u>\$ 15,588,162</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$738,467 and \$567,990, respectively.

Construction in progress at June 30, 2017 represent costs for a drainage project. Construction in progress at June 30, 2016 represents construction costs for the new research facility. The construction of the new research facility was completed during 2016.

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 and \$338,000, respectively, of interest in connection with the construction of the new research facility for the years ended June 30, 2017 and 2016.

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, 2017 AND 2016

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:

	2017	2016
\$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	\$ 9,987,000	\$ 10,664,000
Less unamortized debt issuance costs	62,162	67,626
Long-term debt, net of unamortized debt issuance costs	\$ 9,924,838	\$ 10,596,374

Maturities of the revenue note are as follows:

Year ending June 30,	
2018	\$ 698,000
2019	720,000
2020	743,000
2021	766,000
2022	790,000
Thereafter	6,270,000
	\$ 9,987,000

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 will be disbursed by the County as IHMC receives 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, 2017 and 2016 are presented as follows:

	2017	2016
Educational Outreach Youth Programs	\$ 39,099	\$ 25,260
Research projects	100,000	106,022
Future periods	97,794	-
Other	8,554	6,891
	\$ 245,447	\$ 138,173

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, 2017 AND 2016

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 \$919,178 in 2017 and \$844,282 in 2016.

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, 2017, IHMC had cash balances in excess of insured limits of approximately \$524,000.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 26, 2018. IHMC had no amounts outstanding as of June 30, 2017 and 2016 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. During fiscal year 2016, IHMC also leased property located at 127 South Alcaniz Street, Pensacola, Florida, which was dedicated to IHMC's administrative function. This lease was cancelled effective October 30, 2015. The leased property located at 100 South Alcaniz was dedicated to the robot prototype research. This lease was cancelled effective December 31, 2015.

Rental expense for operating leases for the years ended June 30, 2017 and 2016 was \$18,842 and \$141,066, respectively.

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 March 2017, ONR issued final indirect cost rates for the fiscal years ended June 30, 2008 through 2011. The finalized rates were lower than those rates applied by IHMC during that time under audit. In the spring of 2017, ONR issued final rates for both fiscal years ended June 30, 2012 and 2013. There was a slight adjustment to the 2012 rate and no adjustment to the 2013 rate. 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.

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

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.

NOTE 10 - SUBSEQUENT EVENT

In July 2017, IHMC purchased land for \$2,000,000. IHMC entered into a note with monthly installments of \$10,557 from August 2017 through June 2027, with a final balloon payment due in July 2017, and interest at a rate of 4%. The note is secured by a mortgage on the land.

SUPPLEMENTARY INFORMATION

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Salaries	\$ 2,979,806	\$ 2,717,620
Payroll taxes	180,470	167,594
Employee benefit programs	493,667	439,709
Administrative travel	100,641	118,052
Meals and entertainment	24,124	26,939
Insurance	203,544	178,088
Legal and professional	451,992	430,176
Occupancy, including in-kind	430,211	481,535
Interest expense	214,526	5,465
Repairs and maintenance	8,725	6,416
Office expenses	299,376	171,638
Bad debt	106,007	25,000
Telephone	61,769	60,927
Lobbying costs	150,574	145,115
Licenses and fees	17,245	31,123
Memberships and continuing education	42,790	36,786
Employee morale and welfare	21,761	24,948
Other	46,415	23,877
Depreciation	738,467	567,990
Indirect applied overhead, payroll taxes and employee benefits	(3,294,113)	(2,925,229)
Total General and Administrative Expenses	\$ 3,277,997	\$ 2,733,769

