



AGENDA

THE UNIVERSITY OF WEST FLORIDA BOARD OF TRUSTEES

Audit & Compliance Committee Meeting November 1, 2018

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

Call to Order/Roll Call..... Robert Jones, Chair

Greeting Robert Jones

Action Items:

1. Acceptance of UWF Internal Auditing Reports Issued: Affiliation Agreements
2. Acceptance of PCard Audit Reports: Results for Quarter 1 Update (July – September 2018)
3. Acceptance of External Audit: Auditor General IT Operational Audit
4. Acceptance of External Audit of Financial Statements of Direct Support Organization – Business Enterprises, Inc.
5. Acceptance of External Audit of Financial Statements of Direct Support Organization – West Florida Historic Trust, Inc.

Information Items:

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

Other Committee Business:

Adjournment

UWF Board of Trustees Meeting
Audit & Compliance Committee
November 1, 2018

Issue: UWF Internal Auditing Report Issued

Proposed action: Acceptance

Background information:

Internal Auditing & Management Consulting completed one audit during the period August 1, 2018, through October 31, 2018: Affiliation Agreements (those related to student internships).

Affiliation Agreements 17-18 009

Our audit period was January 1, 2017, through December 31, 2017, and was part of the approved work plan for 2017/18. We issued the audit report on September 17, 2018. The audit's objectives were to evaluate internal controls over:

- Terms and conditions included in affiliation agreements that serve to protect student safety and well-being and to protect University interests,
- The review and approval of affiliation agreements,
- The monitoring of activities covered by affiliation agreements, and
- Compliance with laws, regulations, and policies related to affiliation agreements.

Results:

We found that controls over Affiliation Agreements and related processes were moderately strong; however, we made the following recommendations:

- A system of assigning reference numbers to Affiliation Agreements was needed, in order to provide a method for linking specific student internships to their blanket Affiliation Agreement. We also recommended that academic Chairpersons be reminded of the requirement to establish internships only within the protection of an approved Affiliation Agreement.
- We recommended that the Provost's Office establish a repository or a master list of approved Affiliation Agreements that can be easily accessed by personnel working with internships.
- Some academic departments needed to be reminded of the requirement to enter internship data into tables created by the Provost's Office.
- We recommended that a data owner be designated for the internship tables, with a periodic review of the data to identify errors and omissions.
- Procedures needed to be refined in projecting annual counts of students in health-related internships, which were used to contract for professional practice insurance that protects the University.

Management's Actions: Management has outlined courses of action with implementation by Dec. 31, 2019.

Recommendation: Acceptance of the Internal Auditing report.

Implementation: None.

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

Supporting documents

UWF 17-18_009 Affiliation Agreements audit report

Prepared by: Cindy Talbert, Interim Internal Audit Director, 474-2638, ctalbert@ufw.edu

Presenter: Cindy Talbert



Internal Auditing & Management Consulting

Audit: Affiliation Agreements

Report # UWF17-18_009

Date: September 17, 2018

EXECUTIVE SUMMARY

We audited Affiliation Agreements related to student internships for the period of January 1, 2017, through December 31, 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:

- Terms and conditions included in affiliation agreements that serve to protect student safety and well-being and to protect University interests,
- The review and approval of affiliation agreements,
- The monitoring of activities covered by affiliation agreements, and
- Compliance with laws, regulations, and policies related to affiliation agreements.

Audit fieldwork began on May 25, 2018, and ended on July 31, 2018. Our audit was conducted in accordance with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* and generally accepted auditing standards.

BACKGROUND

Higher education is constantly evolving, changing in ways that enhance the learning process in myriad ways. One facet of education that continues to evolve is experiential learning. Students want and need to engage in direct experiences outside the academic setting that enhance professional, intellectual, and leadership skills. Some of the activities the University of West Florida (UWF) uses to provide these real-world experiences include internships, cooperative agreements with external entities, and community work study arrangements.

Only with proper planning can the University ensure that learning takes place in accordance with established goals. At UWF, planning for these activities generally begins in academic departments (for internships related

to academic credits and some cooperative agreements) or in the Office of Career Development & Community Engagement (for cooperative agreements and community work study). The departments have employees who act as liaisons between the student and the external entity. These employees may coordinate background checks, confirmation of vaccinations, drug testing, personal interviews, and other aspects of the matching process. (For purposes of this report, the term “internship” will be used to collectively refer to internships, cooperative agreements, and community work study, since all of these arrangements have a similar legal impact on UWF.)

A critical component of the planning process includes documenting the agreement with the external party in writing. Such formalized agreements work to ensure that program objectives are met, students receive proper supervision, safety issues are addressed, the confidentiality of student educational records is protected, and that the contractual requirements of both parties are clearly defined. One example of these type of arrangements, known as “Affiliation Agreements,” is a local hospital that offers internships to student-nurses. A blanket agreement is developed between the UWF Office of General Counsel and the legal representative of the external party. Separately, internship arrangements for specific students are coordinated and course syllabi often establish parameters related to an internship, but every internship or internship-like activity is required to be covered by an Affiliation Agreement between UWF and the external party.

The Office of General Counsel has developed Affiliation Agreement templates which can be used by UWF departments, with terms and conditions designed to fit their specific needs. In the example noted above, the School of Nursing field placement coordinator can establish an internship for a student-nurse, as long as a blanket Affiliation Agreement with the hospital is currently in effect; no additional approval is required.



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The Provost's Office has provided guidance to academic department Chairpersons related to internships and Affiliation Agreements, in the "Chair Handbook." In calendar year 2017, more than 1,800 students across approximately 28 academic departments were involved in internships or similar arrangements.

Notable Strengths

We found that the Department of Social Work and Teacher Education & Educational Leadership had developed systems for managing their internships that were organized well. Controls had been established to ensure that all internship agreements were covered by a blanket Affiliation Agreement and the departments had experienced field placement liaisons on staff.

KEY OBSERVATIONS

We found that internal controls over Affiliation Agreements and related processes were moderately strong; however, we make the following observations:

1. The existence of a blanket Affiliation Agreement, reviewed by the Office of General Counsel and approved by the Provost's Office, is a critical part of the internship program. This document formalizes the agreement between UWF and the external party, providing terms and conditions that serve to protect UWF and our students, and to minimize misunderstandings between the parties. As University departments establish individual internships, they are required to confirm that a blanket Affiliation Agreement is in existence; if it is, no further approval by the Provost's Office or General Counsel is required.

We performed audit testing to identify any internships that could not be traced to an approved blanket Affiliation Agreement. In 16 of the 22 internships tested, we were unable to trace to an Affiliation Agreement in the official file in the Provost's Office. Furthermore, in a questionnaire distributed to 19 academic chairs, 6 of them

responded that their department did not have comprehensive processes in place to ensure that field placements were covered by a blanket Affiliation Agreement.

Attempting to match internships to related Affiliation Agreements was complicated due to the naming conventions used for internships and Affiliation Agreements; for example, Reading Edge Academy falls under the Affiliation Agreement for Volusia County School District. The matching of internships to their corresponding Affiliation Agreement would be simplified, not just for audit purposes, but for academic personnel, if there were a common reference between the internship and the Affiliation Agreement. Currently, the General Counsel's office uses an issue tracking system (JIRA) that assigns a number to each Affiliation Agreement that might also be useful for this purpose.

2. We conducted interviews with field placement coordinators and Chairpersons in several departments. Some of these parties described difficulties in determining whether a current Affiliation Agreement existed for internships coordinated by their department. If they are unable to locate a copy of a current Affiliation Agreement for their internships in their own files, they have the option of submitting a request to the General Counsel for assistance; however, this creates an unnecessary workload on the General Counsel's staff. Having easy access to copies of Affiliation Agreements, or at least a master list of these agreements, would create some efficiencies in this area.
3. The Provost's Office has a need at times to summarize internship data, for example, in response to accreditation inquiries. To this end, they have created tables for the input of internship-related information that can include student name, external agency, type of internship, any related academic course, term, and academic program, among other items. These tables are maintained by Information Technology Services (ITS), with the data being entered through an



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established portal either individually or by bulk transmission. The Chair Handbook briefly notes this requirement.

We performed interviews and various audit tests during our work, in which it came to light that 3 departments were not submitting data into the internships tables. We sent a questionnaire to 19 additional departments and asked if they had processes in place to ensure that internship data was entered into the tables as required. Only 8 departments responded that they had such controls in place.

4. The University has obligations related to placements of students at external agencies, including periodic communication with designated representatives at the external agency. Such communication helps ensure that students are progressing toward the goals of their program or ensures they are not experiencing problems that might be easily resolved through some type of mid-term intervention. Employees of the academic department must fill this role, and they should retain documentation to demonstrate that these communications have taken place.

We conducted an audit test of 10 academic departments to determine if they engaged in periodic communications with the designated internship liaison at the external agency. Out of 10 departments, 5 described procedures that seemed adequate, but only 3 of the 5 could provide evidence of their contacts with the external agencies.

5. The internship tables of data are collected primarily from academic departments. The Provost's Office has developed these tables with support from ITS, for their own purposes. We reviewed the data entered in the tables for Spring, Summer, and Fall of 2017, looking for obvious errors or anomalies. Our review disclosed missing data (for example, an entire academic department for all three semesters, that included hundreds of internships); duplicate bulk entry of internship data; and invalid academic course

numbers. The data collected might not prove to be useful to the Provost's Office due to the high incidence of errors. No data owner had been designated and assigned responsibility for a periodic review of the data to ensure its accuracy.

6. The University obtains professional practice liability insurance for internship placements in health-related fields. This includes internships in:

- Health Education
- Athletic Trainer
- Exercise Science
- Student Teacher – Physical Education
- Allied Health Management
- Public Health
- Child Development
- Family Services Counselor
- Counselor
- Psychologist
- Social Worker
- Clinical Laboratory Technologist
- Phlebotomist
- Nursing (undergraduate)
- Nursing (graduate)

The insurance contract protects the University from exposure to liability due to the professional activities of students in their internships.

The Office of Environmental Health and Safety (EH&S) has been assigned responsibility for compiling counts of students in these health-related fields each year and managing insurance coverage with the vendor. Each December, EH&S requests projections of the number of students expected to engage in these internships for the upcoming calendar year. Academic department employees project student counts for three semesters and communicate the numbers back to EH&S.

We conducted a test to determine whether the student counts submitted to EH&S for calendar year



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2017 were reasonable. In order to ensure coverage, the Office of General Counsel was in agreement that the counts should be moderately over-projected. This ensures that if students enrolling in internships are higher than expected, the University has adequate insurance coverage. Our audit test showed that out of the 15 classifications noted above, 6 areas under-projected their student counts.

Recommended Management Actions

1. We recommend that the Provost's Office develop a system of numbering for Affiliation Agreements, and that all academic departments be required to reference these numbers in their internship documentation, perhaps utilizing the numbers assigned by the General Counsel JIRA issue routing system. We also recommend that the Provost's Office re-double efforts to ensure that academic department Chairpersons are aware of the requirement to establish internships only within the protection of an approved Affiliation Agreement.
2. We recommend that the Provost's Office establish a repository of fully-executed Affiliation Agreements, or at least a master list of such agreements, that can be easily accessed by personnel in other UWF departments.
3. We recommend that the Provost's Office ensure that all departments required to enter data into the internship tables be reminded of the need to do so.
4. We recommend that the Provost's Office provide additional guidance to academic departments concerning the need to have periodic communication with external agency liaisons for internships, and retain supporting documentation of these communications.
5. We recommend that the Provost's Office designate a data owner for the internship tables, and that each semester review procedures be applied to the data in an effort to identify errors and omissions. We also recommend that a data field be added to capture the Affiliation Agreement codes described in Observation #1 above.
6. We recommend that the Provost's Office provide guidance to academic departments to help ensure that they provide projected student counts to EH&S for insurance purposes, at levels to exceed potential internships, without being excessive (and creating unnecessary cost).

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

Respectfully submitted,

Cynthia Talbert

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



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REPORT PROVIDED TO THE FOLLOWING:

Dr. Martha Saunders, President
Mort O'Sullivan, Chair BOT
Bob Jones, Chair Audit & Compliance Committee
Dick Baker, Audit & Compliance Committee
Robert Sires, Audit & Compliance Committee
Dr. George Ellenberg, Provost/Sr. Vice President
Dr. Kim LeDuff, Vice President
Betsy Bowers, Vice President
Dr. Kimberly McCorkle, Vice Provost
Pam Langham, General Counsel
Dr. Tim O'Keefe, College of Business Dean
Dr. Steve Brown, College of Arts, Social Sciences, and Humanities Dean
Dr. William Crawley, College of Education and Professional Studies Dean
Dr. Jaromy Kuhl, Hal Marcus College of Science and Engineering Interim Dean
Dr. Denise Seabert, Usha Kundu, MD College of Health Dean
Melanie Haveard, ITS Executive Director/CTO
Peter Robinson, EH&S Director
Lauren Loeffler, Career Development and Community Engagement Executive Director
Jaime Hoelscher, Manager, FL Auditor General
Ken Danley, Supervisor, FL Auditor General
Julie Leftheris, BOG Chief Inspector General
Lori Clark, BOG Compliance and Audit Specialist
Rebecca Luntsford, BOT Liaison



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MANAGEMENT RESPONSES TO RECOMMENDATIONS

Recommendation #1

Management Response: The Provost's Office will work with the Office of the General Counsel to develop a system for efficiently tracking Affiliation Agreements. We will begin the collaboration with the Office of the General Counsel in fall 2018. The Provost's Office will also continue to provide training and guidance to department chairpersons about the process and the requirement to complete Affiliation Agreements. Our office has already worked closely with the Office of the General Counsel on updating existing training for deans and department chairs that will be begin early this fall 2018 semester. In addition to the guidance that is already included in the Department Chairperson handbook, we will create a Confluence page that details the process for completing Affiliation Agreements. We expect an anticipated completion date for the numbering system no later than fall 2019.

Responsible Party: Provost/Sr. Vice President George Ellenberg

Targeted Implementation Date: December 31, 2019

Recommendation #2

Management Response: The Provost's Office will collaborate with ITS, the Office of the General Counsel, and other applicable units to develop a system for tracking, accessing, and reporting affiliation agreement more efficiently. We will begin these discussions in fall 2018 with an anticipated implementation date no later than fall 2019.

Responsible Party: Provost/Sr. Vice President George Ellenberg

Targeted Implementation Date: December 31, 2019

Recommendation #3

Management Response: The Provost's Office will continue to work with Office of the General Counsel on developing and delivering annual training to ensure that department chairpersons understand the requirement to enter data on the internship tables and that they receive reminders at the beginning of each semester to do so. We will implement this recommendation in fall 2018.

Responsible Party: Provost/Sr. Vice President George Ellenberg

Targeted Implementation Date: December 31, 2018

Recommendation #4

Management Response: The Provost's Office will ensure that academic departments and other applicable units receive training on best practices for conducting academic internships, including establishing and documenting regular contact with internship site supervisors. The office will require that this contact be outlined in the internship course syllabus. The Provost's Office will complete this training in fall 2018.

