

WSRE-TV FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**WSRE TV FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
WSRE-TV Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of WSRE-TV Foundation, Inc., [a 501(c)(3) nonprofit corporation], hereinafter referred to as the Foundation, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Foundation as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through eight be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. The schedule of functional expenses on page 23 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Foundation's internal control over financial reporting and compliance.

Warren Averett, LLC

Pensacola, Florida
July 27, 2018

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

OVERVIEW

This discussion and analysis of WSRE-TV Foundation's ("Foundation") financial statements provides an overview of financial activities for the years ended June 30, 2018 and 2017. Management has prepared the financial statements and the related note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with management.

The Foundation is a Florida not-for-profit corporation formed in 1990 to raise funds and support the activities, operations, and capital needs of WSRE, a public telecommunications entity licensed by the Federal Communications Commission to the District Board of Trustees of Pensacola State College ("College"). The Foundation serves as a direct support organization of the College, as allowable under Florida Statutes, and is financially accountable to the College. In addition to the financial statements presented herein, the Foundation and WSRE also issue combined financial statements for external reporting purposes. The Foundation provides approximately 30% of the total funds required for the annual operation of WSRE, supplementing grants from the State of Florida, the Corporation for Public Broadcasting, and general state appropriations. The discussion and analysis reflects financial activities solely of the Foundation for the fiscal years 2018 and 2017.

Other financial and non-financial considerations that impact the activities of the Foundation, which should be considered by the reader include:

- Trends in federal and state funding provided to the Station for the operation of WSRE.
- National, statewide, and local economic conditions that affect corporate and individual philanthropy.
- Technological change within the broadcasting industry.

HIGHLIGHTS

- During fiscal year 2018, the Foundation continued to provide financial support for locally produced programming such as *Conversations with Jeff Weeks*, *In Your Own Backyard*, *AWARE*, *inStudio*, and *Studio Amped*. Two WSRE productions, "In Your Own Backyard: The Gulf Coast Hot Air Balloon Festival" and "Best of Studio Amped: Volume 2" were awarded the bronze Telly Award for excellence in video and television production.
- A significant new documentary was produced and premiered in June 2016 – "They Were Our Fathers", which recounts stories of adult children of fathers who were lost in the Vietnam War. Promotion and viewing for this documentary continued through the current fiscal year. PBS channels aired "They Were Our Fathers" in conjunction with Memorial Day programming in 2018.
- WSRE continued to offer the 24/7 PBS Kids channel added in 2017 within its programming. This channel supplements the children's programming offered on the main channel and is utilized at the Imagination Station to provide exposure to the educational programming for visiting parents and children.
- During 2018, WSRE implemented the WSRE Passport program, which provides access to an on-demand library of public television programming to members.

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

- Revenue generation continued to be diversified among several sources: annual memberships, major gifts, and donations, special events, television program underwriting and corporate support and program grants. Supplemental income continues to be received for production and uplink services provided to others. Studio related income decreased during 2018 to \$73,000 from \$113,000 in 2017. The Foundation's revenues from donations increased during 2018, with memberships and contributions of \$938,000 up from 2017's \$668,000, due to the receipt of two large bequests totaling approximately \$157,000. WSRE has been fortunate to have and is very appreciative of its strong and consistent support base.
- The Foundation's fundraising events during the year included the 29th annual October Wine & Food Classic celebrating the 50th anniversary of WSRE's existence as a public television station and a spring WSRE PBS Kids & Family Day at Gulfarium Marine Adventure Park on Fort Walton Beach. Total net revenue from these events was \$115,000 in fiscal year 2018.
- During April 2018, the Foundation partnered with The Ounce of Prevention Fund's Prevent Child Abuse Florida chapter to host the first annual Be My Neighbor Day spotlighting the neighborly values of Mister Rogers. The event emphasized early learning and health and safety resources for families through interactive activities centered around PBS children's programming and access to contacts from several local family-focused agencies for information and outreach.
- As part of a grant to promote awareness of PBS programs focused on the Vietnam War, WSRE spearheaded "The Reading of the Names" during the week leading up to Memorial Day 2018. WSRE staff and volunteers, along with hundreds of community volunteers, veterans, and active duty military personnel read aloud each of the more than 58,000 names of Vietnam veteran casualties that are etched on the Vietnam War Memorial. This community remembrance event was held at The Wall South, a local replica of the Vietnam War Memorial.
- As media delivery platforms continue to expand, local high-definition content production remains a high priority for WSRE. Through free, digital over-the-air delivery of four channels and a robust website featuring PBS and WSRE programming, WSRE continues to meet the growing demand for high-quality, relevant, and important local programming. The Foundation will continue to seek grants and donations to continue support for content designed for rapidly changing delivery platforms.