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

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>Office of Naval Research</u>				
Synthetic Biology Approach to Enhancing Warfighter Tolerance to Hypothermic Stress	12.300	N00014-16-1-2942	\$ 126,999	\$ -
Concept Map-Based Knowledge Modeling of Undersea Medicine	12.300	N00014-16-P-3025	37,099	-
Total Office of Naval Research			<u>164,098</u>	<u>-</u>
<u>Department of the Army</u>				
CWC DARPA - Communication with a Learning Collaborative Problem Solving Agent	12.910	W911NF-15-1-0542	1,437,270	561,791
<u>Army Research Laboratory</u>				
Extending Agile Computing to Support Battlefield Information Management, Command & Control Data to Decision and Network Science	12.431	W911NF-11-2-0095	539	-
Deep Reading to Understand Mechanisms	12.431	W911NF-14-1-0391	830,603	66,533
WorldModele	12.431	W911NF-167-1-0047	271,076	41,689
Intelligent Systems to Support Information Management, Soldier Interfaces, and Decision Making	12.431	W911NF-15-2-0076	479,724	75,000
Total Army Research Laboratory			<u>1,581,942</u>	<u>183,222</u>
<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	393,188	176,771
Wearable Sensor Suite and Cognitive Gauges for a Quantified Warrior	12.800	FA8650-16-1-6771	510,617	173,192
Naturalistic Decision Making Foundations of Explainable AI	12.910	FA8650-17-2-7711	67,120	25,723
Total Department of the Air Force			<u>970,925</u>	<u>375,686</u>

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017
(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>				
NASA Advanced Concepts for Human Space Exploration	43.003	NNX11AR31A	128,832	-
Grasshopper Exercise Prototype	43.003	NNX17AJ56A	71,780	-
			<u>200,612</u>	<u>-</u>
NRI LG: Toward Humanoid Avatar Robots for Co-Exploration of Hazardous Environments	43.009	NNX12AP97G	1,132,095	-
Research, Development and Support of Open-Source Humanoid Robot Walking and Manipulation Algorithms and Diagnostic Software for NASA JSC Valkyrie Robot	43.009	NNX15AK18A	139,284	-
			<u>1,271,379</u>	<u>-</u>
Total National Aeronautics and Space Administration			<u>1,471,991</u>	<u>-</u>
<u>National Science Foundation</u>				
NRI: Collaborative: Optimal Interaction Design Framework for Powered Lower-Extremity Exoskeletons	47.070	IIS-1427213	42,855	-
<u>National Oceanic and Atmospheric Administration (NOAA)</u>				
<u>Cooperative Institutes</u>				
<u>Passed through Florida Atlantic University</u>				
The Cooperative Institute for Ocean Exploration, Research and Technology (CIOERT) Years 6-10	11.432	NA14OAR4320260	144,181	-
<u>U.S Department of Commerce</u>				
Cross-Field Methodologies for Research in Data Science	11.609	70NANB17H210	23,670	-
Total Expenditures of Federal Awards			<u>\$ 5,836,932</u>	<u>\$ 1,120,699</u>

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

**FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2017**

State Grantor, Pass-through Grantor, Program or Cluster Title	CSFA Number	Pass-through Agency's Identifying Number	Expenditures
<u>Florida Department of Environmental Protection</u>			
Statewide Surface Water Restoration and Wastewater Projects	37.039	LP17024	<u>\$ 750,000</u>

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

OTHER REPORTS AND SCHEDULES

**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, 2017, 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 19, 2017.

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 19, 2017

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND STATE PROJECT AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

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

Report on Compliance for Each Major Federal Program and State Project

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* and the requirements described in the *Executive Office of the Governor’s State Project Compliance Supplement* that could have a direct and material effect on each of IHMC’s major federal programs and state project for the year ended June 30, 2017. IHMC’s major federal programs and state project are 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 programs and state project.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of IHMC’s major federal programs and state project 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; 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”); and Chapter 10.650, Rules of the Auditor General. Those standards, the Uniform Guidance and Chapter 10.650, Rules of the Auditor General 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 or state project 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 and state project. However, our audit does not provide a legal determination of IHMC’s compliance.

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

Opinion on Each Major Federal Program and State Project

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 each of its major federal programs and state project for the year ended June 30, 2017.

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 and state project 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 state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, 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 or state project 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 and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Pensacola, Florida
October 19, 2017

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

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 programs and state project are reported in the Independent Auditor's Report on Compliance For Each Major Program and State Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, Rules of the Auditor General.
5. The auditor's report on compliance for major federal award programs and state project for Florida Institute for Human and Machine Cognition, Inc. expresses an unmodified opinion.
6. There are no audit findings relative to the major federal programs and state project 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 and Chapter 10.650, Rules of the Auditor General.
7. The programs tested as major programs/project 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
Exploration	CFDA No. 43.003
Cross Agency Support	CFDA No. 43.009
Computer and Information Science and Engineering	CFDA No. 47.070

FLORIDA INSTITUTE FOR HUMAN AND MACHINE COGNITION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017
(Continued)

A. SUMMARY OF AUDITOR'S RESULTS (Continued)

State Project

Statewide Surface Water Restoration and Wastewater Projects

CSFA No. 37.039

8. The threshold used for distinguishing between Type A and B programs was \$750,000 for major federal programs and \$300,000 for major state project.
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 programs which are required to be reported in accordance with the Uniform Guidance.

D. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECT

In accordance with Rules of the Auditor General, Section 10.656(3)(e), no management letter is required because there were not findings required to be reported in the management letter.

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 15, 2018

Issue: External Audit: Intercollegiate Athletics Financial Statement Audit for Fiscal Year Ending June 30, 2017

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 2016/17. The audit was conducted by James Moore & Co., CPAs. 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, down from \$5.6 million in 2016. Direct institutional support (administrative overhead fees and student fee waivers) was about \$2.5 million, up approximately \$1.2 million over the prior year. The remaining \$953k in operating revenues were from primarily from booster contributions, sponsorships, NCAA distributions, and sports camps. Non-operating revenue of \$830k came primarily from state appropriations.
- Operating expenditures increased by about \$800k from the prior year, attributable mostly to higher personnel expense, scholarships, travel, and medical expenses.
- Net position increased by \$20,365 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, 2017
Intercollegiate Athletics Auditor Communication Letter June 30, 2017

Prepared by: Cindy Talbert, Interim Internal Audit Director, 474-2637, ctalbert@uwf.edu

Presenter: Cindy Talbert, Interim Internal Audit Director

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

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
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JUNE 30, 2017 AND 2016**

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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise 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, 2017 and 2016, and the changes in financial position and cash flows thereof 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 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, 2017 and 2016, 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 on pages 3 through 9 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 University of West Florida Department of Intercollegiate Athletics basic financial statements. The additional information on pages 23 through 24 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 19, 2018, 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.

James Moore & Co., P.L.C.

Tallahassee, Florida
January 19, 2018

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

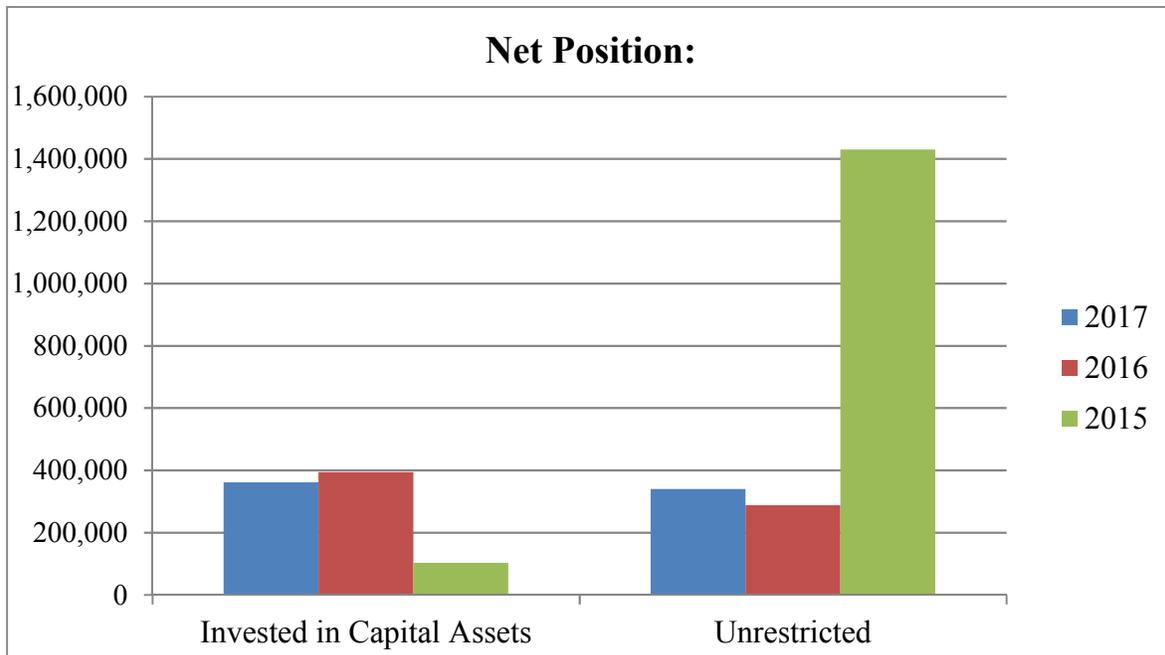
Management’s discussion and analysis (MD&A) of the University of West Florida Department of Intercollegiate Athletics (The Department) financial statements provides an overview of the Department’s financial position and activities for the fiscal years ended June 30, 2017 and June 30, 2016, and should 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