Responsible Party: Provost/Sr. Vice President George Ellenberg

Targeted Implementation Date: December 31, 2018



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Recommendation #5

Management Response: Based on collaboration with the Office of the General Counsel and ITS, as we develop the updated tracking system, we will add additional data fields as necessary. We will also determine the appropriate process for reviewing the submissions. Finally, we will identify appropriate data owners as develop and implement the updated system. As indicated earlier, we will begin the process of reviewing and updating the tracking system in fall 2018 with plans to have a new system in place no later than fall 2019.

Responsible Party: Provost/Sr. Vice President George Ellenberg

Targeted Implementation Date: December 31, 2019

Recommendation #6

Management Response: The Provost's Office will work with EH&S to offer annual guidance and training to applicable departments on estimating internship enrollments each year in order to ensure proper insurance coverage. We will incorporate this guidance in our trainings to deans and department chairs beginning in fall 2018.

Responsible Party: Provost/Sr. Vice President George Ellenberg

Targeted Implementation Date: December 31, 2018

UWF Board of Trustees Meeting
Audit & Compliance Committee
November 1, 2018

Issue: Internal Auditing PCard Audit Reports
Quarter 1 Update (July 2018 – September 2018)

Proposed action: Acceptance

Purpose

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

Background

Internal Auditing has been charged with auditing PCard holder and approver activity as well as departmental activities and internal controls. The objectives of these audits were to determine if departments complied with UWF PCard policies and procedures, as well as to evaluate the level of understanding of PCard policies among PCard holders and approvers. UWF presently has 415 PCard holders distributed across 148 departments.

Notable Strengths

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

Results for Quarter 1 (July - September 2018)

Seven (7) departments¹ encompassing 31 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 seven 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
7	31	1,466	228	\$1,039,105	\$604,887
Audit Opinion for the PCard Audit ¹					
EXCELLENT	GOOD	FAIR	POOR	Total	
6	1	0	0	7	

Recommendation:

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

Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

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

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

¹ Departments audited (listed by audit opinion): **Excellent** – Advancement, Business & Auxiliary Services, ITS, CASSH Dean's Office, CEDB, and Biology; **Good** – Postal Services.

Action Item

UWF Board of Trustees Meeting
Audit & Compliance Committee
November 1, 2018

Issue: Florida Auditor General IT Operational Audit – Ellucian Banner® Enterprise Resource Planning System (August 2018)

Proposed action: Acceptance

Background information:

The audit focused on evaluating selected information technology controls applicable to Ellucian Banner® Enterprise Resource Planning system for maintaining and processing student account information and on the University's compliance with the Federal Trade Commission's Standards for Safeguarding Customer Information (Safeguards Rule). The audit disclosed the following:

- Some University employees' Banner® ERP system access privileges to student records were unnecessary for the employees' assigned job responsibilities.
- The University did not perform a periodic review of Banner® ERP system access privileges to student receivables and student records.
- The University had not completed a formal risk assessment as part of the comprehensive information security program necessary for compliance with the Safeguards Rule. In addition, some controls implemented to address areas of risk related to securing customer information need improvement.
- University IT security controls related to user authentication and monitoring of system activity need improvement.

Management has developed a plan of action to resolve these issues.

Recommendation: Acceptance of the Florida Auditor General IT Operational audit report

Implementation Plan: None

Fiscal Implications: UWF's fiscal management of the

Supporting document: Florida Auditor General IT Operational Audit Report (#2019-007)

Prepared by: Cindy Talbert, Interim Director IAMC, 474-2638, ctalbert@uwf.edu

Presenter: Cindy Talbert

STATE OF FLORIDA AUDITOR GENERAL

Information Technology Operational Audit

Report No. 2019-007
August 2018

UNIVERSITY OF WEST FLORIDA

Ellucian Banner® Enterprise
Resource Planning System



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period, January 2018 through April 2018, Dr. Martha Saunders served as President of the University of West Florida and the following individuals served as Members of the Board of Trustees:

John Mortimer O'Sullivan, Chair	Brandon Malone ^a from 4-13-18
David E. Cleveland, Vice Chair	Rev. LuTimothy May to 1-6-18
Richard R. Baker	Kishane Patel ^a to 4-13-18
Lewis Bear, Jr.	David Ramsey ^b
Greg Britton	Alonzie Scott ^c from 2-9-18
Adrienne Collins	Jill Singer ^d from 2-9-18
Robert L. Jones	Robert D. Sires
Suzanne Lewis	

^a Student Body President.

^b Faculty Senate President.

^c Trustee position vacant from 1-7-18 to 2-8-18.

^d Trustee position vacant through 2-8-18.

The team leader was Sue Graham, CPA, CISA, and the audit was supervised by Heidi Burns, CPA, CISA.

Please address inquiries regarding this report to Heidi Burns, CPA, CISA, Audit Manager, by e-mail at heidiburns@aud.state.fl.us or by telephone at (850) 412-2926.

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UNIVERSITY OF WEST FLORIDA

Ellucian Banner® Enterprise Resource Planning System

SUMMARY

This operational audit of the University of West Florida (University) focused on evaluating selected information technology (IT) controls applicable to the Ellucian Banner® Enterprise Resource Planning (Banner® ERP) system for maintaining and processing student account information and on the University's compliance with the Federal Trade Commission's Standards for Safeguarding Customer Information (Safeguards Rule). Our audit disclosed the following:

Finding 1: Some University employees' Banner® ERP system access privileges to student records were unnecessary for the employees' assigned job responsibilities.

Finding 2: The University did not perform a periodic review of Banner® ERP system access privileges to student receivables and student records.

Finding 3: The University had not completed a formal risk assessment as part of the comprehensive information security program necessary for compliance with the Safeguards Rule. In addition, some controls implemented to address areas of risk related to securing customer information need improvement.

Finding 4: University IT security controls related to user authentication and monitoring of system activity need improvement.

BACKGROUND

The University of West Florida (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate President and Student Body President also serve as members.

While the BOG establishes the powers and duties of the Trustees, the Trustees are responsible for setting University policies, which are to provide governance in accordance with State law and BOG regulations. The Trustees select the University President, who is subject to confirmation by the BOG. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the University policies prescribed by the Trustees.

The University uses the Ellucian Banner® Enterprise Resource Planning (Banner® ERP) system for recording, processing, and reporting finance, human resources, and student-related transactions. As an institution of higher learning, the University is defined as a financial institution by the Federal Trade Commission and, therefore, is subject to the provisions of the Gramm-Leach-Bliley Act.

FINDINGS AND RECOMMENDATIONS

Finding 1: Access Privileges

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls include measures that restrict the access privileges granted to employees to only those necessary for assigned responsibilities or functions. Such access controls are essential to protect the confidentiality, integrity, and availability of data and IT resources.

University employees' access privileges to selected student record information within the Banner® ERP system, including demographics, admissions, and registration, were unnecessary for some employees' assigned responsibilities. Specifically, our test of 128 employees' update access to selected student record information disclosed that, although not required to perform their assigned job duties, 5 employees within the Controller's Office had the ability to update admissions applications. Subsequent to our audit inquiry, University management indicated that the 5 employees' unnecessary access privileges were removed.

Appropriately restricted access privileges help protect University data and IT resources from unauthorized modification, loss, or destruction.

Recommendation: **We recommend that University management ensure that employee access privileges granted within the Banner® ERP system for student records are necessary for the employees' assigned responsibilities.**

Finding 2: Periodic Review of Access Privileges

Effective access controls include periodic reviews of employee access privileges granted to business data to help ensure that only authorized employees have access and that the access provided to each employee remains appropriate and necessary for the employee's assigned job duties.

The University uses groups to grant access privileges to users within the Banner® ERP system. Written procedures have been established to require the semiannual review by security managers (module owners) of user access privileges granted within the Banner® ERP system for student receivables and student records. Our audit procedures disclosed, however, that the security managers had not performed reviews of user access privileges nor had they performed periodic reviews of access privileges associated with groups to ensure that the groups continued to remain appropriate. In addition, although biweekly reports of employee terminations and transfers were provided to security managers for review, the reports did not include the University's work study students employed in positions that changed from term to term. In response to our audit inquiry, University management indicated that an automated notification will be sent to security managers reminding them of their responsibility to review user access privileges and that an annual process requiring a review of the groups and the assigned access privileges will be established. Further, management indicated that a process would be determined to best review the access privileges granted to work study students given the significant number of positions and changes that occur.

Periodic reviews of user access privileges for student receivables and student records increase management's assurance that user access privileges continue to be authorized and appropriate and reduce the risk that unauthorized disclosure, modification, or destruction of University-maintained data may occur.

Recommendation: We recommend that University management perform periodic reviews of the access privileges granted within the Banner® ERP system for student receivables and student records to verify that the access privileges are appropriate.

Finding 3: Information Security Program

Standards for Safeguarding Customer Information¹ (Safeguards Rule), issued by the Federal Trade Commission as required by the Gramm-Leach-Bliley Act, require the development, implementation, and maintenance of a comprehensive information security program that includes reasonable administrative, technical, and physical safeguards to secure customer information (i.e., nonpublic personal information) and to regularly test or otherwise monitor the effectiveness of the safeguards' key controls, systems, and procedures.

A comprehensive information security program includes designating an employee, or employees, to coordinate the institution's information security program, completing a risk assessment, and designing and implementing key controls and procedures identified through risk assessment. Identification of internal and external risks to the security, confidentiality, and integrity of customer information by the institution gives consideration of risk in each relevant area of the institution's operations such as employee training and management; applicable systems and information processing, storage, transmission; and incident determination, reporting, and response.

Although the University designated an Information Security Program Coordinator and developed an incident response program, the University had not completed a formal risk assessment of the systems applicable to the processing, storage, and transmission of customer information. In addition, controls implemented to address University management's consideration of certain areas of risk related to securing customer information need improvement. Specifically, our audit disclosed that:

- Although the University addressed the protection of confidential information in its security awareness training provided to University employees in 2016 and subsequently to new hires, the University did not provide continued, periodic security awareness training to ensure employees' understanding of regulations, policies, and potential threats and acknowledgement of responsibilities.
- The *University of West Florida Information and Security Privacy Policy (Policy)* requires authorization for the storage of protected information on University-owned portable computing or storage devices or personal computing devices and for the transfer of protected information. Such authorization should be documented and maintained in accordance with the *Policy*. Notwithstanding the defined *Policy*, University management did not have procedures in place to ensure that appropriate authorizations are being made.
- Although the *Policy* addresses encryption for authorized storage and transfer of protected information, the requirement for data encryption is limited to social security numbers.

¹ Title 16, Section 314, Code of Federal Regulations.

In response to our audit inquiry, University management indicated that a risk assessment process for each of the University's critical systems is being developed.

A comprehensive information security program, including a formal risk assessment and the design and implementation of appropriate mitigating controls, demonstrates University management's compliance with the Safeguards Rule and supports the University's obligation to protect the security, confidentiality, and integrity of customer information.

Recommendation: We recommend that University management complete a formal risk assessment as part of the comprehensive information security program necessary for compliance with the Safeguards Rule. In addition, University management should improve controls over securing customer information, including controls related to employee security awareness training, authorization for storage and transfer of data, and data encryption requirements.

Finding 4: Security Controls – User Authentication and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit procedures disclosed that certain security controls related to user authentication and monitoring need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the confidentiality of University data and related IT resources. However, we have notified appropriate University management of the specific issues.

Without appropriate security controls related to user authentication and monitoring, the risk is increased that the confidentiality, integrity, and availability of University data and related IT resources may be compromised.

Recommendation: We recommend that the University improve IT security controls related to user authentication and monitoring to ensure the confidentiality, integrity, and availability of University data and IT resources.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of educational entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this IT operational audit from January 2018 through April 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the audit findings and our conclusions based on our audit objectives.

This IT operational audit focused on evaluating selected University IT controls primarily applicable to the Banner® ERP system for maintaining and processing student account information and on the University's compliance with the Safeguards Rule during the period January 2018 through April 2018. The overall objectives of the audit were:

- To evaluate the effectiveness of selected IT controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the confidentiality, integrity, availability, relevance, and reliability of data; and the safeguarding of IT resources.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for the IT records systems and controls included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable governing laws, rules, or contracts; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular IT controls, legal compliance matters, and records considered.

As described in more detail below, for the IT systems and controls included within the scope of this audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of the audit; obtaining an understanding of the IT systems and controls; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of the audit findings and our conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

This audit included the selection and examination of IT system controls and records. Unless otherwise indicated in this report, these items were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of University management and staff and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting this audit, we:

- Interviewed University staff and reviewed operational documentation to obtain an understanding of and evaluate the University's information security program addressing student records and information and designating a coordinator for the program.
- Examined four selected student receivable transactions and evaluated the appropriateness of the user access privileges granted, as of January 5, 2018, to these transactions within the Banner® ERP system.
- Examined eight selected student records transactions and evaluated the appropriateness of user access privileges, as of January 3, 2018, granted within the Banner® ERP system.
- Examined ten selected student records transactions and evaluated the appropriateness of eight University work study students' access privileges, as of January 3, 2018, granted within the Banner® ERP system.

- Evaluated user authentication controls related to accessing Banner® ERP system student receivables and student records.
- Evaluated the effectiveness of logical access controls, including periodic reviews of access privileges assigned within the Banner® ERP system related to student receivables and student records.
- Evaluated the University's information security program over student records.
- Evaluated University controls for logging and monitoring student receivable and student record transactions in the Banner® ERP system.
- Evaluated University controls for logging and monitoring the actions of privileged database users in the Banner® ERP system.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, provides that the Auditor General may conduct audits of the IT programs, activities, functions, or systems of any governmental entity created or established by law. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our IT operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Office of the President
11000 University Parkway
Pensacola, FL 32514-5750

July 20, 2017

Sherrill F. Norman, CPA
Auditor General
State of Florida
Claude Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

This is the University of West Florida's response to the preliminary and tentative findings and recommendations, as transmitted by your correspondence of June 26, 2018. The responses relate to your information technology audit of the University of West Florida, Ellucian Banner® Enterprise Resource Planning System.

Finding 1: Some University employees' Banner® ERP system access privileges to student records were unnecessary for the employees' assigned job responsibilities.

Recommendation: We recommend that University management ensure that employee access privileges granted within the Banner® ERP system for student records are necessary for the employees' assigned responsibilities.

UWF Response: The office found to have had this issue remediated the situation immediately upon being notified.

Finding 2: The University did not perform a periodic review of Banner® ERP system access privileges to student receivables and student records.

Recommendation: We recommend that University management perform periodic reviews of the access privileges granted within the Banner® ERP system for student receivables and student records to verify that the access privileges are appropriate.

UWF Response: The periodic review process already used by Financial Aid will be extended to the other modules of Banner®. In addition, a process is being developed to catch the situations in which student employees may retain access because they are employed in multiple jobs with different overlapping times of employment.

Finding 3: The University had not completed a formal risk assessment as part of the comprehensive information security program necessary for compliance with the Safeguards Rule. In addition, some controls implemented to address areas of risk related to securing customer information need improvement.

Recommendation: We recommend that University management complete a formal risk assessment as part of the comprehensive information security program necessary for compliance with the Safeguards Rule. In addition, University management should improve controls over securing customer information, including controls related to employee security awareness training, authorization for storage and transfer of data, and data encryption requirements.

UWF Response: A formal risk assessment will be completed to successfully comply with the Safeguards Rule. Ongoing security awareness training has begun (Phishing awareness/testing/training), and awareness campaigns covering key security principles will be delivered throughout the year. The Information Security and Privacy Policy is being updated to make the transfer of Protected data onto portable data storage devices a violation of the policy; this also obviates the need to use encryption on those devices. Access to Protected data will only be allowed through secure network access instead.

