

FINANCIAL STATEMENTS

**RESEARCH FOUNDATION OF THE
UNIVERSITY OF WEST FLORIDA**

June 30, 2006

CONTENTS

| | <u>Page</u> |
|---|-------------|
| INDEPENDENT AUDITOR'S REPORT | 2 - 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 4 - 6 |
| AUDITED FINANCIAL STATEMENTS | |
| Statement of Net Assets | 7 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets | 8 |
| Statement of Cash Flows | 9 |
| Notes to Financial Statements | 10 - 12 |
| REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 14 - 15 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Research Foundation of the University of West Florida
Pensacola, Florida

We have audited the accompanying financial statements of the Research Foundation of the University of West Florida (the Foundation), a component unit of the University of West Florida, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 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.

As discussed in Note A, the financial statements present only the Research Foundation of the University of West Florida and are not intended to present fairly the financial position of the University of West Florida, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Research Foundation of the University of West Florida as of June 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Foundation implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related GASB pronouncements, as of and for the year ended June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006, on our consideration of Research Foundation of the University of West Florida'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.

The management's discussion and analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brown Thornton Pacenti & Company, P.A.

October 4, 2006

MANAGEMENT DISCUSSION & ANALYSIS

RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

June 30, 2006

This section of the Research Foundation of the University of West Florida's (the Foundation) general purpose external financial statements presents management's discussion and analysis of the Foundation's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the basic financial statements, which follow this section.

General Information

The Foundation was created in December 1995 by action of incorporation in the State of Florida. It was created as a public body corporate and politic in accordance with Chapter 617, Florida Statute (1994). The Foundation has no component units. It is governed by the Florida Statutes, and accordingly, abides by the accounting standards promulgated by the Governmental Accounting Standards Board. A nine-member board of directors designated/elected by the corporation's bylaws governs the Foundation. All board members serve without compensation.

The Foundation's purposes include the promotion and encouragement of, and assistance to, the research activities of faculty, staff, and students of the University of West Florida, through income from contracts, grants, and other sources including, but not limited to, income derived from or related to the development and commercialization of University work products.

Overview of the Financial Statements

This discussion analysis is intended to serve as an introduction to the Foundation's financial statements. A change in accounting principle has created a change in the presentation of the Foundation's basic financial statements. The financial statements for fiscal year ended June 30, 2006, are presented in accordance with governmental accounting standards. The foundation's basic financial statements have been prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. See Note B of the financial statements for a summary of the Foundation's significant accounting policies.

The statement of net assets presents information on the Foundation's assets and liabilities and the difference between the assets and liabilities using accounting methods similar to those used by the private sector companies. This method is a useful way to measure the financial health of the Foundation.

MANAGEMENT DISCUSSION & ANALYSIS

RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

June 30, 2006

Overview of the Financial Statements (Continued)

The statement of revenues, expenses, and changes in fund net assets presents information showing how the Foundation's net assets changed during this fiscal year. All current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash was received or paid.

The statement of cash flows reflects the receipts and payments of cash during the year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Highlights

The only revenue received by the Foundation in fiscal year 2006 was interest of \$51 earned on its operating bank account.

Expenses exceeded revenues by \$22,095, resulting in a corresponding decrease to the net assets of the Foundation. The deficit shown was due to lack of revenues during the fiscal year. The corresponding reduction in net assets was anticipated throughout the budget period.

Financial Analysis

The following condensed information comes from the Foundation's financial statements of the last two years:

| | <u>FY 2006</u> | <u>FY 2005</u> | <u>Change</u> | <u>% of Change</u> |
|-------------|------------------|------------------|--------------------|--------------------|
| Assets | \$ 48,021 | \$ 87,378 | \$ (39,357) | 45% |
| Liabilities | <u>8,446</u> | <u>25,708</u> | <u>(17,262)</u> | 67% |
| Net assets | <u>\$ 39,575</u> | <u>\$ 61,670</u> | <u>\$ (22,095)</u> | 36% |

The change in net assets was due to expenditures exceeding revenues. The reduction of liabilities was due to payments made on accounts payable and accrued expenses when they became due.