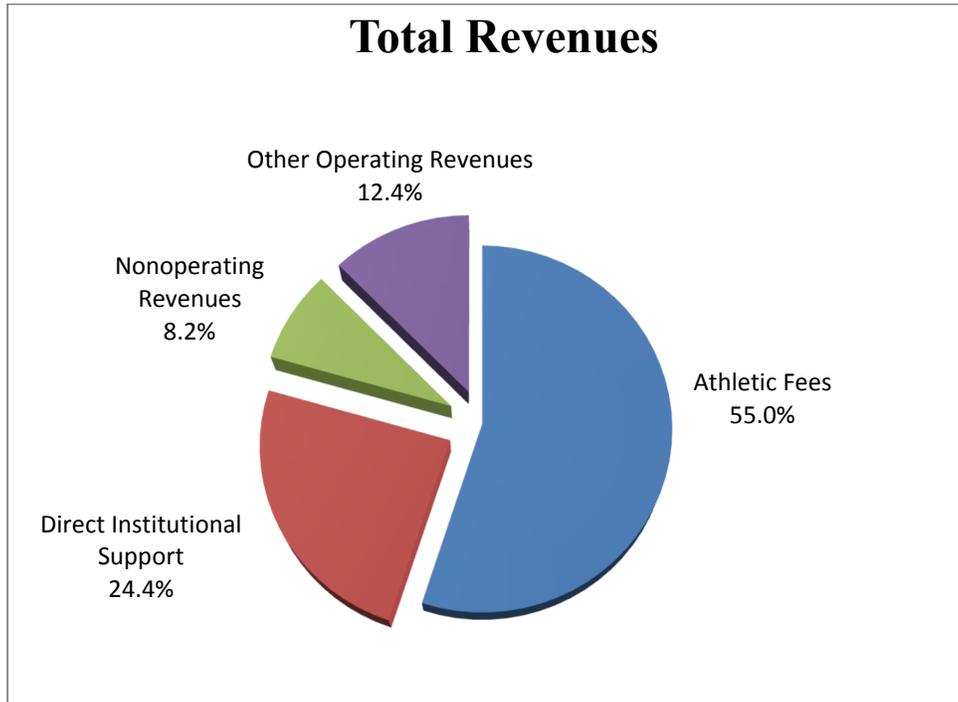
The Department’s net position by category at June 30, 2017, 2016, and 2015 are shown in the following graph:



Unrestricted Net Position increased by \$52,770 during fiscal year ended June, 30 2017, which was predominantly due to an increase of accounts receivable attributable to the timing of fee payment deadlines and a decrease of outstanding accounts payable amounts.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016
(Continued)

The following chart provides a graphical presentation of the Department's revenues by category for the fiscal year ended June 30, 2017:



The economic position of the Department is closely tied to enrollment. For the fiscal year ended June 30, 2017, fee revenues comprised approximately 55 percent of the Department's total operating and nonoperating revenues and were the largest source of funding. Direct institutional support comprised 24.4 percent of total revenues, which primarily consisted of administrative overhead fee support and out of state student fee waivers. Other operating revenues, comprising 12.4 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 8.2 percent of total revenues.

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.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016
(Continued)

In the fiscal year ended June 30, 2016, the Department's expenses exceeded revenues and other support, creating a decrease in net position of \$851,405. Revenue from student athletic fees increased from \$5,348,353 in 2015 to \$5,639,464 in 2016. Although, revenue from direct institutional support including fee waivers and university scholarship support increased from \$1,006,615 in 2015 to \$1,170,848 in 2016. All other operating revenues increased from \$380,245 in 2015 to \$790,842 in 2016, primarily due to an increase in contributions and NCAA distributions that the Department received. Total operating expenses increased from \$7,607,183 in 2015 to \$9,276,689 in 2016. Personnel services rose from \$3,082,542 in 2015 to \$3,436,725 in 2016. Additionally, scholarship expenditures increased from \$2,038,407 in 2015 to \$2,631,549 in 2016. Travel expenses increased by \$150,183 during 2016, while other operating expenses rose from \$1,721,832 in 2015 to \$2,276,335 in 2016. Other operating expenses increased primarily due to more money spent on supplies and equipment with the newly added football program, insurance premium increases, additional fundraising expenses, and tournament costs.