Finding 4: University IT security controls related to user authentication and monitoring of system activity need improvement.

Recommendation: We recommend that the University improve IT security controls related to user authentication and monitoring to ensure the confidentiality, integrity, and availability of University data and IT resources.

UWF Response: UWF has deployed Multi-Factor authentication for all Banner® ERP privileged account access to the system. ITS will create automated triggers which will monitor database logs and alert all DBAs and the Director of Infrastructure Services upon specific high-privilege actions taken on the Banner® ERP database.

We appreciate the constructive assistance that the Auditor General provides to us and will work toward the timely implementation of these recommendations.

Sincerely yours,



Martha D. Saunders, Ph.D.
President

cc: Mr. Mort O'Sullivan, UWF BOT Chairman
Mr. Robert Jones, UWF BOT Audit & Compliance Committee
Mr. Dick Baker, UWF BOT Audit & Compliance Committee
Mr. Robert Sires, UWF BOT Audit & Compliance Committee
Dr. George Ellenberg, Provost/Sr. Executive Vice President
Ms. Pamela Langham, General Counsel
Ms. Melanie Haveard, Chief Technology Officer
Mr. Geissler Golding, CISO
Ms. Cynthia Talbert, Interim Internal Audit Director

Action Item**UWF Board of Trustees Meeting**
Audit & Compliance Committee
November 1, 2018

Issue: External Audit of Financial Statement of Direct Support Organization - Business Enterprises, Inc.

Proposed action: Acceptance

Background information:

Pursuant to Florida Statute 1004.28¹ and BOG Regulation BOG-9.011(4)², organizations affiliated with or through the University of West Florida (aka Direct Support Organizations) must be audited annually and presented to the University of West Florida Board of Trustees. As required in the Bylaws of UWF Business Enterprises, Inc. (BEI), the financial statements of BEI have been audited by independent certified public accountants for the fiscal year ending June 30, 2018.

Article 9.2 of the Bylaws states: *"After the close of each fiscal year, the Corporation shall cause a financial audit of its accounts and records to be conducted by an Independent certified public accountant if required by Section 1004.28, Florida Statutes, as amended or supplemented, or other applicable provisions of law, and in accordance with any applicable rules promulgated by the Auditor General of the State of Florida pursuant to Section 11.45, Florida Statutes, as amended or supplemented, or other applicable provisions of law. The Corporation shall provide any copies of its audit reports, together with its federal Application for Recognition of Exception (form 1023) and its Form 990, Return of Organization Exempt from Federal Income Tax, to such persons as may be required by applicable laws of the State of Florida."*

Master Management Agreement dated December 9, 2011 between the University of West Florida and UWF Business Enterprises, Inc. (BEI) Section 5 of the agreement states: *"Financial and Other Reports. The Corporation shall provide the University such reports and audits as are required by the Act or which the University shall request from the Corporation."*

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

Significant Financial Highlights:

- The Main Campus Dining Agreement between BEI and the dining services vendor was

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."

terminated on May 5, 2018. BEI entered into a dining services contract with a new dining services vendor effective May 6, 2018. Under the new dining services agreement, BEI received \$900,000 as an unrestricted grant and received \$6.1 million from the new dining services vendor to repay the former dining services vendor the unamortized balance of the capital investments and the balance of unearned advance commission BEI received under the prior dining services agreement.

- The signing incentives paid to BEI from the dining services vendor and the bookstore services vendor and all other capital investments made under the new dining services agreement are recorded as unearned income and amortized to revenue over the remaining life of the respective agreements.
- Parking and Transportation Services was reassigned to the University on July 1, 2017 with a corresponding donation to the University of approximately \$3.8 million in FY18. This donation included the reduction of a \$3.1 million Cash Receivable held by the University.
- BEI completed the sale of Scenic Hills Country Club on August 31, 2017 with a loss of approximately \$1.08 million. The FY 18 capital assets decrease of \$2.02 million and payoff of BEI's \$910,786 mortgage payable related to this sale.

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 documents:

Audit Communication Letter UWF BEI June 30, 2018

Audited Financial Statements for UWF Business Enterprises, Inc. for fiscal year ending June 30, 2018

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

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



Board of Directors
UWF Business Enterprises, Inc.
Pensacola, Florida

We have audited the financial statements of the business-type activities of UWF Business Enterprises, Inc. (BEI) (a component unit of the University of West Florida) as of and for the year ended June 30, 2018, and have issued our report thereon dated September 10, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by UWF Business Enterprises, Inc. are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2018.

We noted no transactions entered into by BEI during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

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

- Management's estimate of depreciation is based on the estimated useful lives of the buildings, leasehold improvements, equipment, and furniture. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

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

- The disclosures of the Master Management Agreement in Note 5 and various Assigned Functions under that Master Management Agreement in Notes 6 to 8.

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

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

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

Management representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2018.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

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

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the Schedules I to X (collectively, the supplementary information) accompanying the financial statements, on which we were engagements to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated September 10, 2018.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the board of directors and management of UWF Business Enterprises, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
September 10, 2018

UWF BUSINESS ENTERPRISES, INC.

**(A COMPONENT UNIT OF THE
UNIVERSITY OF WEST FLORIDA)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2018 AND 2017

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
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INDEPENDENT AUDITORS' REPORT

Board of Directors
UWF Business Enterprises, Inc.
Pensacola, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of UWF Business Enterprises, Inc. (BEI), (a component unit of the University of West Florida), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which comprise BEI's basic financial statements as listed in the table of contents.

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.

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 of America. 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BEI as of June 30, 2018 and 2017, and the respective changes in net position and 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 through 11 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 audits 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Schedules I to X 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.

Board of Directors
UWF Business Enterprises, Inc.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, on our consideration of BEI'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of BEI's 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 BEI's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
September 10, 2018

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018, 2017, AND 2016**

This section of UWF Business Enterprises, Inc.'s (BEI) annual financial report presents our discussion and analysis of the financial performance of BEI for the fiscal years ended June 30, 2018, 2017, and 2016. This discussion has been prepared by management.

Because the information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events and conditions, it should be considered in conjunction with the Basic Financial Statements found on pages 12 through 28.

Reporting Entity

At the September 23, 2011, University of West Florida (the University) Board of Trustees meeting, a motion was passed unanimously by Board members to establish a new Direct Support Organization of the University under Section 1004.28, Florida Statutes and University Regulation 5.016. BEI was to be established as a Florida nonprofit corporation.

On October 18, 2011, BEI's Articles of Incorporation were filed under the laws of the state of Florida and were certified by the Florida Department of State, Division of Corporations on October 19, 2011.

BEI received official notice from the IRS of tax-exempt status under Section 501(c)(3) of the Internal Revenue Code on April 17, 2012. UWF Business Enterprises Inc. received tax-exempt status under code section 170(b)(1)(A)(v) as a governmental unit political subdivision.

BEI was established to build and manage public-private partnerships, create new services and businesses to support the University campus community, and enhance current auxiliaries and businesses to increase alternate sources of revenue for the University.

BEI is focused on entrepreneurial ideas that will enhance academic training and enhance university-community life, allow the University to continue to develop and grow, and increase revenue from alternate sources to further the University's strategic priorities.

The University appointed Dr. James Barnett to serve as interim CEO of BEI from December 6, 2012, through August 31, 2015. On September 1, 2015, Dr. Steven D. Cunningham, Vice President for Finance and Administration, became the CEO of BEI.

Overview of the Financial Statements

The basic financial statements presented herein include all activities of BEI, as prescribed by statements of the Government Accounting Standards Board (GASB). BEI is a component unit of the University, from inception on October 18, 2011, through period end June 30, 2018.

The statement of net position presents information on all of BEI's assets and liabilities. Assets less liabilities equal the organization's net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of BEI is improving or deteriorating.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016**

Overview of the Financial Statements (Continued)

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

The statement of cash flows presents information about the cash receipts and cash payments of BEI from July 1, 2016, through June 30, 2017, and July 1, 2017, through June 30, 2018. It provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on BEI's financial position of its cash and its noncash investing, capital, and related financing transactions during the year.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in BEI's basic financial statements. The notes are included immediately following the basic financial statements within this report.

Schedules I through X provide supplementary information of expenses by BEI activity / category reported on the statement of revenues, expenses, and changes in net position. The schedules follow the notes to the basic financial statements.

Summary of Financial Condition

As noted earlier, net position may serve over time as a useful indicator of BEI's financial position.

BEI'S CONDENSED STATEMENTS OF NET POSITION

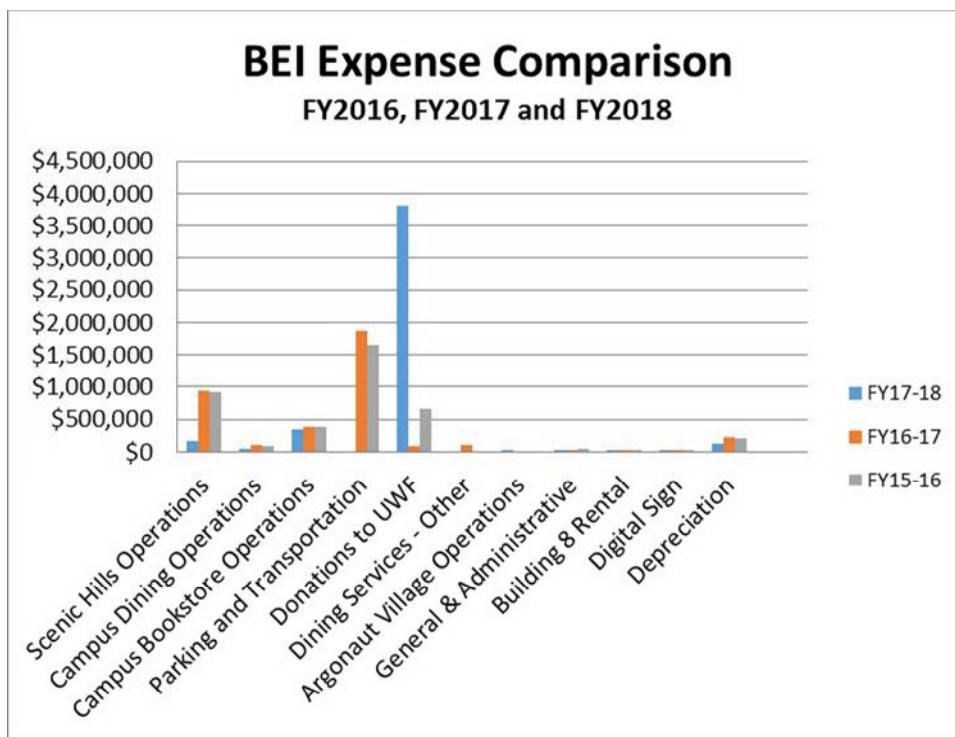
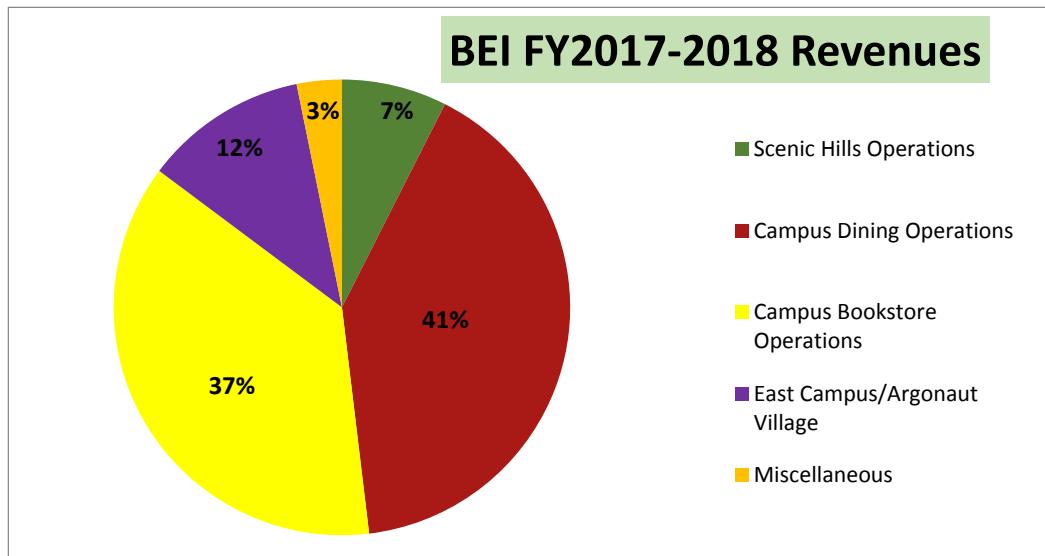
	2018	2017	2016
ASSETS			
Total Assets, Excluding Capital Assets	\$ 887,603	\$ 2,967,024	\$ 2,755,061
Capital Assets, Net	<u>3,778,700</u>	<u>6,469,647</u>	<u>6,630,409</u>
Total Assets	<u>\$ 4,666,303</u>	<u>\$ 9,436,671</u>	<u>\$ 9,385,470</u>
LIABILITIES			
Current Liabilities	\$ 553,754	\$ 586,484	\$ 614,345
Long-Term Liabilities	<u>6,650,555</u>	<u>6,833,579</u>	<u>7,115,867</u>
Total Liabilities	7,204,309	7,420,063	7,730,212
NET POSITION			
Net Investment in Capital Assets	3,778,700	2,033,129	1,981,807
Unrestricted Deficit	<u>(6,316,706)</u>	<u>(16,521)</u>	<u>(326,549)</u>
Total Net Position	<u>(2,538,006)</u>	<u>2,016,608</u>	<u>1,655,258</u>
Total Liabilities and Net Position	<u>\$ 4,666,303</u>	<u>\$ 9,436,671</u>	<u>\$ 9,385,470</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016

**BEI'S CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
REVENUES			
Golf Course Sales	\$ 82,446	\$ 723,473	\$ 870,606
Food Service Commissions	66,279	119,288	117,044
Bookstore Commissions	350,121	388,563	397,899
Revenues from Service and Management			
Arrangement Income	442,544	425,719	413,350
Parking and Transportation	-	2,393,448	2,535,181
Building Eight Rent	20,718	20,513	20,310
Argonaut Village Rent	128,060	93,053	28,071
Digital Sign	3,993	6,324	4,635
Contributions In-Kind	4,407	4,077	5,756
Miscellaneous	6,025	6,056	6,709
Total Revenues	1,104,593	4,180,514	4,399,561
EXPENSES			
Golf Course Operations	158,377	926,703	875,787
Golf Course Pro Shop Cost of Sales	1,435	16,788	38,309
Food Service Management	47,908	97,244	95,000
Food Service - Other	-	110,316	-
Bookstore Management	350,121	388,563	388,833
Parking and Transportation Service (Inclusive of Bad Debt)	-	1,866,746	1,658,365
General and Administrative	36,190	34,428	56,661
Donations to the University of West Florida	3,813,079	84,637	670,798
Building Eight	10,168	8,581	15,064
Argonaut Village	22,183	-	-
Digital Sign	2,145	2,356	3,002
Depreciation	129,978	229,730	215,087
Total Expenses	4,571,584	3,766,092	4,016,906
NONOPERATING EXPENSES	(1,087,623)	(53,072)	(132,555)
CHANGE IN NET POSITION	(4,554,614)	361,350	250,100
Net Position - July 1	2,016,608	1,655,258	1,405,158
NET POSITION - JUNE 30	<u>\$ (2,538,006)</u>	<u>\$ 2,016,608</u>	<u>\$ 1,655,258</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016



**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016**

Financial Highlights

The Main Campus Dining Agreement between BEI and the dining services vendor, originally executed in July 2013, and amended for the second time in FY14-15, was terminated on May 5, 2018. Upon notice of termination in November 2017, the Main Campus Dining Agreement was assigned to the University and all commissions earned under the remaining term of the agreement became University revenue. BEI entered into a dining services contract with a new dining services vendor effective May 6, 2018. BEI earned commission under the new agreement from May 6, 2018, through June 30, 2018. BEI also received an unrestricted grant and capital investment funds from the new dining services vendor to repay the former dining services vendor the unamortized balance of the capital investments and the balance of unearned advanced commission BEI received under the prior dining services agreement.