MANAGEMENT DISCUSSION & ANALYSIS
RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

June 30, 2006

Condensed Statement of Activities

| | <u>FY 2006</u> | <u>FY 2005</u> | <u>Change</u> | <u>% of Change</u> |
|---------------------------|--------------------|-------------------|--------------------|--------------------|
| Revenues | \$ 51 | \$ 49,343 | \$ (49,292) | 99.9% |
| Expenses | <u>22,146</u> | <u>56,581</u> | <u>(34,435)</u> | 56.5% |
| Decrease in Net assets | <u>\$ (22,095)</u> | <u>\$ (7,238)</u> | <u>\$ (14,857)</u> | |

The decrease in revenues was due to no grant or royalty activity in the Foundation during the year.

Budgetary Highlights

The Foundation's budget for the year ended June 30, 2006 reflected the pause in activity while the Foundation identifies its future mission and objectives. There was very little activity during the fiscal year.

There were no variations to note between the final budget and the actual experience of fiscal year 2006.

Economic Forecast

A decrease in net assets is forecasted for the fiscal year ending June 30, 2007, due to lack of anticipated revenues during the year.

Request for Information

This financial report is designed to provide a general overview of the Foundation's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Dr. Richard S. Podemski, Executive Director of the Research Foundation of the University of West Florida, 11000 University Parkway, Building 56, Room 211, Pensacola, Florida 32514.

STATEMENT OF NET ASSETS

RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

June 30, 2006

| <u>ASSETS</u> | |
|---------------------------------------|-----------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 48,021 |
| Total current assets | \$ 48,021 |
| <u>LIABILITIES</u> | |
| CURRENT LIABILITIES | |
| Accounts payable and accrued expenses | \$ 8,446 |
| Total current liabilities | 8,446 |
| <u>NET ASSETS</u> | |
| Unrestricted net assets | 39,575 |
| Total net assets | \$ 48,021 |

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

Year Ended June 30, 2006

| | | |
|---|----|----------------------|
| Operating revenue | \$ | 51 |
| Operating expenses: | | |
| Advertising | | 497 |
| Commissions | | 9,061 |
| Legal and professional fees | | 6,181 |
| Materials and supplies | | 3,408 |
| Memberships, dues and subscriptions | | 369 |
| Conferences and training | | <u>2,630</u> |
| Total operating expenses | | <u>22,146</u> |
| Operating loss and change in net assets | | (22,095) |
| Net assets at beginning of year | | <u>61,670</u> |
| Net assets at end of year | \$ | <u><u>39,575</u></u> |

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

STATEMENT OF CASH FLOWS
RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA
Year Ended June 30, 2006

| | |
|--|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash payments to suppliers for goods and services | \$ (30,346) |
| Receipt of contributions | 3,016 |
| Receipt of interest on cash | <u>51</u> |
| Net cash used in operating activities | (27,279) |
| Cash and cash equivalents at beginning of year | <u>75,300</u> |
| Cash and cash equivalents at end of year | <u>\$ 48,021</u> |
| RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES: | |
| Operating loss | \$ (22,095) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | |
| Decrease in prepaid commissions | 9,061 |
| Decrease in accounts receivable | 3,016 |
| Decrease in accounts payable and accrued expenses | <u>(17,261)</u> |
| Net cash used in operating activities | <u>\$ (27,279)</u> |

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

NOTES TO FINANCIAL STATEMENTS

RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

NOTE A - DEFINING THE REPORTING ENTITY

The Research Foundation of the University of West Florida (the Foundation) was organized as a Florida not-for-profit corporation in 1995 for scientific and educational purposes for the benefit of the University of West Florida (the University). The Foundation provides for the promotion and encouragement of, and assistance to, the research activities of faculty, staff, and students of the University through income from contracts, grants, and other sources. It also provides a means by which discoveries, inventions, processes, and work products of faculty, staff, and students of the University may be patented, developed, applied, and utilized in order that the results of such research shall be made available to the public. The Foundation is a direct-support organization of the University in accordance with Florida Statutes and is, thereby, authorized to use the property, facilities, and personal services of the University.