**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. They 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, 2017 AND 2016
(Continued)

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

Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current Assets	\$ 1,136,265	\$ 1,052,766	\$ 1,988,344
Capital Assets, Net	<u>361,302</u>	<u>393,707</u>	<u>102,725</u>
Total Assets	<u>1,497,567</u>	<u>1,446,473</u>	<u>2,091,069</u>
Liabilities			
Current Liabilities	328,082	333,417	182,406
Noncurrent Liabilities	<u>467,911</u>	<u>431,847</u>	<u>376,049</u>
Total Liabilities	<u>795,993</u>	<u>765,264</u>	<u>558,455</u>
Net Assets			
Invested in Capital Assets	361,302	393,707	102,725
Unrestricted	<u>340,272</u>	<u>287,502</u>	<u>1,429,889</u>
Total Net Assets	<u>\$ 701,574</u>	<u>\$ 681,209</u>	<u>\$ 1,532,614</u>
Increase (Decrease) in Net Assets	<u>\$ 20,365</u>	<u>\$ (851,405)</u>	<u>\$ (146,260)</u>

Current Assets increased by \$83,499 for fiscal year ended June 30, 2017 due to an increase in accounts receivable and an increase in prepaid insurance amounts. During the fiscal year ended June 30, 2016, current assets decreased by \$935,578. Net depreciable capital assets decreased by \$32,405 in 2017 as a result of increased depreciation expense of the Department's capital assets, as well as the disposal of obsolete equipment. However in 2016, net depreciable capital assets had increased by \$290,982 per the acquisition of additional assets.

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, 2017 AND 2016
(Continued)

A summary of revenues and expenses of the Department for the fiscal years ended June 30, 2017, 2016, and 2015 is presented in the following table:

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 9,267,328	\$ 7,601,154	\$ 6,735,213
Operating Expenses	<u>(10,073,395)</u>	<u>(9,276,689)</u>	<u>(7,607,183)</u>
Operating Income (Loss)	(806,067)	(1,675,535)	(871,970)
Nonoperating Revenues	<u>826,432</u>	<u>824,130</u>	<u>725,710</u>
Excess (Deficiency) of Revenues over Expenses	20,365	(851,405)	(146,260)
Net Position, Beginning of Year	<u>681,209</u>	<u>1,532,614</u>	<u>1,678,874</u>
Net Position, End of Year	<u><u>\$ 701,574</u></u>	<u><u>\$ 681,209</u></u>	<u><u>\$ 1,532,614</u></u>

Student athletic fees of \$5,549,507, \$5,639,464, and \$5,656,393 for 2017, 2016, and 2015 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, 2017, 2016, and 2015 are presented in the following table:

Operating Expenses

<u>Natural Classification</u>	<u>2017</u>	<u>Percent</u>	<u>2016</u>	<u>Percent</u>	<u>2015</u>	<u>Percent</u>
Personnel Services	\$ 3,594,146	35.7%	\$ 3,436,725	37.0%	\$ 3,082,542	40.5%
Athletic Scholarships	2,883,660	28.6%	2,631,549	28.4%	2,038,407	26.8%
Other Scholarships	106,073	1.1%	90,903	1.0%	81,374	0.1%
Travel	909,391	9.0%	797,221	8.6%	647,038	8.5%
Depreciation	42,447	0.4%	43,956	0.5%	35,990	1.5%
Other Operating Expenses	<u>2,537,678</u>	<u>25.2%</u>	<u>2,276,335</u>	<u>24.5%</u>	<u>1,721,832</u>	<u>22.6%</u>
Total	<u><u>\$ 10,073,395</u></u>	<u><u>100%</u></u>	<u><u>\$ 9,276,689</u></u>	<u><u>100%</u></u>	<u><u>\$ 7,607,183</u></u>	<u><u>100%</u></u>

Personnel Service expenses increased by \$157,421 for the fiscal year ended June 30, 2017, due to university salary increases and staffing additions in Athletics, with primary growth occurring in athletic training, administration, operations, football, and women's soccer.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016
(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, 2017, 2016, and 2015 is presented in the following table:

Condensed Statements of Cash Flows

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Provided by (Used in):			
Operating Activities	\$ (825,115)	\$ (1,354,916)	\$ (842,441)
Noncapital Financing Activities	819,621	805,416	703,643
Capital and Related Financing Activities	(11,333)	(334,938)	(7,242)
Investing Activities	<u>8,102</u>	<u>18,714</u>	<u>21,767</u>
Net Increase in Cash and			
Cash Equivalents	(8,725)	(865,724)	(124,273)
Cash and Cash Equivalents, Beginning of the Year	<u>948,564</u>	<u>1,814,288</u>	<u>1,938,561</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 939,839</u>	<u>\$ 948,564</u>	<u>\$ 1,814,288</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, 2017 the state appropriations increased by \$16,064.

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016
(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, 2017 AND 2016**

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 939,839	\$ 948,564
Accounts receivable, net of allowance for doubtful accounts of \$42,084 and \$41,915 at June 30, 2017 and 2016, respectively	166,578	99,873
Due from other funds	3,321	2,966
Prepaid expenses	26,527	1,363
Total current assets	1,136,265	1,052,766
Capital assets, net of accumulated depreciation of \$349,233 and \$328,187 in 2017 and 2016, respectively	361,302	393,707
Total Assets	1,497,567	1,446,473
<u>Liabilities</u>		
Current Liabilities		
Accounts payable	38,183	70,794
Accrued expenses	98,217	108,851
Compensated absences, current	52,360	39,056
Unearned revenue	139,322	114,716
Total current liabilities	328,082	333,417
Noncurrent Liabilities		
Compensated absences, less current portion	467,911	431,847
Total Liabilities	795,993	765,264
<u>Net Position</u>		
Net Position		
Net investment in capital assets	361,302	393,707
Unrestricted	340,272	287,502
Total Net Position	\$ 701,574	\$ 681,209

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Student athletic fees	\$ 5,549,507	\$ 5,639,464
Direct institutional support	2,468,109	1,170,848
Sales and services of auxiliary enterprises	296,207	23,571
Other operating revenue	953,505	767,271
Total revenues	<u>9,267,328</u>	<u>7,601,154</u>
 Operating Expenses		
Personnel services	3,594,146	3,436,725
Athletic scholarships	2,883,660	2,631,549
Other scholarships	106,073	90,903
Travel	909,391	797,221
Depreciation	42,447	43,956
Other	2,537,678	2,276,335
Total expenses	<u>10,073,395</u>	<u>9,276,689</u>
 Operating Loss	<u>(806,067)</u>	<u>(1,675,535)</u>
 Nonoperating Revenues (Expenses)		
State appropriations	820,668	804,604
Capital contributions	1,460	-
Interest income	8,102	18,714
Gain (Loss) on disposal of capital assets	(2,751)	-
Other nonoperating revenues (expenses)	(1,047)	812
Total nonoperating revenues (expenses)	<u>826,432</u>	<u>824,130</u>
 Excess (Deficiency) of Revenues Over (Under) Expenses	<u>20,365</u>	<u>(851,405)</u>
 Net Position, beginning of year	681,209	1,532,614
 Net Position, end of year	<u>\$ 701,574</u>	<u>\$ 681,209</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Student athletic fees	\$ 5,549,507	\$ 5,639,464
Direct institutional support	1,699,704	477,243
Sales and services of auxiliary enterprises	296,207	23,571
Other operating receipts	911,051	904,420
Payments to employees	(3,555,412)	(3,350,102)
Payments to suppliers for goods and services	(3,504,844)	(3,020,665)
Payments to students for scholarships	(2,221,328)	(2,028,847)
Net cash used in operating activities	<u>(825,115)</u>	<u>(1,354,916)</u>
Cash Flows from Noncapital Financing Activities		
State Appropriations	820,668	804,604
Other non-operating revenue (expenses)	(1,047)	812
Net cash provided by noncapital financing activities	<u>819,621</u>	<u>805,416</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of fixed assets	<u>(11,333)</u>	<u>(334,938)</u>
Cash Flows from Investing Activities		
Interest income	8,102	18,714
Decrease in Cash and Cash Equivalents	<u>(8,725)</u>	<u>(865,724)</u>
Cash and Cash Equivalents, beginning of year	948,564	1,814,288
Cash and Cash Equivalents, end of year	<u>\$ 939,839</u>	<u>\$ 948,564</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (806,067)	\$ (1,675,535)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	42,447	43,956
Changes in assets and liabilities:		
Accounts receivable, net	(66,705)	21,521
Due from other funds	(355)	912
Prepaid expenses	(25,164)	47,421
Accounts payable and accrued expenses	(43,245)	39,875
Compensated absences	49,368	52,218
Unearned revenues	24,606	114,716
Net cash used in operating activities	<u>\$ (825,115)</u>	<u>\$ (1,354,916)</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, 2017 AND 2016