BEI earned rental income from the East Campus/Argonaut Village facility in FY16-17 and FY17-18 under the Lease Agreement with the former dining services vendor. Rental income in FY15-16 was pro-rated based on the subtenant leases executed during the first year of operations, per the terms of the Lease Agreement. Upon termination of the Lease Agreement on May 5, 2018, BEI began to earn rental income from the tenant leases. The gross revenues from the Starbucks located at the new facility continue to be factored into the commissions BEI receives from its dining services vendor.

BEI earned a small amount of income in FY17-18 from the digital signs, including the monument sign at the East Campus/Argonaut Village, and income from the second year of the Building 8 lease agreement renewed effective July 1, 2016. Scenic Hills Country Club (SHCC) operated for two (2) months in FY17-18, resulting in a net loss. BEI completed the sale of SHCC on August 31, 2017. BEI recorded a loss from the sale in FY17-18. The Bookstore commissions continued to decline in FY17-18, compared to FY16-17 and FY15-16, which resulted in a commensurate reduction in the amounts paid for Bookstore management. Parking and Transportation Services was reassigned to the University on July 1, 2017. BEI recorded a donation to the University in FY17-18, from the reassignment.

Scenic Hills Country Club

SHCC was purchased by BEI in June 2012, with \$1.1 million cash on hand and a \$1.1 million bank loan at 3.95% interest, amortized over 20 years with a balloon payment due in June 2015. The bank loan was renegotiated June 30, 2015, to a five-year \$997,206 bank loan at 4.75% interest, amortized over 17 years with a balloon payment due June 30, 2020. The 2015 appraised value of SHCC was \$2.2 million. The \$1.1 million cash spent to purchase SHCC was from a signing incentive paid to BEI under the Main Campus Dining Agreement with the former dining services vendor.

In May 2017, BEI received a formal offer to purchase SHCC for \$1.0 million. The purchase and sale agreement between BEI and the buyer was fully executed in July 2017, and the sale of SHCC was completed on August 31, 2017. The proceeds from the sale were sufficient to repay the balance of the bank loan. BEI recorded a loss from the sale of approximately \$1.08 million.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016**

Campus Bookstore and Dining

In the spring of 2017, BEI requested formal presentations/proposals from alternative dining services providers for operation of the University's resident dining facility, operation of the campus retail dining establishments including new competitive franchises, catering services, concession services for UWF Intercollegiate Athletics and other events, and operation of the Starbucks located at the East Campus/Argonaut Village facility. During early summer 2017, the financial proposals were reviewed, leading to concurrence to proceed with the initial steps for the transition to a new dining services provider.

The Main Campus Dining Agreement between BEI and the dining services vendor, originally executed in July 2013, and amended for the second time in FY14-15, was terminated on May 5, 2018. The unamortized balance of the signing incentive received and all capital improvements made under the agreement as well as the balance of unearned commission advanced in FY12-13 as of the contract termination date became due and payable to the dining services vendor within a specified number of days.

In June 2015, a Development Agreement and a Lease Agreement were executed between BEI and the dining services vendor in connection with the East Campus/Argonaut Village. The Development Agreement outlined the scope of work to be performed at the East Campus under the agreement and distinguished between work accomplished for the University and work accomplished for BEI. The Lease Agreement identified BEI as landlord and the dining services vendor as the tenant. The term of the Lease Agreement coincided with the term of the Main Campus Dining Agreement between the dining services vendor and BEI. Under the Lease Agreement, BEI received a \$100,000 lease payment in July of each year, with a pro rata calculation for the first year of operation. The Lease Agreement was terminated effective May 5, 2018, to coincide with the termination of the Main Campus Dining Agreement.

BEI entered into a Management Services Contract with a new dining services vendor effective May 6, 2018. The initial term of the agreement is ten (10) years, with an option to extend for an additional five (5) years upon agreement of both parties. Under the Management Services Contract, BEI will be paid commission during each operating year of the agreement and capital investments will be made by the dining services vendor. Subsequent to the execution of the contract, BEI received \$6.1 million from the dining services vendor to repay the unamortized balance of the capital investments and the balance of unearned advanced commission BEI owed to the former dining services vendor upon termination of the Main Campus Dining Agreement. BEI also received \$900,000 as an unrestricted grant under the Management Services Contract to be used in furthering BEI's mission. The new dining services vendor also made a financial commitment to BEI in the agreement to invest \$3.575 million for dining facility renovations in FY18-19, to include the purchase and installation of food service equipment and signage. The \$6.1 million contract buyout funds, the \$900,000 unrestricted grant, and all other capital investments to be made under the agreement are recorded as unearned income and amortized to revenue on a straight-line basis (for the number of months remaining until May 2033) over the initial term of the contract. Upon expiration or termination of the Management Services Contract by either party prior to complete amortization of the capital investments disbursed as of the date of expiration or termination, BEI must reimburse the dining services vendor for the unamortized balances within 120 days.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016**

Campus Bookstore and Dining (Continued)

Certain capital investments made by the dining services and bookstore services vendors under the respective agreements with BEI ultimately become the property of the University. In recognition of this transfer of capital investments completed and placed into service, BEI's Statement of Revenues, Expenses, and Changes in Net Position reported a donation from BEI to the University of \$84,637 and \$670,798 for the years ended June 30, 2017 and 2016, respectively.

BEI receives commissions based on sales from both the dining services and bookstore services vendors for campus operations. Of the \$1 million advance commission paid to BEI in June 2012, under the original dining and event services agreement, \$352,707 and \$374,752 remained unearned as of June 30, 2017 and 2016, respectively. The unearned balance of \$334,337 was repaid to the former dining services vendor upon termination of the Main Campus Dining Agreement.

In FY16-17, BEI and the bookstore services vendor entered into Amendment Number Three to the Bookstore Operating Agreement with an effective date of November 15, 2016. Amendment Number Three provides the following terms: extends the contract for an additional two (2) year period through September 30, 2024; confirms the remaining unamortized balance of the initial contribution made in October 2012 will continue to be amortized through September 30, 2022; increases the commission rate for the period from July 1, 2022, through the end of the contract term; and provides for an investment of \$300,000 to be allocated to the build out of the Argonaut Village Argo Fan Shop and renovations to the main campus bookstore. As of June 30, 2018, approximately \$292,000 was invested by the bookstore services vendor in the Argonaut Village Argo Fan Shop.

The University bookstore vendor actively and continuously seeks avenues to improve service to the campus community. During FY17-18, the Shop by Author program was implemented which streamlines the way students shop for course materials. The bookstore services vendor participated in two (2) Grad Fairs to assist students in graduation preparation and continued to support Textbook Affordability legislation. Also, the bookstore services vendor used its suite of Discover products to assist faculty in the book adoption process and to assist students in their acquisition of course materials.

The bookstore services vendor began operations in the new Argo Fan Shop located at the East Campus/Argonaut Village facility in FY17-18. The Argo Fan Shop sells only UWF branded gifts, clothing, and accessories. The Bookstore will continue its partnership with UWF Intercollegiate Athletics and will again be the official provider of UWF emblematic merchandise at the 2018 home football games held at the Blue Wahoo's stadium.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2018, 2017, AND 2016**

Parking and Transportation

On June 21, 2013, the University President granted approval for BEI to "accept and administer Parking and Transportation Services" for the University. BEI contracted with the University for the management of daily operations. BEI was responsible for the long-term planning, capital investment, and construction of new parking and transportation facilities.

Following an evaluation of BEI finances, there appeared to be no clear basis to maintain Parking and Transportation Services (PATS) as an Assigned Function with BEI. PATS revenues are restricted funds that cannot be utilized to support other BEI functions and the assignment of PATS to BEI created a burden of accounting and record keeping procedures between BEI and the University that would not otherwise be necessary. BEI's request for the termination of PATS as an Assigned Function was approved by the University President on April 3, 2017, with the effective date of the termination established as July 1, 2017.

The 85-space parking lot added at the East Campus/Argonaut Village facility in early FY15-16, along with all other PATS related assets held by BEI, were donated to the University in accordance with the terms of the reassignment. BEI recorded a donation of approximately \$3.8 million to the University in FY17-18, from the reassignment of PATS.

Investments

As part of the capital improvements under the Main Campus Dining Agreement, the former dining services vendor invested \$3.85 million to develop and construct over 13,100 gross square feet of mixed use commercial and restaurant buildings at the east entrance of campus. The East Campus/Argonaut Village facility construction of the building shell level was completed in 2015. Build-outs for all of the units are complete, with the exception of the Building 1 anchor space and tenant improvements currently in progress for a recently reassigned unit. The build-out for the Building 1 anchor space will be completed when a tenant for the space is identified. BEI executed a Lease Agreement with the former dining services vendor to sub-lease the space (i.e., act as Property Manager on behalf of BEI) to various businesses for operation. Upon termination of the Lease Agreement on May 5, 2018, management of the East Campus/Argonaut Village facility became the responsibility of BEI. BEI has entered into lease agreements with all of the current tenants. The anchor location is the only unit currently unassigned.

Other Items

BEI has continued to focus strategically on the East Campus/Argonaut Village development. Currently, there are no new projects planned. BEI will hold the next strategic planning session in the fall of 2018.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the following address:

UWF Business Enterprises, Inc.
11000 University Parkway
Building 20E
Pensacola, FL 32514

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 833,494	\$ 320,236
Accounts Receivable, Net	24,589	234,241
Due from the University of West Florida, Net	-	2,397,790
Inventory	-	5,568
Prepaid Expenses and Other Assets	29,520	9,189
Total Current Assets	<u>887,603</u>	<u>2,967,024</u>
CAPITAL ASSETS	<u>3,778,700</u>	<u>6,469,647</u>
Total Assets	<u><u>\$ 4,666,303</u></u>	<u><u>\$ 9,436,671</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 6,184	\$ 43,947
Accrued Liabilities	3,469	47,542
Note Payable - Current Portion	-	42,789
Due to the University of West Florida, Net	17,434	-
Capital Lease Obligation - Current Portion	-	4,444
Unearned Commission Income - Current Portion	-	22,044
Unearned Service and Management Arrangement		
Income - Current Portion	526,667	425,718
Total Current Liabilities	<u>553,754</u>	<u>586,484</u>
LONG-TERM LIABILITIES		
Note Payable - Less Current Portion	-	874,892
Unearned Commission Income - Less Current Portion	-	330,663
Unearned Service and Management Arrangement		
Income - Less Current Portion	6,650,555	5,628,024
Total Long-Term Liabilities	<u>6,650,555</u>	<u>6,833,579</u>
Total Liabilities	7,204,309	7,420,063
NET POSITION		
Net Investment in Capital Assets	3,778,700	2,033,129
Unrestricted Deficit	<u>(6,316,706)</u>	<u>(16,521)</u>
Total Net Position	<u><u>(2,538,006)</u></u>	<u><u>2,016,608</u></u>
Total Liabilities and Net Position	<u><u>\$ 4,666,303</u></u>	<u><u>\$ 9,436,671</u></u>

See accompanying Notes to Financial Statements.

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
REVENUES		
Golf Course Sales	\$ 82,446	\$ 723,473
Food Service Commissions	66,279	119,288
Bookstore Commissions	350,121	388,563
Revenues from Service and Management Arrangements	442,544	425,719
Parking and Transportation	-	2,393,448
Building Eight Rent	20,718	20,513
Argonaut Village Rent	128,060	93,053
Digital Sign	3,993	6,324
Contributions and In-Kind	4,407	4,077
Miscellaneous Income	6,025	6,056
Total Revenues	1,104,593	4,180,514
EXPENSES		
Golf Course Operations	158,377	926,703
Golf Course Pro Shop Cost of Sales	1,435	16,788
Food Service Management	47,908	97,244
Food Service - Other	-	110,316
Bookstore Management	350,121	388,563
Parking and Transportation Service	-	1,866,746
General and Administrative	36,190	34,428
Donations to the University of West Florida	3,813,079	84,637
Building Eight	10,168	8,581
Argonaut Village Expense	22,183	-
Digital Sign	2,145	2,356
Depreciation	129,978	229,730
Total Expenses	4,571,584	3,766,092
NET OPERATING INCOME (LOSS)	(3,466,991)	414,422
NONOPERATING REVENUES (EXPENSES)		
Write Off	(507)	-
Loss on Disposal of Capital Assets	(1,079,455)	(13,085)
Other Income	-	6,837
Interest Expense	(7,661)	(46,824)
Total Nonoperating Revenues (Expenses), Net	(1,087,623)	(53,072)
CHANGE IN NET POSITION	(4,554,614)	361,350
Net Position - Beginning of Year	2,016,608	1,655,258
NET POSITION - END OF YEAR	\$ (2,538,006)	\$ 2,016,608

See accompanying Notes to Financial Statements.

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers and Others	\$ 9,939,786	\$ 3,694,801
Cash Paid to Leased Employees for Services	(64,886)	(438,516)
Cash Paid to Suppliers and Others	<u>(9,372,863)</u>	<u>(3,011,919)</u>
Net Cash Provided Used by Operating Activities	502,037	244,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Capital Debt	(917,681)	(40,782)
Interest Paid on Capital Debt	(7,661)	(46,824)
Repayments of Obligations Under Capital Leases	(4,444)	(4,791)
Write Off	(507)	-
Purchase of Capital Assets	-	(51,925)
Proceeds from Sale of Capital Assets	941,514	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>11,221</u>	<u>(144,322)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	513,258	100,044
Cash and Cash Equivalents - Beginning of Year	<u>320,236</u>	<u>220,192</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 833,494</u>	<u>\$ 320,236</u>
RECONCILIATION OF CHANGE IN NET OPERATING INCOME PROVIDED BY OPERATIONS		
Net Operating Income (Loss)	\$ (3,466,991)	\$ 414,422
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	129,978	229,730
Contract Overage Loss	-	110,316
Bad Debt Provision	-	48,709
Donation of Assets	540,000	84,637
Changes in:		
Accounts Receivable	209,652	(124,029)
Due to/from the University of West Florida	2,415,224	(49,296)
Inventory	5,568	9,346
Prepaid Expenses	(20,331)	3,351
Accounts Payable	(37,763)	(32,317)
Accrued Liabilities	(44,073)	(2,739)
Unearned Commission Income	(352,707)	(22,045)
Unearned Service and Management Arrangement Income	1,123,480	(425,719)
Net Cash Provided by Operating Activities	<u>\$ 502,037</u>	<u>\$ 244,366</u>

See accompanying Notes to Financial Statements.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

UWF Business Enterprises, Inc. (BEI) was formed in 2011 as a Florida corporation, organized as a direct support organization of the University of West Florida (the University or UWF) under Section 1004.28, Florida Statutes, and Rule 6C-9.011, Florida Administrative Code, and therefore is considered a component unit of the University. BEI was organized for the explicit purpose of supporting the University of West Florida by the development of properties and facilities used or useful in the University's educational endeavors, to lessen the burdens of government and provide assistance to the faculty, staff and students of the University. BEI is a public charity under section 501(c)(3) of the Internal Revenue Code.