The Foundation is a component unit of the University of West Florida for financial reporting purposes.

These financial statements present only the Research Foundation of the University of West Florida and are not intended to present fairly the financial position of the University, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

The Foundation generally recognizes revenues when they are earned, and expenses when they are incurred.

Contributions and grant income are recognized when a donor makes a "promise to give" that is, in substance, unconditional. Donor-restricted contributions are reported as increases in restricted net assets depending on the nature of the restrictions. When a restriction expires, restricted net assets are reclassified to unrestricted net assets.

2. GASB Statement No. 34 - The Foundation implemented the provisions of GASB Statement 34, *Basic Financial Statements - and Management's Discussions and Analysis - for State and Local Governments*, and related GASB pronouncements, as of and for the year ended June 30, 2006. This did not result in any change to the financial statement amounts previously reported.

NOTES TO FINANCIAL STATEMENTS

RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Net Assets - The Foundation reports equity as net assets in three components: "invested in capital assets, net of related debt", "restricted", and "unrestricted". The following explains each:

Invested in capital assets, net of related debt consists of capital assets, including restricted capital assets, reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct or improve those assets. The Foundation had no capital assets net of related debt as of June 30, 2006.

Restricted net assets reports those net assets with limits on their use that are externally imposed (by creditors, grantors, contributors, or the laws and regulations of other governments) or that are imposed by the government's own constitutional provisions or enabling legislation. The Foundation had no restricted net assets as of June 30, 2006.

Unrestricted net assets consists of all net assets that do not meet the definition of either of the other two components.

4. Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with an original maturity when purchased of three months or less to be cash equivalents. The Foundation had no cash equivalents as of June 30, 2006.
5. 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. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.
6. Advertising Costs - Costs for producing and communicating advertising in connection with patents and copyrights are expensed when incurred. Advertising costs of \$ 497 were charged to expense in the year ended June 30, 2006.
7. Application of FASB Pronouncements - The Foundation applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. Additionally, the Foundation applies pronouncements of the Financial Accounting Standards Board and its predecessor bodies unless those pronouncements conflict with or contradict GASB pronouncements.

NOTES TO FINANCIAL STATEMENTS

RESEARCH FOUNDATION OF THE UNIVERSITY OF WEST FLORIDA

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Income Taxes – The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

9. Investments

Interest Rate Risk: As a means of managing its exposure to fair value losses arising from increasing interest rates, the Foundation has a policy that its funds shall not be invested in instruments with more than a two-year maturity.

Credit Risk: For the purpose of generating income, the Foundation's policy permits instruments in the following types of accounts:

- Savings account in state-certified qualified public depositories.
- Certificates of Deposit (CDs) in state-certified qualified public depositories.
- Direct obligations of the U.S. Treasury.
- Interest bearing checking accounts and money market funds

Concentration of Credit Risk: The Foundation places no limit on the amount it may invest in any one of the types of accounts authorized.

NOTE C – RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to individuals, and natural disasters. The Foundation is self-insured for these risks. There have not been any claims in the last three years.

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

**BROWN
THORNTON ♦ PACENTIA
& Company, P.A.**

*Certified Public Accountants
Business & Financial Consultants*

Whit L. Brown Jr., Shareholder
Michael D. Thornton, Shareholder
Jan M. Pacenta, Shareholder
Michael F. Frick, Officer
John R. Dunaway, Officer

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

To the Board of Directors
Research Foundation of the University of West Florida
Pensacola, Florida

We have audited the financial statements of Research Foundation of the University of West Florida, as of and for the year ended June 30, 2006, and have issued our report thereon, dated October 4, 2006. 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

In planning and performing our audit, we considered Research Foundation of the University of West Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Research Foundation of the University of West Florida'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.

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

Brown Thornton Pareda & Company, P.A.

October 4, 2006