

**UWF BUSINESS ENTERPRISES, INC.**

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

**PENSACOLA, FLORIDA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**PENSACOLA, FLORIDA**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 period October 18, 2011 through June 30, 2012, which collectively comprise BEI's basic financial statements as listed in the table of contents. These financial statements are the responsibility of BEI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of BEI as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the period October 18, 2011 through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
UWF Business Enterprises, Inc.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.



Pensacola, Florida  
October 26, 2012

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2012**

This section of UWF Business Enterprises, Inc.'s ("BEI") annual financial report presents our discussion and analysis of the financial performance of BEI during the period October 18, 2011 through June 30, 2012. This discussion has been prepared by management.

A comparative analysis will be provided in future years when prior year information is available.

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 7 through 9.

### **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 not-for-profit 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.

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.

### **Operational Highlights**

The President of the University gave approval, per the Master Management Agreement between the University and BEI, for Dining Services to become an assigned function of BEI on June 11, 2012.

On June 22, 2012, BEI entered into an agreement with a vendor to be the food service provider for all retail dining and catering food services at the University's main campus, catering and event services for the University's buildings in the downtown historic district, and concession service at athletic, recreational and special events at the University's main campus. The contract will generate revenue to leverage BEI projects for campus enhancements.

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2012**  
**(Continued)**

On June 29, 2012, BEI purchased Scenic Hills Golf Course ("SHGC") in Pensacola, Florida, located adjacent to the University's main campus, for \$2.2 million (appraised for \$2.7 million). BEI assumed operations on July 1, 2012. The purchase provides the University access to first-class athletic facilities, which will be the face of the University's golf program, and will enhance experiential education for the University's students in the hospitality, sports management, exercise science, athletics, recreation, business, and finance programs and other academic units. Twenty percent of the net profit each year will be allocated for the University's faculty development.

The UWF Foundation, Inc. transferred a building with an appraised value of \$238,000 to BEI on June 25, 2012.

Subsequent to June 30, 2012, the CEO of BEI resigned from his position with the University and cited February 2, 2013, as his last day. The University will appoint an interim while taking time to contemplate a permanent replacement. The University has indicated they will continue with BEI's initiatives, as appropriate.

### **Overview of the Financial Statements**

The 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, 2012.

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

The statement of activities presents information showing how BEI's net assets changed during the most recent period. All changes in net assets 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 October 18, 2011 through June 30, 2012. 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 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.

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2012**  
**(Continued)**

**Summary of Financial Condition**

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

**BEI's Condensed Statement of Net Assets**

	2012
<b>Assets</b>	
Total assets, excluding capital assets	\$ 1,023,328
Capital assets	2,576,697
Total assets	\$ 3,600,025
<b>Liabilities</b>	
Current liabilities, including current portion of long-term debt	\$ 1,242,082
Long-term liabilities, net of current portion	2,139,129
Total liabilities	3,381,211
<b>Net Assets</b>	
Invested in capital assets, net of related debt	1,476,697
Unrestricted	(1,257,883)
Total net assets	218,814
Total liabilities and net assets	\$ 3,600,025

**BEI's Condensed Statement of Changes in Net Assets**

<b>Operating Expenses</b>	\$ 19,186
<b>Nonoperating Revenues</b>	238,000
Change in total net assets	\$ 218,814

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2012**  
**(Continued)**

**Financial Highlights**

SHGC was purchased by BEI 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 the third year. The \$1.1 million cash spent to purchase SHGC was from a signing incentive paid to BEI from a vendor as part of the dining and event services agreement. The \$1.1 million signing bonus will be amortized over 237 months.

In addition, \$1 million was paid to BEI from a vendor upon the signing of the dining and event services agreement as an advance commission payment.

**Capital Assets**

BEI's capital assets as of June 30, 2012 amounted to \$2,576,697. This includes land, buildings, course improvements, maintenance equipment, furniture and fixtures, and office equipment.