BEI owns an office building located on UWF's campus that is used to support the University's educational activities. BEI has also entered into contracts that will provide dining, bookstore, retail services, and any other assigned functions to University students and personnel. BEI did contract to provide parking and transportation assigned functions; however, that ceased on June 30, 2018, and reverted back to the University.

As discussed in the subsequent notes to the financial statements, BEI incurred significant losses related to the Sale of Scenic Hills Country Club (Note 13) and the donation of the related parking and transportation assets (Note 8) during the year ended June 30, 2018. Those events coupled with current operations have caused the net position to decrease from \$2,016,608 as of June 30, 2017, to \$(2,538,006) as of June 30, 2018. BEI management notes that the unearned service and management income of \$7,177,222 that will be recognized over the next 15 years would satisfy that deficit coupled with additional buildouts to be performed by the new dining services provider, as discussed in Note 6. BEI management notes that in the past several years Scenic Hills Country Club had been incurring losses on operations due to attendance and the overall industry decline, thus management believes that selling the property was in the best interest of BEI. BEI management plans to continue its underlying purpose to support the University of West Florida and has no plans to cease operations within 1 year of the issuance of these audited financial statements.

Basis of Presentation and 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 measurements focus applied.

The accompanying financial statements of the business-type activities of BEI have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. BEI applies all applicable GASB pronouncements.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Accounting (Continued)

BEI uses enterprise fund accounting. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of reporting cash flows, BEI considers all cash accounts and certificates of deposit with original maturities of three months or less to be cash or cash equivalents.

The uncollateralized combined bank balance comprised of demand deposits is subject to custodial credit risk as it exceeds the Federal Depository Insurance (FDI) limits by \$634,293 and \$77,643, for the years ended June 30, 2018, and June 30, 2017, respectively. BEI has not experienced any losses in these accounts. All deposits are held at a Qualified Public Depository in compliance with Florida Statute.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are stated net of an allowance for doubtful accounts. BEI estimates for doubtful accounts based on an analysis of certain customers taking into consideration the age of the past due accounts and an assessment of the customer's ability to pay. Accounts are considered past due when the payments due are not made within certain designated timeframes.

A summary of the changes in the allowance for doubtful accounts follows:

	2018	2017
Beginning Balance	\$ 112,914	\$ 192,744
Current Year Provision	-	48,709
Write Offs of Accounts	-	(128,539)
Reduction due to sale of Scenic Hills CC (See Note 13)	(1,253)	-
Reduction due to Donation (See Note 8)	(111,661)	-
Ending Balance	<u><u>\$ -</u></u>	<u><u>\$ 112,914</u></u>

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due to/from the University of West Florida, Net

Due to/from the University of West Florida, Net includes BEI cash held in a University account (Agency or Auxiliary) which may be withdrawn by BEI at any time (no funds access restrictions) and commissions owed to the University by BEI related to assigned functions.

Inventory

Inventory consists of merchandise held for resale and maintenance inventory held at SHCC during the year ended June 30, 2017. Inventory is recorded at the lower of cost or net realizable value. The first-in, first-out (FIFO) and average cost cost-flow assumption methods are utilized.

Capital Assets

Capital assets consist of land, buildings, golf course improvements, parking lot, equipment, furniture and fixtures, exterior sign, and construction in progress. Assets are capitalized and recorded at cost at the date of acquisition or at estimated acquisition value at the date received in the case of donations. 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. BEI has a capitalization threshold of \$50,000 for buildings, building improvements, infrastructure, infrastructure improvements, and leasehold improvements and a \$5,000 capitalization threshold for tangible personal property. Depreciation is calculated on the straight-line basis over the following estimated useful lives of the related assets:

Buildings	40 Years
Golf Course Improvements	20 Years
Parking Lot	20 Years
Maintenance Equipment	7 – 10 Years
Furniture and Fixtures	7 Years
Office Equipment	5 Years
Software	5 Years
Exterior Sign	7 Years

Unearned Commission Income

BEI received \$1,000,000 in fiscal year 2012 in unearned advance commissions in connection with a contract with a food service provider as discussed in Note 6. The unearned balance was being amortized on a straight-line basis from July 2013 through June 2033. The contract was terminated in May 2018, as discussed in Note 6, which caused this to be repaid to the vendor.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Service and Management Arrangement Income

Prior to May 2018, BEI received \$1.1 million as a signing incentive in fiscal year 2012 in connection with a dining services contract with the same food service vendor, which was amortized on a straight-line basis through June 2033. Effective October 2012, BEI also assumed the unamortized balance of the vendor's investment under the prior dining services contract between the University and the vendor, which was amortized on a straight line basis through June 2023. Capital improvements made and to be made by the vendor under the contract were recorded as unearned income and were amortized on a straight line basis from October 2012, or date of completion in the case of capital improvements, through June 2035. As discussed in Note 6, this contract was terminated in May 2018.

In May 2018, BEI received \$6.1 million in buyout funds from a dining services vendor in connection with a new dining services contract. In addition, BEI received a \$900,000 grant from the vendor for operations. The funds received under the contract are recorded as unearned income and are amortized on a straight-line basis from May 2018 through May 2033.

BEI received as part of a service and management arrangement an initial contribution of \$600,000 from the vendor for the operation of the bookstore. This unearned income is being amortized on a straight-line basis from October 2012 through November 2022.

Net Position

Equity is classified as net position and is further classified into the following components:

Net Investment in Capital Assets – Consists of all capital assets, reduced by outstanding debt that is attributable to the acquisition of those assets.

Unrestricted – Consists of all other assets and liabilities not included in the above category.

Income Taxes

BEI was established as a direct support organization of the University and has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

BEI evaluates its tax positions for uncertainties on a regular basis and has determined it has no material uncertain tax positions as of June 30, 2018 and 2017. BEI recognizes accrued interest and penalties, if any, associated with uncertain tax positions in "expenses" in the accompanying financial statements.

As of the date the financial statements were available for issue, BEI is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with accounting principles generally accepted in the United States of America.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with BEI's SHCC, Dining Services, Bookstore Services, Argonaut Village, and Parking and Transportation Services. Operating revenues are from golf course sales, commissions, parking and transportation fees, service and management arrangements, contributions in kind and rental operations. Operating expenses are primarily from golf course operations, food and bookstore management, management of parking and transportation services, management of rental facilities, donations to the University, general and administrative, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2018:

	Beginning Balance	Additions	Disposals	Reclassify	Ending Balance
Land	\$ 393,162	\$ -	\$ (298,897)	\$ -	\$ 94,265
Parking Lot	600,000	-	(600,000)	-	-
Buildings	5,454,534	-	(1,558,135)	-	3,896,399
Golf Course Improvements	374,559	-	(374,559)	-	-
Maintenance Equipment	23,014	-	(23,014)	-	-
Furniture and Fixtures	263,980	-	(136,516)	-	127,464
Office Equipment	6,606	-	(6,606)	-	-
Exterior Sign	11,392	-	(11,392)	-	-
Software, under Capital Lease	20,753	-	(20,753)	-	-
	<hr/> 7,148,000	<hr/> -	<hr/> (3,029,872)	<hr/> -	<hr/> 4,118,128
Less: Accumulated Depreciation	(678,353)	(129,978)	468,903	-	(339,428)
Total	\$ 6,469,647	\$ (129,978)	\$ (2,560,969)	\$ -	\$ 3,778,700

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 CAPITAL ASSETS (CONTINUED)

Capital assets consisted of the following at June 30, 2017:

	Beginning Balance	Additions	Disposals	Reclassify	Ending Balance
Land	\$ 393,162	\$ -	\$ -	\$ -	\$ 393,162
Parking Lot	600,000	-	-	-	600,000
Buildings	5,551,870	-	-	(97,336)	5,454,534
Golf Course Improvements	344,808	46,725	(16,974)	-	374,559
Maintenance Equipment	23,014	-	-	-	23,014
Furniture and Fixtures	131,316	5,200	-	127,464	263,980
Office Equipment	6,606	-	-	-	6,606
Exterior Sign	11,392	-	-	-	11,392
Software, under Capital Lease	20,753	-	-	-	20,753
Construction in Progress	-	114,765	(84,637)	(30,128)	-
	7,082,921	166,690	(101,611)	-	7,148,000
Less: Accumulated Depreciation	(452,512)	(229,730)	3,889	-	(678,353)
Total	\$ 6,630,409	\$ (63,040)	\$ (97,722)	\$ -	\$ 6,469,647

Depreciation expense amounted to \$129,978 and \$229,730 for the years ended June 30, 2018 and 2017, respectively, and includes amortization expense of \$692 and \$4,151 for the years ended June 30, 2018 and 2017, respectively, for the above equipment under capital lease.

During the years ended June 30, 2018 and 2017, BEI donated Capital Investments in the amount of \$540,000 and \$84,637, respectively, to the University of West Florida.

NOTE 3 LONG-TERM LIABILITIES

Changes in long-term liabilities were as follows at June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Note Payable	\$ 917,681	\$ -	\$ (917,681)	\$ -	\$ -
Capital Lease Obligation	4,444	-	(4,444)	-	-
Unearned Commission Income	352,707	-	(352,707)	-	-
Unearned Service and Management Arrangement Income	6,053,742	7,000,000	(5,876,520)	7,177,222	526,667
Total	\$ 7,328,574	\$ 7,000,000	\$ (7,151,352)	\$ 7,177,222	\$ 526,667

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 LONG-TERM LIABILITIES (CONTINUED)

Changes in long-term liabilities were as follows at June 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Note Payable	\$ 958,463	\$ -	\$ (40,782)	\$ 917,681	\$ 42,789
Capital Lease Obligation	9,235	-	(4,791)	4,444	4,444
Unearned Commission Income	374,752	-	(22,045)	352,707	22,044
Unearned Service and Management Arrangement Income	6,254,380	225,081	(425,719)	6,053,742	425,718
Total	\$ 7,596,830	\$ 225,081	\$ (493,337)	\$ 7,328,574	\$ 494,995

The note payable consisted of a bank loan with an original principal balance of \$1.1 million at 3.95% interest, amortized over 20 years with a three-year balloon payment. This note was paid in full during the year ended June 30, 2018, as part of the Scenic Hills Country Club sale (see Note 13).

BEI was party to a capital lease agreement for software, which expired in 2018. For the year ended June 30, 2017, the cost of the equipment under capital lease was \$20,753 and related accumulated amortization was \$14,873. This software and the related capital lease was sold in 2018 as part of the Scenic Hills Country Club sale.

NOTE 4 UNEARNED SERVICE AND MANAGEMENT ARRANGEMENT INCOME

As subsequently discussed in Note 6, BEI terminated its former dining services agreement and entered into a new contract during May 2018. Within the former agreement, BEI received \$1.1 million as a signing incentive during fiscal year 2012. Effective October 2012, BEI also assumed the unamortized balance of the vendor's investment under the prior dining services contract between the University and the vendor. During fiscal year 2014, an additional \$300,000 was due for certain capital investments, and during fiscal year 2015, an additional \$4,375,000 was invested by the vendor as stipulated in the contract signed with the food service provider. During fiscal year 2017, an additional \$225,081 was invested by the vendor related to various food service projects.

Under the new dining services agreement executed in May 2018, BEI received \$6.1 million in buyout funds to repay the former dining services vendor as well as a \$900,000 grant. The investment and grant funds received under the contract are recorded as unearned income and are amortized on a straight-line basis from May 2018 through May 2033.

As subsequently discussed in Note 7, BEI received as part of a service and management arrangement an initial contribution of \$600,000 from the vendor for the operation of the bookstore. This unearned income is being amortized on a straight-line basis from October 2012 through November 2022.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 UNEARNED SERVICE AND MANAGEMENT ARRANGEMENT INCOME (CONTINUED)

Unearned service and management arrangement income consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Unamortized Unearned Income from Dining Services Agreement - Note 6	\$ 6,922,222	\$ 5,738,742
Unamortized Unearned Income from Bookstore Services Agreement - Note 7	<u>255,000</u>	<u>315,000</u>
Total Unearned Income from Service and Management Arrangements	<u>\$ 7,177,222</u>	<u>\$ 6,053,742</u>

NOTE 5 MANAGEMENT AGREEMENT WITH UNIVERSITY OF WEST FLORIDA

On December 9, 2011, BEI and the University entered into a Master Management Agreement (the Agreement) which authorizes the President of the University to assign management and operation of certain University facilities and programs (Assigned Functions) to BEI. The Agreement requires BEI to use any excess funds to support University operations. However, BEI may retain funds (operating capital) which are necessary for the purposes of future projects and programs.

NOTE 6 ASSIGNMENT OF DINING SERVICES

On June 11, 2012, the President of the University granted approval, under the Agreement, for BEI to accept and administer dining services for the University. BEI entered into an agreement in June 2012 with a food service provider to provide all retail and catering food services on the University's main campus, and concession services at athletic, recreational, and special events at the University's main campus. The June 2012 agreement was terminated May 2018 and subsequent to that, BEI entered into a new agreement with a new provider in May 2018.

The previous contract with the food service provider was effective July 1, 2013, and extended through June 30, 2035, but was terminated in May 2018.

As part of the previous contract executed in fiscal year 2012, the food service provider paid a signing incentive of \$1.1 million to BEI under the original agreement. Under the agreement, as amended, the food service provider also agreed to provide \$7,964,850 of capital improvements on behalf of BEI in exchange for contract terms including the exclusive right to provide services. The \$1.1 million signing incentive was recorded as unearned income and amortized to revenue on a straight-line basis from October 2012 through June 2033. Capital improvements made under the prior and amended contract were recorded as completed, and corresponding unearned income was recognized and amortized over the

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 ASSIGNMENT OF DINING SERVICES (CONTINUED)

remaining life of the contract. The amortization period for capital improvements was changed from June 2032 to June 2035 in accordance with the extended term of the amended agreement. Under the terms of the amended contract the University held title to certain assets funded through the capital investment; therefore the transfer of those assets to the University by BEI was recognized as donations to the University.

During the year ended June 30, 2017, \$84,637 of the food service provider investments were donated to the University in accordance with the previous agreement. The unearned income related to those investments was amortized on a straight-line basis over the period December 2013 through June 2033 per the amended agreement.

Included in the food service provider total capital investment is the unamortized balance of the food service provider's investment under a previous contract between the University and the food service provider in existence immediately prior to the effective date of the initial agreement with BEI. BEI reported this amount as donations to the University during fiscal year 2013 and unearned income to be amortized on a straight-line basis over the period October 2012 to June 2023 per the amended agreement.