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 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, 2017 AND 2016

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.

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*.

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.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 2016-17 fiscal year and earned the following fiscal year. The Department issued advance ticket sales for football games played during the following fiscal year of 2017-18.

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.

Athletic Fees

The University charges an athletic fee to students for each semester enrolled and for each enrolled credit hour. Athletic fees for semesters which 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.

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017, all of the Department’s cash and cash equivalents were held with the University’s pooled funds. At June 30, 2017 and 2016, the carrying amount and fair value of the Department’s cash and cash equivalents were \$939,839 and \$948,564, respectively.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following amounts at June 30:

	2017	2016
University of West Florida	\$ 192,998	\$ 116,149
Other	15,664	25,639
Total	208,662	141,788
Less: Allowance for doubtful accounts	(42,084)	(41,915)
Accounts receivable, net	\$ 166,578	\$ 99,873

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

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 – UNEARNED REVENUE

Unearned Revenue for ticket sales for the inaugural football season consists of the following amounts at June 30:

	2017	2016
Advance Ticket Sales	\$ 139,322	\$ 114,716

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, 2017 and 2016, the estimated liability for compensated absences was \$520,271 and \$470,903, respectively. The current compensated absences liability, totaling \$52,360 and \$39,056 at June 30, 2017 and 2016, respectively, is based on actual payouts over the last three years calculated as a percentage of those years’ total compensated absences liability.

Changes in the liability for compensated absences for the years ended June 30, 2017 and 2016 were as follows:

Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
\$ 470,903	\$ 563,552	\$ 514,184	\$ 520,271	\$ 52,360
Beginning Balance June 30, 2015	Additions	Reductions	Ending Balance June 30, 2016	Current Portion
\$ 418,685	\$ 247,998	\$ 195,780	\$ 470,903	\$ 39,056

**UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 6 – CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Decreases	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>

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Decreases	Balance June 30, 2016
Capital assets being depreciated:				
Building structures	\$ -	\$ 272,942	\$ -	\$ 272,942
Furniture and fixtures	57,327			57,327
Equipment	329,629	61,996	-	391,625
Total capital assets being depreciated	386,956	334,938	-	721,894
Less: Accumulated depreciation	284,231	43,956	-	328,187
Total capital assets, net	<u>\$ 102,725</u>	<u>\$ 290,982</u>	<u>\$ -</u>	<u>\$ 393,707</u>

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 amount of \$313,814 and \$402,717 for the fiscal years ended June 30, 2017 and 2016, respectively. 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 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.

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, 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.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

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, 2017 and June 30, 2016, the employing university contributed on behalf of the participant 7.98 and 7.8 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, 2017 and 2016. The Department's contributions to the plans for the years ended June 30, 2017 and 2016 were \$169,368 and \$162,978, respectively.

NOTE 9 – POSTEMPLOYMENT HEALTHCARE 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 healthcare benefits 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, 2017 and 2016.

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 2016-17 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 per occurrence were commercially insured up to \$85 million for named windstorm and flood through February 14, 2017, and increased to \$92.5 million starting February 15, 2017. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million through February 14, 2017, and increased to \$225 million starting February 15, 2017; 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 health care services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