**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 10 Room 118  
Pensacola, FL 32514



**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

**ASSETS**

<b>Current Assets:</b>	
Cash	\$ 881,614
Accounts receivable	14,110
Inventory	92,498
Prepaid expenses	4,870
Total current assets	993,092
 <b>Capital Assets</b>	 2,576,697
 <b>Other Assets:</b>	
Loan costs	30,236
	\$ 3,600,025

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>	
Accounts payable	\$ 42,948
Accrued liabilities	53,952
Unearned commission income	1,000,000
Current portion of deferred revenue	41,769
Current portion of sublease liability	66,153
Current portion of note payable	37,260
Total current liabilities	1,242,082
 <b>Long-Term Liabilities:</b>	
Deferred revenue, less current portion	1,058,231
Sublease liability, less current portion	18,158
Note payable, less current portion	1,062,740
Total long-term liabilities	2,139,129
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt	1,476,697
Unrestricted	(1,257,883)
Total net assets	218,814
 <b>Total Liabilities and Net Assets</b>	 \$ 3,600,025

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

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**STATEMENT OF ACTIVITIES**  
**FOR THE PERIOD OCTOBER 18, 2011 THROUGH JUNE 30, 2012**

<b>Operating Expenses:</b>	
Administrative costs	\$ 7,420
Legal expense	3,025
Licenses and fees	2,822
Office expense	4,384
Travel and entertainment	1,535
Total operating expenses	<u>19,186</u>
 <b>Nonoperating Revenues:</b>	
Contributions	<u>238,000</u>
 <b>Change in Net Assets</b>	 218,814
 <b>Net Assets, October 18, 2011</b>	 <u>-</u>
 <b>Net Assets, June 30, 2012</b>	 <u><u>\$ 218,814</u></u>

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

**UWF BUSINESS ENTERPRISES, INC.**  
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**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD OCTOBER 18, 2011 THROUGH JUNE 30, 2012**

**Cash Flows from Operating Activities:**

Cash paid to acquire accounts receivable	\$ (14,110)
Cash received from vendor for advance commission and signing incentive	2,100,000
Cash paid to suppliers for goods and services	<u>(19,654)</u>
Net cash provided by operating activities	<u>2,066,236</u>

**Cash Flows from Capital and Related Financing Activities:**

Acquisition of capital assets	<u>(1,184,622)</u>
Net cash used in capital and financing activities	<u>(1,184,622)</u>

**Net Increase in Cash** 881,614

**Cash, October 18, 2011** -

**Cash, June 30, 2012** \$ 881,614

**Reconciliation of Operating Income to Net Cash**

**Provided by Operations:**

Operating expenses	\$ (19,186)
Adjustments to reconcile operating expenses to net cash provided by operating activities	
Changes in -	
Accounts receivable	(14,110)
Inventory	(92,498)
Prepaid expenses	(4,870)
Accounts payable	42,948
Accrued liabilities	53,952
Unearned commission income	1,000,000
Deferred revenue	<u>1,100,000</u>
Net cash provided by operating activities	<u>\$ 2,066,236</u>

**Supplemental Schedule of Noncash Investing, Capital and Financing Activities:**

Contribution of property and land	<u>\$ 238,000</u>
Long-term debt issued for the purchase of capital assets	<u>\$ 1,069,764</u>
Sublease liability incurred for the rights to capital assets	<u>\$ 84,311</u>

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

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Purpose:*

UWF Business Enterprises, Inc. (“BEI”) was formed in 2011 as a Florida corporation. BEI was organized as a direct support organization of the University of West Florida (the “University”) 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 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 owns an office building located on the University campus and will operate Scenic Hills Golf Course (“SHGC”) effective July 1, 2012. Both properties will be used to support the University’s educational activities.

*Measurement Focus and Financial Statement Presentation:*

The accompanying financial statements of BEI have been prepared in conformity with generally accepted accounting principles (“GAAP”) 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 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 related cash flows.

BEI applies all applicable GASB pronouncements. Additionally, BEI applies pronouncements of the Financial Accounting Standards Board (“FASB”) and its predecessor bodies, issued on or before November 30, 1989, unless those pronouncements contradict or conflict with GASB pronouncements.

*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 certain reported amounts and disclosures. Accordingly, actual results could differ from those amounts.

*Cash and Cash Equivalents:*

BEI considers all cash accounts and any highly liquid investments with original maturities of three months or less to be cash or cash equivalents.

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Accounts Receivable:*

As discussed in Note 2, accounts receivable were assumed as part of the purchase of SHGC. Accounts receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

*Inventory:*

As discussed in Note 2, inventory was assumed as part of the purchase of SHGC. Inventory consists of merchandise held for resale, dining service inventory and maintenance inventory held at SHGC. Inventory is recorded at the lower of cost or market value.

*Capital Assets:*

Property and equipment with useful lives in excess of one year and valued in excess of \$1,000 are capitalized. Purchased property and equipment are stated at cost. Contributed assets are stated at fair market value at the date of receipt.