Under the original contract, an advance commission payment of \$1 million was paid upon the signing of the contract during fiscal year 2012. The balance of unearned commission was \$352,707 as of June 30, 2017. Upon termination in 2018, the unearned portion became due to the service provider

The previous contract was amended and called for commissions to be paid to BEI based upon sales by the food service provider on a sliding scale from 2.25% on the first \$7.5 million of sales to 4.25% for sales in excess of \$11 million. Upon notification of termination in November 2017, in accordance with the agreement, dining service commissions were paid directly to the University through termination.

The prior food service provider constructed the East Campus Restaurant Development Project (Argonaut Village) to provide various retail establishments. Effective July 1, 2015, BEI entered into a lease agreement with the food service provider whereby the food service provider subleases Argonaut Village for base rent of \$100,000 paid annually, inclusive of sales tax. Rental income for the years ended June 30, 2018 and 2017, was \$128,060 and \$93,053, respectively, and includes rent income from tenant leases effective May 6, 2018. The lease agreement with the food service provider was terminated effective May 5, 2018, to coincide with the termination of the dining contract described throughout. Management assumed and executed new leases with the tenants within Argonaut Village effective May 6, 2018.

Upon termination of the former dining services agreement, the unamortized balance of the signing incentive received and all capital improvements made under the agreement as well as the balance of unearned commissions advanced became due and payable to the prior dining services vendor. The unamortized balance was \$5,768,313, which was paid upon receipt of the new food service agreement's initial investment, as described below.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 ASSIGNMENT OF DINING SERVICES (CONTINUED)

On May 6, 2018, BEI entered into a management services contract with a new dining services vendor. The agreement terms are through June 30, 2028, with an option to extend for an additional five years upon agreement of both parties. Either party may terminate the agreement during the contract period with proper notice. Any guaranteed commissions owed to BEI shall be paid by the dining services vendor within 90 days of the termination date. Upon expiration or termination, the amount of unamortized financial commitment disbursed as of the date of expiration or termination and unrestricted grant shall become due to the vendor within 120 days.

In conjunction with the new contract, BEI received \$6.1 million to buyout and repay the unamortized balances of the old service agreement's capital investments and the balance of unearned advanced commission owed to the former dining services vendor. BEI also received a \$900,000 unrestricted grant under the new contract to be used in furthering BEI's mission. The \$6.1 million contract buyout funds, the \$900,000 unrestricted grant, and any future capital investments to be made under the agreement are recorded as unearned income when received and amortized to revenue on a straight-line basis through May 2033. Under the agreement, the new food service provider agreed to provide \$3,575,000 of capital improvements on behalf of BEI in exchange for contract terms including the exclusive right to provide services. The capital improvements are planned to be completed during the fiscal year ending June 30, 2019.

The new dining services contract also calls for commissions to be paid to BEI at a set rate of \$10,000 for the year ended June 30, 2018, 6% of Net Sales, (inclusive of applicable sales taxes) per year, during the subsequent five years through June 30, 2023, and 8% of Net Sales, per year, for remainder of the contract. BEI is guaranteed a minimum commission each year as stipulated in the contract; however, that minimum guarantee is contingent on the sales goals established by the University.

During the years ended June 30, 2018 and 2017, BEI has recognized \$382,544 and \$365,719, respectively in earned revenue from the vendor investments. The following is a roll forward of the Unearned Service and Management Arrangement Income for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Unearned Service and Management Arrangement		
Income - Beginning of Fiscal Year	\$ 5,738,742	\$ 5,879,380
Add: Capital Improvements and New Investments under		
Service and Management Arrangements	6,100,000	225,081
Add: Unrestricted Grant related to Service and		
Management Arrangements	900,000	-
Less: Reduction due to Termination of Old Agreements	(5,433,976)	-
Less: Amortization of Unearned Income	(382,544)	(365,719)
Unearned Service and Management Arrangement		
Income - End of Fiscal Year	<u>\$ 6,922,222</u>	<u>\$ 5,738,742</u>

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 ASSIGNMENT OF BOOKSTORE OPERATIONS

On October 15, 2012, the President of the University granted approval, under the Agreement, for BEI to accept and administer bookstore services for the University.

On August 18, 2009, the University and a bookstore operations vendor entered into a Bookstore Operating Agreement pertaining to the operation of the University's bookstore facilities and certain bookstore upgrades. Bookstore services became an Assigned Function of BEI on October 15, 2012, and the Bookstore Operating Agreement was amended on this date to substitute BEI as party to the agreement in lieu of the University. The amendment additionally extended the contract between BEI and the bookstore operations vendor through September 2022.

Under the contract, a \$600,000 initial contribution was provided to BEI by the bookstore operations vendor. This initial contribution was recorded as unearned income and is being amortized on a straight-line basis over the 10-year contract period. The bookstore operations vendor has also agreed to invest up to an additional \$300,000 for store upgrades throughout various campus locations. The vendor has spent approximately \$292,421 as of the fiscal year ended June 30, 2018, related to these upgrades.

All equipment, fixtures and furniture included as store upgrades from the capital investments of the bookstore operations vendor or from future capital investments will remain the property of the bookstore operations vendor until the investment is fully amortized, over a five year period commencing on the date of the first disbursement of funds, at which time the upgrades will become property of the University. As of June 30, 2018 and 2017, there were no fully amortized store upgrades. Upon such time that store upgrade titles are transferred to the University, the fair value of the assets will be recognized as donations to the University and income by BEI.

During each of the years ended June 30, 2018 and 2017, BEI has recognized \$60,000 in bookstore contract revenue. The following is a roll forward of the Unearned Service and Management Arrangement Income for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Unearned Service and Management Arrangement		
Income - Beginning of Fiscal Year	\$ 315,000	\$ 375,000
Less: Amortization of Unearned Income	<u>(60,000)</u>	<u>(60,000)</u>
Unearned Service and Management Arrangement		
Income - End of Fiscal Year	<u>\$ 255,000</u>	<u>\$ 315,000</u>

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 ASSIGNMENT OF BOOKSTORE OPERATIONS (CONTINUED)

The contract amendment also calls for commissions to be paid to BEI based upon sales by the bookstore operations vendor on a sliding scale from 10.25% on the first \$5 million of sales to 12.25% for sales in excess of \$7.5 million with a minimum annual guarantee of \$425,000 for fiscal years ended June 30, 2013, (which includes commissions earned from July 1, 2012, until the effective date of the contract amendment) and June 30, 2014. For the fiscal years commencing July 1, 2014, and beyond, the minimum annual guarantee shall be equal to 90% of the previous year's calculated commission amount. During the years ended June 30, 2018 and 2017, total commissions amounted to \$350,121 and \$388,563, respectively. These commissions are presented in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 8 ASSIGNMENT OF PARKING OPERATIONS

On June 21, 2013, the President of the University granted approval, under the Agreement, for BEI to accept and administer Parking and Transportation Services (PATS) for the University. The assignment was effective July 1, 2013.

The revenues and expenses for the PATS assigned function are the responsibility of BEI. BEI contracts with the University to collect revenues and to perform the day-to-day operations of the parking function on behalf of BEI.

Cash reserves held by the University specifically for the PATS assigned function will remain the property of the University and will be held for planned and unscheduled needs and for the design and construction of parking, transportation, and related facilities as required. BEI is responsible for the long-term planning, capital investment, and construction of new parking and transportation facilities.

Effective July 1, 2017, the University elected to terminate the PATS assigned function. In connection with this termination, management of the university and BEI have elected to donate the related assets of UWF BEI in the amount of \$3,813,079 to the University, effective July 1, 2017.

The donation to the University is composed of:

Reduction of Related Cash Receivable Held in Agency on the Books and Records of the University	\$ 3,185,829
Accounts Receivable, Net of Related Allowance	70,857
Argonaut Village Parking Lot, Net of Depreciation	540,000
Other Amounts Payable to the University	16,393
Total Donation to the University	<u>\$ 3,813,079</u>

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 BUILDING LEASE AND RENTAL INCOME

On June 17, 2016, BEI entered into a lease agreement with the University of West Florida, acting for and on behalf of the University of West Florida Board of Trustees, a public body corporate, to rent Building Eight for an additional three years commencing on July 1, 2016, through June 30, 2019. The annual rent is \$20,513, \$20,718, and \$20,925, respectively, for the three fiscal years.

NOTE 10 RISK MANAGEMENT

BEI is exposed to various levels of loss including, but not limited to, losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. BEI is insured for these risks. There were no insurance losses related to these risks for the years ended June 30, 2018 and 2017. BEI is not aware of any liabilities related to these risks as of June 30, 2018.

BEI has established a Low Value Asset Policy to manage and account for certain property items that are portable and susceptible to theft or loss. No low value assets have been identified as missing as of June 30, 2018 and 2017.

NOTE 11 IN-KIND CONTRIBUTIONS

Rent for space utilized by BEI and owned by the University was recorded for \$4,399 and \$4,075, respectively, for the years ended June 30, 2018 and 2017.

Each state university board of trustees is authorized to permit the use of property, facilities, and personal services at any state university by any university direct support organization per Section 1004.28, Florida Statutes. Administrative and fiscal services, office space, and other miscellaneous support services are provided to the University direct support organizations by the University at no cost. Estimated fair values are recorded if determinable. No value is assigned to administrative and fiscal services in the accompanying statements of revenues, expenses, and changes in net position, since there is no objective basis for determining the value.

NOTE 12 RELATED PARTIES

The University provides administrative, managerial and facilities support for BEI. BEI reimbursed the University \$62,556 and \$3,910 for services and costs during the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, BEI disbursed \$47,908 and \$97,244, respectively, to the University for food service management pursuant to the Agreement discussed in Note 6. For the years ended June 30, 2018 and 2017, BEI disbursed \$350,121 and \$388,563, respectively, to the University for bookstore management pursuant to the Agreement discussed in Note 7. For the year ended June 30, 2017, BEI incurred expenses totaling \$1,819,712 to the University for parking and transportation management pursuant to the Agreement discussed in Note 8.

**UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 13 SALE OF SCENIC HILLS COUNTRY CLUB

On August 31, 2017, BEI sold its ownership of Scenic Hills Country Club to an outside party for approximately \$1.0 million. Included in the sale transaction was all related Land, Buildings, Land and Building improvements, Equipment, Furniture and Fixtures, Software, Inventory, and Accounts Receivable. The subsequent owner assumed all related liabilities and leases upon ownership transfer. In addition, the remaining mortgage of \$910,786 was paid off. The details of the sale are as follows:

Total Sales Price	\$ 1,000,000
Adjustments for Items Paid by BEI in Advance	
50% of Accounts Receivable Owed to Seller	3,272
Adjustments to Sales Price for Items Unpaid by BEI:	
Mower Lease Assumed by Buyer	(54,821)
County Taxes	(2,257)
Property Tax	(1,662)
Punch Cards	(7,411)
Gift Certificates	(15,260)
Credit Books	(3,108)
Closing Costs	<u>(5,428)</u>
Adjusted Sales Price	913,325
Less Pay-Off of Mortgage	<u>(910,786)</u>
Net Cash Received from Sale	2,539
Sale of Assets & Reduction of Liabilities:	
Property, Plant, and Equipment	(2,020,969)
Accounts Receivable	(7,789)
Inventory	(4,832)
Payables, Gift Cards, Credit Books, and Lease Pay-Off	40,810
Mortgage Pay-Off	<u>910,786</u>
Net Loss on Sale of Scenic Hills Country Club	<u>\$ (1,079,455)</u>



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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

Board of Directors
UWF Business Enterprises, 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 the business-type activities of UWF Business Enterprises, Inc. (BEI) (a component unit of the University of West Florida), as of June 30, 2018, and the related notes to the financial statements, which collectively comprise BEI's basic financial statements, and have issued our report thereon dated September 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BEI'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 BEI's internal control. Accordingly, we do not express an opinion on the effectiveness of BEI'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 been 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BEI'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 BEI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BEI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
September 10, 2018

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE I – SCENIC HILLS COUNTRY CLUB EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Administrative Expenses	\$ 1,388	\$ 6,632
Bad Debt Provision	-	1,675
Bank Service Charges	1,701	12,178
Carts Expense	44,776	92,322
Computer	1,227	7,713
Course Maintenance	20,709	116,343
Dues and Subscriptions	122	1,932
Equipment Expense	-	2,475
Insurance	6,226	33,703
Marketing Expense	400	9,754
Miscellaneous	-	575
Office Supplies	118	164
Postage	378	872
Pro Shop Expenses	-	2,437
Professional Fees	-	8,888
Repairs and Maintenance	6,779	21,644
Restaurant Expense	-	51,443
Staff Leasing	64,886	438,516
Taxes and Licenses	1,102	5,508
Utilities	8,565	111,929
Total	<u>\$ 158,377</u>	<u>\$ 926,703</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE II – FOOD SERVICE MANAGEMENT EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Contractual Services - UWF	\$ 47,908	\$ 97,244
Total	<u>\$ 47,908</u>	<u>\$ 97,244</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE III – DONATIONS TO THE UNIVERSITY OF WEST FLORIDA
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Dining Services Capital Improvements	\$ -	\$ 84,637
Reassignment of Parking Services and Related Assets	3,813,079	-
Total	<u>\$ 3,813,079</u>	<u>\$ 84,637</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE IV – GENERAL AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Administrative Expenses	\$ 2,339	\$ 2,320
Advertising and Promotion	653	344
Computer	928	748
Miscellaneous	75	-
Office Supplies	4,606	4,241
Other University Support	-	76
Postage	205	261
Professional Fees	25,676	24,627
Taxes and Licenses	184	61
Travel and Entertainment	1,407	1,697
Utilities	117	53
Total	\$ 36,190	\$ 34,428

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE V – PARKING AND TRANSPORTATION MANAGEMENT EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Bad Debt Expense	\$ -	\$ 47,034
Contractual Services - UWF	- -	1,819,712
Total	\$ -	\$ 1,866,746

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE VI – BOOKSTORE MANAGEMENT EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Contractual Services - UWF	\$ 350,121	\$ 388,563
Total	<u>\$ 350,121</u>	<u>\$ 388,563</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE VII – BUILDING EIGHT EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Insurance	\$ 2,645	\$ 2,595
Repairs and Maintenance	450	32
Utilities	7,073	5,954
Total	<u>\$ 10,168</u>	<u>\$ 8,581</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE VIII – ARGONAUT VILLAGE EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Administrative Expenses	\$ 200	\$ -
Insurance	1,872	-
Miscellaneous	303	-
Postage	8	-
Professional Fees	5,557	-
Repairs and Maintenance	10,313	-
Taxes and Licenses	1,706	-
Utilities	2,224	-
Total	<u>\$ 22,183</u>	<u>\$ -</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE IX – DIGITAL SIGN EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Utilities	\$ 2,145	\$ 2,356
Total	<u>\$ 2,145</u>	<u>\$ 2,356</u>

UWF BUSINESS ENTERPRISES, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
SCHEDULE X – DEPRECIATION EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>2018</u>	<u>2017</u>
Building Eight	\$ 3,593	\$ 3,593
Scenic Hills Country Club	14,359	86,545
Argonaut Village	112,026	139,592
Total	<u>\$ 129,978</u>	<u>\$ 229,730</u>



Board of Directors
UWF Business Enterprises, Inc.
Pensacola, Florida

We have audited the financial statements of the business-type activities of UWF Business Enterprises, Inc. (BEI) (a component unit of the University of West Florida) as of and for the year ended June 30, 2018, and have issued our report thereon dated September 10, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by UWF Business Enterprises, Inc. are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2018.