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, 2017 AND 2016
UNAUDITED**

	2017	2016
Operating Revenues		
Student Athletic fees	\$ 5,549,507	\$ 5,639,464
Direct Institutional Support:		
Administrative Overhead Fee Support	1,196,763	240,480
Athletic Matriculation	495,441	229,263
Out of State Fee Waivers	768,405	693,605
University Scholarship Support	7,500	7,500
Total Direct Institutional Support	2,468,109	1,170,848
Sales and Services of Auxiliary Enterprises		
Ticket Sales	275,541	22,737
Surcharge on Admissions	20,666	834
Total Sales and Services of Auxiliary Enterprises	296,207	23,571
Other Operating Revenue		
Awards	2,400	2,400
Booster Contributions--UWF Foundation	313,814	402,717
Field and Facility Rentals	17,068	5,010
Fundraising	21,899	30,951
Game Guarantees	15,000	8,000
NCAA Distribution/Reimbursements	139,808	138,367
Program Sales/Concessions/Novelty Sales	27,013	30,637
Royalties/Advertisements/Sponsorships	224,469	18,710
Sports Camps	100,882	77,177
Tournament Entry/Cancellation Fees/Banquet Fees	48,853	52,316
Other Operating Revenue -- Misc	42,299	986
Total Other Operating Revenue:	953,505	767,271
Total Operating Revenue	9,267,328	7,601,154
Nonoperating Revenues		
Education and General	820,668	804,604
Capital Contributions	1,460	-
Interest Income	8,102	18,714
Other Nonoperating Revenue	-	812
Total Nonoperating Revenues	830,230	824,130
Total Operating and Nonoperating Revenues	\$ 10,097,558	\$ 8,425,284

UNIVERSITY OF WEST FLORIDA
DEPARTMENT OF INTERCOLLEGIATE ATHLETICS
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
UNAUDITED

	<u>2017</u>	<u>2016</u>
Operating Expenses		
Personnel Services		
Salary Expenditures	\$ 3,214,175	\$ 3,111,743
Other Personnel Services	379,971	324,982
Total Personnel Services	<u>3,594,146</u>	<u>3,436,725</u>
Athletic Scholarships	2,883,660	2,631,549
Other Scholarships	106,073	90,903
Travel	909,391	797,221
Depreciation	42,447	43,956
Other Operating Expenses		
Direct Facilities and Maintenance	180,975	139,567
Dues and Memberships	49,542	41,413
Equipment, Uniforms, Supplies	858,348	851,996
Fundraising, Marketing and Promotion	12,655	13,584
Game Guarantees	840	1,662
Game Officials	96,937	81,113
Insurance	87,002	96,510
Medical Expenses and Insurance	254,575	114,957
Spirit Groups	7,853	7,743
Other Operating Expenses--Misc	988,951	927,790
Total Other Operating Expenses	<u>2,537,678</u>	<u>2,276,335</u>
Total Operating Expenses	<u>10,073,395</u>	<u>9,276,689</u>
Nonoperating Expenses		
Nonoperating Expenses	1,047	-
Loss on disposal of Capital Assets	2,751	-
Total Nonoperating Expenses	<u>3,798</u>	<u>-</u>
Total Operating Expenses	<u>\$ 10,077,193</u>	<u>\$ 9,276,689</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, 2017, and related notes to the financial statements which collectively comprise the Department's basic financial statements and have issued our report thereon dated January 19, 2018.

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.

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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.C.

Tallahassee, Florida
January 19, 2018

January 19, 2018

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, 2017 and 2016, and have issued our report thereon dated January 19, 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 18, 2017, 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, 2017 and 2016. 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 19, 2018.

Management's Consultations with Other Accountants

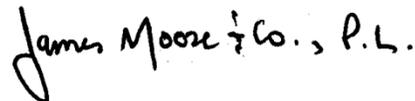
In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

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 19, 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 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, 2017 and 2016 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 19, 2018.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 18, 2017, 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 or suspected fraud 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 or suspected fraud 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. Fiumet

Title: Associate Controller

Signature: Amy Palmer 1/22/18

Title: Asst. Athletic Director - Financial Operations

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 15, 2018

Issue: Internal Auditing - Update on Activities
Proposed action: Informational

To provide the Committee with an overview of activities within Internal Auditing & Compliance.

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: Cindy Talbert, Interim Internal Audit Director, 850-474-2638, ctalbert@uwf.edu
Presenter: Cindy Talbert, Interim Internal Audit Director

UWF Board of Trustees Meeting
Audit & Compliance Committee
February 15, 2018

Issue: Compliance - Update on Activities
Proposed action: Informational

To provide the Committee with an update of the compliance function.

Recommendation: Information only

Implementation: None

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Prepared by: Matthew Packard, Compliance Officer, 850-857-6070, mpackard@uwf.edu

Presenter: Matthew Packard, Compliance Officer