Future depreciation will be computed using the straight-line method. Estimated useful lives of property and equipment are as follows:

Buildings	40 years
Course improvements	20 years
Maintenance equipment	10 years
Furniture and fixtures	7 years
Office equipment	5 years

*Loan Costs:*

Loan costs will be amortized by the straight-line method over three years, the term of the note payable.

*Unearned Commission Income:*

As discussed in Note 6, BEI received \$1 million in connection with a contract with a food service provider (“vendor”). The unearned commission income will be recognized in revenue as it is earned on a monthly basis. The vendor will not remit additional commission revenue to BEI until commissions have exceeded the \$1 million received by BEI.

**UWF BUSINESS ENTERPRISES, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Operating Revenues and Expenses:*

Operating revenues will be from operations of the golf course and commissions based on sales by vendors for dining services. Dining services is an assigned function of BEI, which means the University assigned BEI to manage and operate the dining services. Operating expenses are costs from general administrative activities for the establishment of initial operations for BEI, which includes professional services, licenses and fees, office supplies, postage/freight, software, and limited travel and entertainment. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*Deferred Revenue:*

As discussed in Note 6, BEI received \$1.1 million as a signing incentive in connection with a contract with a vendor. The signing incentive will be amortized from October 2012 through June 2032.

*Net Assets:*

Equity is classified as net assets and is further classified in the following components:

*Invested in capital assets, net of related debt* - Consists of all capital assets and reduced by outstanding debt that is attributable to the acquisition of those assets.

*Unrestricted* - Consists of all other net assets not included in the above category.

*Income Taxes:*

BEI is a nonprofit organization exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. BEI believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

**NOTE 2 - ACQUISITION OF SCENIC HILLS GOLF COURSE**

On June 29, 2012, BEI purchased Scenic Hills Golf Course located in Pensacola, Florida for \$2.2 million, which was appraised for \$2.7 million. As part of the purchase, BEI assumed \$53,952 of accrued liabilities, which consisted of property tax liability, gift certificates, and event deposits. BEI also assumed \$109,615 of assets, which consisted of petty cash, accounts receivable, inventory, and prepaid expenses.

Under the purchase agreement, the effective date of assuming operations of SHGC was July 1, 2012. The acquisition was funded by cash on hand and a \$1.1 million note payable.

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 3 - CASH**

At June 30, 2012, the carrying amount of BEI's deposits was \$880,214 and the bank balance was \$883,293, all of which was held by a qualified public depository under Chapter 280, Florida Statutes. As such, these deposits are considered to be fully insured.

**NOTE 4 - CAPITAL ASSETS**

Capital assets consist of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ -	\$ 393,162	\$ -	393,162
Buildings	-	1,701,870	-	1,701,870
Course improvements	-	344,808	-	344,808
Maintenance equipment	-	35,712	-	35,712
Furniture and fixtures	-	88,132	-	88,132
Office equipment	-	13,013	-	13,013
	<u>\$ -</u>	<u>\$ 2,576,697</u>	<u>\$ -</u>	<u>\$ 2,576,697</u>

On June 25, 2012, the University of West Florida Foundation, Inc. (the "Foundation"), another direct support organization of the University, transferred a building and land to BEI, with an appraisal value of \$238,000. Due to the acquisition dates of SHGC and the building and land from the Foundation, no depreciation was taken during fiscal year 2012.

**NOTE 5 - LONG-TERM LIABILITIES**

Changes in long-term liabilities were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Deferred revenues	\$ -	\$ 1,100,000	\$ -	\$ 1,100,000	\$ 41,769
Sublease liability	-	84,311	-	84,311	66,153
Note payable	-	1,100,000	-	1,100,000	37,260
	<u>\$ -</u>	<u>\$ 2,284,311</u>	<u>\$ -</u>	<u>\$ 2,284,311</u>	<u>\$ 145,182</u>

**UWF BUSINESS ENTERPRISES, INC.**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF WEST FLORIDA)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 5 - LONG-TERM LIABILITIES (Continued)**

Deferred revenue consists of a signing incentive received in connection with a vendor contract, as discussed in Note 6.

The sublease liability consists of amounts due to the seller of SHGC for equipment leases assumed in connection with the purchase of SHGC. Sublease payments are due as follows:

Year Ending June 30,	Total
2013	\$ 66,153
2014	9,728
2015	4,598
2016	3,832
	<u>\$ 84,311</u>

The note payable consists of a note to a financial institution due in monthly payments of \$6,670 through June 2015 with a balloon payment due in June 2015. The note payable is subject to an interest rate of 3.95% and is secured by real property of SHGC.