We noted no transactions entered into by BEI during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

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

- Management's estimate of depreciation is based on the estimated useful lives of the buildings, leasehold improvements, equipment, and furniture. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

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

- The disclosures of the Master Management Agreement in Note 5 and various Assigned Functions under that Master Management Agreement in Notes 6 to 8.

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

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

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

Management representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2018.

Management consultations with other independent accountants

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

Significant issues discussed with management prior to engagement

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

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the Schedules I to X (collectively, the supplementary information) accompanying the financial statements, on which we were engagements to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated September 10, 2018.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the board of directors and management of UWF Business Enterprises, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Orlando, Florida
September 10, 2018

Action Item

**UWF Board of Trustees Meeting
Audit & Compliance Committee
November 1, 2018**

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

Proposed action: Acceptance

Background information:

Pursuant to Florida Statute 1004.28¹, BOG Regulation BOG-9.011(4)² and the agreement between UWF and West Florida Historic Trust, Inc. affiliated entities (aka Direct Support Organizations) must be certified annually by the University of West Florida. West Florida Historic Preservation, Inc. (dba UWF Historic Trust) is such an entity and has been audited for the fiscal year ending June 30, 2018.

Agreement provision between UWF and WFHPI: Section 13 of the agreement between the University of West Florida and the West Florida Historic Preservation, Inc., (WFHPI), dated July 1, 2001, requires UWF shall certify on an annual basis, after consideration of the information provided by the Corporation (WFHPI) that the corporation is complying with the terms of this agreement and in a manner consistent with the goals and purposes of UWF and in the best interest of the State. Such certification shall be made annually and reported in the minutes of the meeting of the Board of Trustees of UWF.

Results:

To ensure compliance with the agreement, the Interim Director of Internal Auditing & Management Consulting performed a cursory review of the documents and determined the West Florida Historic Trust met the requirements.

The West Florida Historic Trust received a clean unqualified opinion. The audit was performed in accordance with auditing standards generally accepted in the United States and in accordance to *Government Auditing Standards*. The audit report did not identify any material weaknesses in the internal control system. Additionally, no instances of non-compliance were reported.

Financial Highlights:

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."

Overall the financial results were comparable to the prior year. The increase in capital assets of approximately \$683,000 related primarily to various grant related projects. In 2017 the UWF Foundation transferred ownership of the Pensacola Museum of Art collection to the West Florida Historic Trust at an appraised value of \$642,465. This was a nonrecurring donation and therefore a decrease in donated collection revenues for the current year was noted.

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 documents:

- Audit Communication Letter for the West Florida Historic Trust, Inc. June 30, 2018
- Financial Statement Audit Report for the West Florida Historic Trust, Inc., for fiscal year ending June 30, 2018

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

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

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST**

**(A COMPONENT UNIT OF
THE UNIVERSITY OF WEST FLORIDA)**

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST**

(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)

PENSACOLA, FLORIDA

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Pensacola, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the entity-wide activities of West Florida Historic Preservation, Inc. d/b/a University of West Florida Historic Trust ("the Trust"), (a component unit of the University of West Florida), which collectively comprise the statements of net position and governmental fund balance sheets as of June 30, 2018 and 2017, and the related statements of activities and governmental fund revenues, expenditures, and changes in fund balance/net position 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 risk 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors
West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Pensacola, Florida

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the governmental activities and the entity-wide activities of the Trust as of June 30, 2018 and 2017, and the changes in financial position for the years then ended in accordance 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 3-5 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2018, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



Pensacola, Florida
August 24, 2018

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

The following is a narrative overview and analysis of the West Florida Historic Preservation, Inc. d/b/a University of West Florida Historic Trust's ("the Trust") significant financial activities for the fiscal year ended June 30, 2018.

Operational Highlights

- We applied for and received an Impact 100 grant of \$107,000 for the construction of the Rose Garden Storytelling Circle. This was a project identified in our 2016 Interpretive Master Plan. The project was completed ahead of schedule and opened in conjunction with our annual Open House on June 2, 2018.
- We continued to merge the Pensacola Museum of Art's operation and budget with that of the UWF Historic Trust.
- We ended our agreement with Great Southern Restaurant Group for their assistance with promoting, booking and staffing events at the Barkley House, Old Christ Church and Foundation Park.
- We worked with the University's Innovation Institute to bring the Sea3D printing lab into the Museum of Commerce and the offices for Sea3D into the Old Christ Church Parish Schoolhouse. This partnership has helped strengthen ties with the University's academic programs as well as added to our offerings for our visitors.
- We worked to complete the designs of the Education Pavilion and Early Learning Playground that met our needs as well as the expectations of the donors, while protecting the archaeological resources and keeping the cost within our projected budget lines. Work is currently moving ahead and is set for completion in November of 2018.
- We installed large Maritime themed murals on the side of the Voices of Pensacola building and on the Main street side of the Museum of Commerce. This project was aligned with our Interpretive Master Plan goals and greatly improves the appearance of our site. This project was funded in part by a grant awarded by the State of Florida's Division of Historical Resources.
- We completed the renovations to the Simpson House, a property adjacent to our Arcadia Mill site, utilizing grant funding awarded by the State of Florida's Division of Historical resources. The site is planned for a March 2019 opening following installation of the exhibition and programming pieces.
- We have had an increase in overall site visitation of 3% this fiscal year. Short-term rental income is up 29%, ticket sales are up 6%, memberships are down 27%, and museum store sales are up 29%. Overall, our numbers are strong and continued to rise with the exception of memberships, which suffered as we focused on growth in other areas.
- We leased the Seale building, 232 East Main Street. This building has been vacant and in need of repair for close to two decades. It is now generating lease income.

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Trust's basic financial statements. They are: 1) entity-wide and governmental fund financial statements and 2) notes to the financial statements.

Entity-wide financial statements are designed to provide readers with a broad overview of the Trust finances in a manner similar to a private-sector business. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found starting on page 8 of this report.

Summary of Financial Condition

**West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Net Position**

	2018	2017
Total assets, excluding capital assets	\$ 1,958,268	\$ 2,205,473
Capital assets	<u>5,141,184</u>	<u>5,071,904</u>
 Total assets	<u><u>\$ 7,099,452</u></u>	<u><u>\$ 7,277,377</u></u>
 Current liabilities	<u><u>\$ 47,386</u></u>	<u><u>\$ 164,522</u></u>
 Invested in capital assets	5,141,184	5,071,904
Reserved	144,211	144,071
Designated	38,542	38,465
PMA designated	112,802	204,594
Undesignated	<u>1,615,327</u>	<u>1,653,821</u>
 Total fund balance/net position	<u><u>7,052,066</u></u>	<u><u>7,112,855</u></u>
 Total liabilities and net position	<u><u>\$ 7,099,452</u></u>	<u><u>\$ 7,277,377</u></u>

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

Summary of Financial Condition (Continued)

**West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Revenues, Expenses, and Changes in Net Position**

	2018	2017
Program revenues	\$ 1,105,356	\$ 1,092,764
Donated collection	-	642,465
General revenues	131,681	457,146
Total revenues	<u>1,237,037</u>	<u>2,192,375</u>
Historic Pensacola Village and museum activities	65,247	61,384
Historic preservation and education programs	198,364	165,132
Pensacola Museum of Art	336,521	389,834
Donated collection	-	642,465
Management and general	378,766	336,903
Depreciation	318,928	241,299
Total expenditures/expenses	<u>1,297,826</u>	<u>1,837,017</u>
Change in net position	<u>\$ (60,789)</u>	<u>\$ 355,358</u>

Capital Assets

The Trust's investment in capital assets totaled \$5,141,184 (net of accumulated depreciation of \$1,405,377). Capital assets include land, buildings and improvements, and furniture, fixtures and equipment.

Economic Factors

Budgetary constraints of state and local governments can affect the Trust's funding.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the following address:

West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Attn: Executive Director
P.O. Box 12866
Pensacola, FL 32591-2866

**WEST FLORIDA HISTORIC PRESERVATION, INC.
DBA UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
STATEMENTS OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEETS
JUNE 30, 2018 AND 2017**

	2018			2017		
	General Fund	Adjustments (Note 1)	Statement of Net Position	General Fund	Adjustments (Note 1)	Statement of Net Position
Assets:						
Cash	\$ 139,793	\$ -	\$ 139,793	\$ 354,042	\$ -	\$ 354,042
Certificates of deposit	178,852	-	178,852	178,635	-	178,635
Due from UWF Foundation	1,238,296	-	1,238,296	1,336,882	-	1,336,882
Grants and local support receivable	72,346	-	72,346	81,889	-	81,889
Accrued interest receivable	130	-	130	130	-	130
Inventory	116,645	-	116,645	118,126	-	118,126
Prepaid assets	10,290	-	10,290	9,687	-	9,687
Historical properties, antiques and collections	201,082	-	201,082	125,248	-	125,248
Deposits	834	-	834	834	-	834
Capital assets -						
Non-depreciable	-	1,010,660	1,010,660	-	1,299,799	1,299,799
Depreciable, net of accumulated depreciation	-	4,130,524	4,130,524	-	3,772,105	3,772,105
Total Assets	\$ 1,958,268	\$ 5,141,184	\$ 7,099,452	\$ 2,205,473	\$ 5,071,904	\$ 7,277,377
Liabilities:						
Accounts payable	\$ 15,663	\$ -	\$ 15,663	\$ 132,145	\$ -	\$ 132,145
Deferred revenue	31,723	-	31,723	32,377	-	32,377
Total liabilities	47,386	-	47,386	164,522	-	164,522
Fund Balance/Net Position:						
Invested in capital assets	-	5,141,184	5,141,184	-	5,071,904	5,071,904
Nonspendable	328,851	(328,851)	-	253,895	(253,895)	-
Restricted/reserved	144,211	-	144,211	144,071	-	144,071
Assigned/designated	38,542	-	38,542	38,465	-	38,465
PMA assigned/designated	112,802	-	112,802	204,594	-	204,594
Unassigned/undesignated	1,286,476	328,851	1,615,327	1,399,926	253,895	1,653,821
Total fund balance/net position	1,910,882	5,141,184	7,052,066	2,040,951	5,071,904	7,112,855
Total Liabilities and Fund Balance/Net Position	\$ 1,958,268	\$ 5,141,184	\$ 7,099,452	\$ 2,205,473	\$ 5,071,904	\$ 7,277,377

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

WEST FLORIDA HISTORIC PRESERVATION, INC.
DBA UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
STATEMENTS OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE/NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	General Fund	Adjustments (Note 1)	Statement of Activities	General Fund	Adjustments (Note 1)	Statement of Activities
Program Revenues:						
Grants and local support	\$ 499,758	\$ -	\$ 499,758	\$ 505,414	\$ -	\$ 505,414
Donated collection	-	-	-	-	642,465	642,465
Admissions, including tours, Pensacola Museum of Art and school programs	291,557	-	291,557	332,393	-	332,393
Rents and leases	296,362	-	296,362	255,974	-	255,974
Museum store income (expense), net	17,679	-	17,679	(1,017)	-	(1,017)
Total program revenues	1,105,356	-	1,105,356	1,092,764	642,465	1,735,229
General Revenues:						
Interest and dividends	21,514	-	21,514	17,373	-	17,373
Miscellaneous	14,688	-	14,688	28,932	-	28,932
Pensacola Museum of Art BP revenue	-	-	-	226,136	-	226,136
Realized/unrealized gains (losses)	95,479	-	95,479	184,705	-	184,705
Total general revenues	131,681	-	131,681	457,146	-	457,146
Total revenues	1,237,037	-	1,237,037	1,549,910	642,465	2,192,375
Expenditures/Expenses:						
Historic Pensacola Village and museum activities	65,247	-	65,247	61,384	-	61,384
Historic preservation and education programs	198,364	-	198,364	165,132	-	165,132
Pensacola Museum of Art	336,521	-	336,521	389,834	-	389,834
Donated collection	-	-	-	-	642,465	642,465
Management and general	378,766	-	378,766	336,903	-	336,903
Depreciation	-	318,928	318,928	-	241,299	241,299
Capital outlay	388,208	(388,208)	-	666,133	(666,133)	-
Total expenditures/expenses	1,367,106	(69,280)	1,297,826	1,619,386	217,631	1,837,017
Change in fund balance/net position	(130,069)	69,280	(60,789)	(69,476)	424,834	355,358
Fund Balance/Net Position, Beginning of Year	2,040,951	5,071,904	7,112,855	2,110,427	4,647,070	6,757,497
Fund Balance/Net Position, End of Year	\$ 1,910,882	\$ 5,141,184	\$ 7,052,066	\$ 2,040,951	\$ 5,071,904	\$ 7,112,855

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

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

West Florida Historic Preservation, Inc. (“WFHPI”), formerly Historic Pensacola, Inc., was organized as a not-for-profit corporation under Section 266.0018, Florida Statutes, to engage in the restoration and exhibition of historical landmarks in the vicinity of Pensacola, Florida. In 2001, Section 266.0018, Florida Statutes was repealed, at which time the legislature transferred the historic preservation responsibilities to the University of West Florida (“UWF”). On July 1, 2001, WFHPI was designated as a direct support organization of UWF under Section 267.1732, Florida Statutes, in order to assist UWF in carrying out its dual historic preservation and historic preservation education purposes and responsibilities. In November 2013, West Florida Historic Preservation, Inc. changed its name to West Florida Historic Preservation, Inc., d/b/a University of West Florida Historic Trust (“the Trust”).

The general operating authority of the Trust is contained in Section 267.1732, Florida Statutes (Chapter 2001-199, Laws of Florida). The Trust operates under an operating agreement with UWF and is considered a component unit of UWF.

Expenses paid by the Trust to renovate or modify property controlled by UWF and leased by the Trust are capitalized and reflected in buildings and improvements in these financial statements. The Trust assists UWF in operating, preserving and maintaining various historical properties owned by the State of Florida and controlled by UWF. Certain expenses related to these activities are directly paid by UWF and are not included in these financial statements. Those expenses, which are not reflected in these financial statements, are as follows:

	<u>2018</u>	<u>2017</u>
Telephone	\$ 7,950	\$ 8,084
Operating supplies	17,750	29,553
Office equipment rental	9,574	12,399
Electricity	173,456	164,428
Natural gas	-	25,308
Other utilities	102,007	61,823
Repairs and maintenance	30,882	114,569
Equipment	22,336	42,599
Contractual services	32,772	23,847
Professional services	18,368	74,162
Security	19,449	16,994
Insurance	11,175	10,088
Other	7,432	7,209
 Totals	 <u>\$ 453,151</u>	 <u>\$ 591,063</u>

**WEST FLORIDA HISTORIC PRESERVATION, INC.
D/B/A UNIVERSITY OF WEST FLORIDA HISTORIC TRUST
(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization and Purpose (Continued):

Salaries of UWF employees who staff the Trust are paid directly by UWF. These in-kind salaries amounted to \$1,391,064 and \$1,364,941 for the years ended June 30, 2018 and 2017, respectively, and are not reflected in the books of the Trust. Additionally, UWF donates office space in the Bowden Building located at 120 Church Street in downtown Pensacola, Florida to the Trust. Management estimates the fair value of this donated office space to be \$178,304 for the years ended June 30, 2018 and 2017.

In November 2013, the Trust entered into a Memorandum of Understanding (“MOU”) with the University of West Florida Foundation (“UWFF”), a direct service organization of UWF, where all membership income is handled and recorded by UWFF. Membership income held by UWFF amounted to \$33,250 and \$47,573 as of June 30, 2018 and 2017, respectively.

Each state university board of trustees is authorized to permit the use of property, facilities, and personal services at any state university by any university direct support organization per Section 1004.28, Florida Statutes. Administrative and fiscal services, office space, and other miscellaneous support services are provided to UWF direct support organizations by UWF at no cost. Estimated fair values are recorded if determinable. No value is assigned to administrative and fiscal services in the accompanying statements of activities and governmental fund revenues, expenditures, and changes in fund balance/net position, since there is no objective basis for determining the value.

Pensacola Museum of Art:

On July 1, 2016, the assets of the Pensacola Museum of Art (“PMA”), an independent not-for-profit corporation, became part of UWF. On that date, UWFF was gifted a historic building, land, a fine arts collection, furniture and equipment, cash and cash equivalents, a permanent endowment, and other current assets from the dissolving entity totaling approximately \$4.2 million. UWFF transferred the historic building and land to UWF and the fine arts collection, furniture and equipment, and all other assets were transferred to the Trust, with the exception of the permanent endowment. The Trust maintains a management agreement with UWF covering the preservation of historic properties for UWF. UWFF will continue to steward the endowment for purposes of the PMA, now a division of the Trust. The new PMA division has a non-governing advisory board that reports to the Trust’s board of directors. Under the agreement, UWFF will handle all and record all membership income for the PMA. PMA membership income held by UWFF amounted to \$26,359 and \$27,865 as of June 30, 2018 and 2017, respectively.

**WEST FLORIDA HISTORIC PRESERVATION, INC.
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JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation:

These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (“GASB”). The Trust utilizes the following fund type:

- General Fund, a governmental fund, is used to account for all revenues and expenditures applicable to the general operations of the Trust that are not required either legally or by accounting principles generally accepted in the United States of America (“GAAP”) to be accounted for in another fund.

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statements of net position and governmental fund balance sheets and the statements of activities and governmental fund revenues, expenditures, and changes in fund balance/net position) report information on all of the activities of the Trust. Governments typically report activities as either governmental activities, which are supported by grants and other intergovernmental revenues, or business-type activities, which rely to a significant extent on fees and charges for support. The Trust reports its activities as governmental activities.

Because the Trust reports only governmental activities and only one program, it is considered to be a special-purpose government for financial reporting purposes under GAAP. As such, the government-wide financial statements are presented together with the governmental fund financial statements with an adjustment column presented to reconcile the two sets of statements.

The Trust has one governmental fund type, which is the General Fund. The General Fund is used to account for all resources and operations. Governmental funds are accounted for on a “spending” or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds:

The General Fund is accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; that is, when they are measureable and available. Measureable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when the related liability is incurred. Primary revenues consist of charges for services, licenses, and permits. All of these revenues are susceptible to accrual.

Use of Estimates:

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

Inventory:

Inventory consists of merchandise held for resale in the museum gift shops. Inventory is stated at lower of cost or market and is accounted for under the first-in, first-out method.

Capital Assets:

Property and equipment are recorded at cost. Donated capital assets are recorded at their estimated fair market value on the date of contribution. Expenditures which equal or exceed \$5,000 that materially increase values, change capacities, or extend useful lives are capitalized. Repairs and maintenance costs are charged to operations when incurred.

Depreciation is computed using the straight-line method. Estimated useful lives of property and equipment range as follows:

Buildings and improvements	10 - 40 years
Furniture, fixtures and equipment	5 - 10 years

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JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Historical Properties, Antiques, and Collections:

Purchased historical properties, antiques, and collections that are held for educational and curatorial purposes are recorded at cost. Donated items are not capitalized but are recorded both as revenue and expense in the government-wide statement of activities. Whether purchased or donated, each item is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously.

Historical properties, antiques, and collections are acquired for purposes of preservation and display. Management considers these items to be historically significant and should be preserved perpetually. Accordingly, depreciation is not recorded for these items.

Program Revenue:

Program revenue from local governments and government grants is recorded based upon the terms of the grantor allotment which generally provides that revenue is earned when the allowable costs of the specific grant provisions have been incurred or the performance of the services has been rendered. Such revenue is subject to audit by the grantor. If the examination results in a deficiency of allowable expenses, the Trust will be required to refund any deficiencies.

Income Taxes:

The Trust is exempt from federal income taxes under Internal Revenue Service Code Section 501(c)(3). As a result, there is no provision for taxes in the accompanying financial statements.

Donated Services, Materials, and Facilities:

The Trust receives donated services from a variety of unpaid volunteers assisting in the museum and education programs. No amounts have been recognized in the accompanying statements of activities for these donated services.

As discussed previously, UWF pays certain expenses and donates office space to the Trust.

**WEST FLORIDA HISTORIC PRESERVATION, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adjustments Between Governmental Fund Balance Sheets and Statements of Net Position:

Capital assets are not financial resources and therefore are not reported in the governmental fund. Adjustment is made to include capital assets in the entity-wide statements of net position.

Designations of net position are considered to be an internal constraint on resources and, therefore, are not reported in the entity-wide statements of net position. Adjustment is made to remove designations of net position from the entity-wide statements of net position.

Adjustments Between Governmental Fund Statements of Revenue, Expenditures, and Changes in Fund Balances and Statements of Activities:

Because capital assets are not reported in the governmental fund, no depreciation is recognized in the governmental fund statements of revenues, expenditures, and changes in fund balances. Instead, capital outlays are reported as expenditures. Adjustment is made to include depreciation expense and remove capital outlays in the entity-wide statements of activities.

Donated collections do not increase net position in the statements of activities and accordingly, do not appear in the governmental fund because they are not financial resources. Adjustment is made to include donated collections as both revenue and expense in the entity-wide statements of activities.

Reclassifications:

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Trust's deposits and investments consist of demand deposits and certificates of deposit. The carrying amount of the Trust's deposits and investments at June 30, 2018 and 2017 was \$317,010 and \$531,042, respectively, and the bank balance was \$354,195 and \$529,710, respectively. The Trust's cash balances held by financial institutions are insured by the Federal Deposit Insurance Corporation up to certain limits.

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NOTE 3 - DUE FROM UWF FOUNDATION

In March 2013, the Trust entered into a Memorandum of Understanding (“MOU”) with the University of West Florida Foundation (“UWFF”), a direct service organization of UWF, where the Trust may transfer current cash assets to UWFF to invest on the Trust’s behalf. These funds are invested as a Quasi-Endowment with UWFF and will be part of the overall investment pool subject to spending and investment policies of UWFF as agreed to in the MOU. The Trust’s investment with UWFF amounted to \$1,238,296 and \$1,336,882 at June 30, 2018 and 2017, respectively.

NOTE 4 - CAPITAL ASSETS

Capital assets consist of the following:

June 30, 2018:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Historic Pensacola Village</u>				
Land	\$ 1,010,660	\$ -	\$ -	\$ 1,010,660
Buildings and improvements	4,358,263	683,006	(6,932)	5,034,337
Furniture, fixtures and equipment	23,959	-	(14,043)	9,916
Construction in process	289,139	-	(289,139)	-
<u>Barkley House</u>				
Furniture, fixtures and equipment	14,003	3,486	-	17,489
<u>Pensacola Museum of Art</u>				
Furniture, fixtures and equipment	25,001	-	-	25,001
<u>General and Administrative</u>				
Furniture, fixtures and equipment	461,265	-	(12,107)	449,158
	<u>6,182,290</u>	<u>686,492</u>	<u>(322,221)</u>	<u>6,546,561</u>
Less accumulated depreciation	<u>1,110,386</u>	<u>318,928</u>	<u>(23,937)</u>	<u>1,405,377</u>
	<u>\$ 5,071,904</u>	<u>\$ 367,564</u>	<u>\$ (298,284)</u>	<u>\$ 5,141,184</u>

**WEST FLORIDA HISTORIC PRESERVATION, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 - CAPITAL ASSETS (Continued)

June 30, 2017:	Beginning Balance	Increases	Decreases	Ending Balance
<u>Historic Pensacola Village</u>				
Land	\$ 1,010,660	\$ -	\$ -	\$ 1,010,660
Buildings and improvements	3,866,007	492,256	-	4,358,263
Furniture, fixtures and equipment	23,959	-	-	23,959
Construction in process	140,263	289,139	(140,263)	289,139
<u>Barkley House</u>				
Furniture, fixtures and equipment	14,003	-	-	14,003
<u>Pensacola Museum of Art</u>				
Furniture, fixtures and equipment	-	25,001	-	25,001
<u>General and Administrative</u>				
Furniture, fixtures and equipment	461,265	-	-	461,265
	<u>5,516,157</u>	<u>806,396</u>	<u>(140,263)</u>	<u>6,182,290</u>
Less accumulated depreciation	<u>869,087</u>	<u>241,299</u>	<u>-</u>	<u>1,110,386</u>
	<u><u>\$ 4,647,070</u></u>	<u><u>\$ 565,097</u></u>	<u><u>\$ (140,263)</u></u>	<u><u>\$ 5,071,904</u></u>

Depreciation expense was \$318,928 and \$241,299 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5 - DEFERRED REVENUE

Rental revenue is considered earned when the event has occurred or the performance of the services has been rendered. Amounts received by the Trust in advance of the date of the event or performance of services are recorded as deferred revenue until the event has occurred or services are rendered.

Total deferred revenue amounted to \$31,723 and \$32,377 at June 30, 2018 and 2017, respectively.

**WEST FLORIDA HISTORIC PRESERVATION, INC.
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JUNE 30, 2018 AND 2017**

NOTE 6 - FUND BALANCE/NET POSITION

In the financial statements, fund balances/net position are classified as follows:

Nonspendable Fund Balance:

Nonspendable fund balance represents amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. Nonspendable fund balances as of June 30, 2018 and 2017 are presented as follows:

	<u>2018</u>	<u>2017</u>
Nonspendable -		
Inventory	\$ 116,645	\$ 118,126
Prepaid assets and deposits	11,124	10,521
Historical properties, antiques and collections	<u>201,082</u>	<u>125,248</u>
	<u>\$ 328,851</u>	<u>\$ 253,895</u>

Restricted Fund Balance / Reserved Net Position:

Restricted fund balance or reserved net position represent amounts that can be spent only for specific purposes required by law or other externally imposed conditions by grantors or creditors. Restricted fund balances/reserved net position as of June 30, 2018 and 2017 are presented as follows:

	<u>2018</u>	<u>2017</u>
Restricted -		
Old Christ Church fund	\$ 140,311	\$ 140,171
Donations and memorials	<u>3,900</u>	<u>3,900</u>
	<u>\$ 144,211</u>	<u>\$ 144,071</u>

**WEST FLORIDA HISTORIC PRESERVATION, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 - FUND BALANCE/NET POSITION (Continued)

Assigned Fund Balance / Designated Net Position:

Assigned fund balance or designated net position represent amounts that are designated by the Board of Directors, under authorization governed in the Trust's By-Laws, for a particular purpose but not spendable until a majority vote of approval by the Board of Directors. The assigned fund balance/designated net position of \$38,542 and \$38,465 as of June 30, 2018 and 2017, respectively, represents the remaining cash balance in the Veal Education Fund.

PMA assigned fund balance or designated net position represents amounts that are designated by the Board of Directors but are not spendable until a majority vote of approval. In 2017, the Pensacola Museum of Art received a BP claim and the Board of Directors approved to designate these funds for future purchases of art work and collections to be held at the museum. The assigned fund balance/designated net position of \$112,802 and \$204,594 as of June 30, 2018 and 2017, respectively, represents the remaining designated BP funds.

Use of Restricted Resources:

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Trust's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Trust's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications, committed and then assigned fund balances, if any, before using unassigned fund balances.

NOTE 7 - DONATED COLLECTION

During the year ended June 30, 2017, the UWFF transferred ownership of the Pensacola Museum of Art collection to the Trust. The collection's value was appraised at \$642,465 at the time of the donation. In accordance with the Trust's policy for donated collections, this collection was not capitalized but recorded as revenue and expense in the government-wide statement of activities.

**WEST FLORIDA HISTORIC PRESERVATION, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Dependency on Government Support:

The Trust receives a substantial amount of support from UWF, and state and local government agencies. A reduction in the level of future support from these entities could have a substantial effect on the Trust's programs and activities.

UWF Agreement:

As discussed in Note 1, the Trust is committed to assist UWF under an operating agreement which extends for an indefinite term.

NOTE 9 - RISK MANAGEMENT

The Trust is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Trust is insured for these risks. There were no insurance losses related to these risks in excess of insurance coverage in any of the three prior fiscal years. The Trust is not aware of any liabilities related to these risks as of June 30, 2018.

OTHER REPORTS

**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**

Board of Directors
West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Pensacola, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Florida Historic Preservation, Inc., d/b/a University of West Florida Historic Trust (“the Trust”), (a component unit of the University of West Florida), which comprise the statement of net position and governmental fund balance sheet as of June 30, 2018, and the related statement of activities and governmental fund revenues, expenditures, and changes in fund balance/net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust’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 the Trust’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors
West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
Pensacola, Florida

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust'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 *Governmental 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 Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Pensacola, Florida
August 24, 2018

To the Board of Directors
West Florida Historic Preservation, Inc.
d/b/a University of West Florida Historic Trust
120 Church Street
Pensacola, FL 32501

We have audited the financial statements of the governmental activities and the entity-wide activities of West Florida Historic Preservation, Inc., d/b/a University of West Florida Historic Trust (“the Trust”) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Governmental Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 10, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Trust are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2018. We noted no transactions entered into by the Trust during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management’s estimate of depreciation expense is based on estimated useful lives of underlying capital assets. Management’s estimate of the donated collection is based on the estimated fair market value of the collection at the time of donation. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 24, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Very truly yours,



Pensacola, Florida
August 24, 2018

Informational Item

UWF Board of Trustees Meeting
Audit & Compliance Committee
November 1, 2018

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

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

1. Status of audits in process
2. Status of advisory/consulting activities
3. Miscellaneous items

Recommendation: Information only
Implementation: None
Fiscal Implications: Fiscal oversight by the UWF Board of Trustees

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

**UWF Board of Trustees Meeting
Audit & Compliance Committee
November 1, 2018**

Issue/Agenda Recommendation: Compliance and Ethics – Update on Activities

Proposed Action: Informational

Background Information: To provide the Committee with an overview of activities within Compliance & Ethics

1. Status of Higher Education Opportunity Act (HEOA) Public Disclosures Compliance
2. Status of General Data Protection Regulation (GDPR) Compliance
3. Status of UWF Compliance Gap Analysis Initiative
4. Status of Integrity Helpline Fall Awareness Campaign

Implementation Plan: N/A

Fiscal Implications: N/A

Supporting documents: N/A

Prepared by: Matthew Packard, Chief Compliance Officer, 850.857.6070, mpackard@uwf.edu

Facilitator/Presenter: Matthew Packard, Chief Compliance Officer