Maturities of the note payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 37,260	\$ 42,780	\$ 80,040
2014	38,758	41,282	80,040
2015	1,023,982	39,723	1,063,705
	<u>\$ 1,100,000</u>	<u>\$ 123,785</u>	<u>\$ 1,223,785</u>

**NOTE 6 - MANAGEMENT AGREEMENT WITH THE UNIVERSITY**

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 program or services of the University to BEI. The Agreement requires BEI to use any excess funds to support University operations.



**UWF BUSINESS ENTERPRISES, INC.**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 6 - MANAGEMENT AGREEMENT WITH THE UNIVERSITY (Continued)**

On June 11, 2012, the President of the University granted approval, under the Agreement, for BEI to administer Dining Services and Facilities for the University. BEI has entered into a contract with a vendor who will provide all retail and catering food services on the University's main campus, catering and event services in the University's facilities in the Pensacola historic district and concession services at athletic, recreational and special events at the University's main campus.

The contract with the vendor extends until September 2032 and can be extended for one year periods upon mutual agreement. Either party may terminate this agreement during the contract period due to financial hardship and with proper notice. The vendor has paid a signing incentive of \$1.1 million. Pursuant to the contract, this amount will be amortized from October 2012 to June 2032. The vendor has also agreed to pay BEI an additional \$7,475,000 for capital improvements, the majority of which will be paid between December 2012 and August 2015 and amortized through June 2032.

The contract calls for commissions to be paid to BEI based upon sales by the vendor on a sliding scale from 8.5% on the first \$10 million of sales to 13% for sales in excess of \$14 million. Under the contract, an advance commission payment of \$1 million was paid upon the signing of the contract.

**NOTE 7 - RELATED PARTIES**

BEI reimbursed the University approximately \$122,500 for certain services and costs incurred during the period October 18, 2011 through June 30, 2012. Of this amount, \$100,000 was for the earnest money deposit paid for the acquisition of SHGC.

Pursuant to the Agreement, the University also provided for various expenditures on behalf of BEI. Salaries of University employees who staff BEI are paid directly by the University. These in-kind salaries amounted to approximately \$20,000 for the period ended June 30, 2012, and are not reflected in the books of BEI. Additionally, the University donated various other costs such as office space, meeting space, utilities, furniture and equipment, and supplies to BEI. These additional costs are not reflected in the books of BEI, and BEI has determined that it is impracticable to recognize in-kind contributions and expenditures for these costs as the University has not determined the fair value of such amounts.

**NOTE 8 - RISK MANAGEMENT**

BEI is exposed to various levels of loss including, but not limited to, 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 in the period October 18, 2011 through June 30, 2012. BEI is not aware of any liabilities related to these risks as of June 30, 2012.

## **OTHER REPORT**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
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 period October 18, 2011 through June 30, 2012, which collectively comprise BEI's basic financial statements and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of BEI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered BEI's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BEI's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the BEI's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified a certain deficiency in internal control over financial reporting. 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.

## **2012-1: Fraud Risk Assessment and Monitoring Program**

### *Auditor's Comment:*

We noted that BEI has not developed a formal fraud risk assessment and monitoring program. We recommend that management schedule a periodic meeting with the Board of Directors to discuss the areas in which BEI may be vulnerable to fraud and develop and implement processes to help mitigate these risks as they arise. We additionally recommend that the Board of Directors be advised of BEI's accounting procedures and be involved in the oversight of BEI's fraud risk management program. The Board discussion regarding the assessment of BEI's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatements of the financial statements should be documented in the Board minutes, at least annually.

### *Client's Response:*

BEI plans to schedule a Board of Directors workshop to evaluate risks. The University Internal Auditing & Management Consulting Department will provide assistance with this exercise. The objectives of the workshop will be to identify key risks and to develop the framework for a formal risk assessment program for BEI. BEI will then begin the process of establishing and implementing policies and procedures necessary to mitigate risks.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether BEI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of BEI in a separate letter dated October 26, 2012.

This report is intended solely for the information and use of the Board of Directors and management of UWF Business Enterprises, Inc., others within the entity, and the University of West Florida, and is not intended to be and should not be used by anyone other than these specified parties.



Pensacola, Florida  
October 26, 2012