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

- Synovus Trust of Columbus, Georgia is the investment manager for the Foundation's endowment assets. The endowments are composed of a board-designated endowment fund, whose earnings are to be reinvested until the corpus reaches \$1,000,000 at which time the earnings may be used for operations, and a donor-restricted endowment received to support the future technology needs of the Amos Performance Studio. The Foundation's Investment Committee is responsible for the oversight of the management of the portfolio in accordance with the Foundation's investment policy and meets regularly. The investment strategy for the endowment fund is for long-term appreciation of the corpus and reinvestment of earnings to achieve growth over time and provides for a conservative target asset allocation of 65% equity and 35% fixed income and cash. The Foundation also has an individually managed investment account to house operational funds not required for short term liquidity. This account is invested in a "Capital Preservation" strategy with target asset allocation of 80% fixed income and cash and 20% equity. As of June 30, 2018, the portfolio is in compliance with this target allocation. Portfolio holdings are detailed in Note 2.

FINANCIAL STATEMENTS

This report consists of three basic financial statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Foundation's statements are prepared using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector organizations. Under this method, revenues are recognized when earned, and expenses are recognized when incurred, regardless of when cash is received or payments made. The Foundation's statements present consolidated results for three separate self-balancing funds:

- General Operating Fund (used for current year general station operations and activities)
- Board-Designated-Endowment Fund (a board-designated endowment used to reserve funds for future operations)
- Donor Restricted Funds (used to receive and disburse funds received from donors restricted as to time and/or purpose)

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information in a way that helps the reader determine if the Foundation is in a better financial position from one year to the next and allows the reader to analyze the information over long periods of time. In the Statement of Net Position, the difference between assets and liabilities, i.e., net position, is one way to measure the Foundation's financial solvency or health at the close of the fiscal year.

Over time, increases and decreases in the Foundation's net position are one indicator of whether its financial health is improving or deteriorating. It also helps the user see how funds raised in one period may be expended in future periods in accordance with particular restrictions made by donors. The Statement of Revenues, Expenses and Changes in Net Position summarizes the components of these increases and decreases for the year(s) being reported upon. If revenues and other support exceed expenses, the result is an increase in net position. If the reverse occurs, the result is a decrease in net position. The Statement of Cash Flows provides details regarding the sources and uses of cash during the year(s) being reported upon and reconciles the operating net income or expense for the year with the cash received and used for operations.

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, liabilities, and net position of the Foundation as of the end of the fiscal year. Its purpose is to present to the readers of the financial statements a fiscal snapshot of the Foundation at a certain point in time. This statement allows the reader to determine assets available to continue the Foundation's activities in the short term ("current assets") and the long term ("non-current assets") and to ascertain the amounts due to vendors and others that represent claims to those assets.

At June 30, 2018 and 2017, respectively, the percentage of total assets comprised by cash and investments were 92% and 94%. The increase in non-current assets from 2017 to 2018 is attributable to an increase in the investment portfolio of \$144,000 and equipment purchases of \$72,000.

Current liabilities consist of accounts and income taxes payable, and unearned grant support to fund specific projects in future years. While the Foundation is recognized as a tax-exempt organization for federal income tax purposes, corporate income taxes are remitted on uplink and production services provided to others and considered taxable Unrelated Business Income by the IRS.

The difference between assets and liabilities is presented as "Net Position". Net position is divided among three major categories. The first category, invested in capital assets, represents the Foundation's net investment in property and equipment. Restricted net position represents the net funds available from donations restricted by donors for specific time periods or purposes. The final category, unrestricted net position, represents accumulated surpluses from prior years available for any future lawful purpose of the Foundation.

STATEMENTS OF NET POSITION

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS		
Current	\$ 1,087,281	\$ 1,048,288
Noncurrent	<u>2,196,286</u>	<u>1,980,174</u>
TOTAL ASSETS	<u>\$ 3,283,567</u>	<u>\$ 3,028,462</u>
LIABILITIES AND NET POSITION		
Liabilities:		
Current	\$ 97,600	\$ 120,941
NET POSITION		
Invested in capital assets	96,190	23,231
Restricted - expendable	1,206,284	1,137,973
Unrestricted	<u>1,883,493</u>	<u>1,746,317</u>
TOTAL NET POSITION	<u>3,185,967</u>	<u>2,907,521</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,283,567</u>	<u>\$ 3,028,462</u>

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the Foundation, both operating and non-operating, and the expenses incurred by the Foundation, operating and non-operating, and any other revenues, expenses, gains, and losses recognized for the specific fiscal periods noted.

Operating revenues are generated primarily from individual membership pledges and donations, corporate and other underwriting of programs and events, broadcast and production services provided to others, and non-cash ("in-kind") donations from the station and from the public. Operating expenses are incurred to provide operational support to WSRE and acquire or produce goods and services provided in return for operating revenues. Non-operating revenues are revenues received for which goods and services are not provided.

The largest revenue source for the Foundation continues to be from contributions, comprising 62% and 45% of operating revenue for 2018 and 2017, respectively. Remaining operating revenue is comprised of studio production services, in-kind donations from the station and other income.

The overall level of support provided by the Foundation for programs and services expense on behalf of WSRE increased in 2018. During 2018, the Foundation was able to support WSRE's local productions such as *Studio Amped*, *Pensacola State Today*, *In Your Own Backyard*, *AWARE*, *Conversations with Jeff Weeks*, *RALLY*, *inStudio*, and *Legislative Review*. In addition to this support in 2017, the Foundation received proceeds of \$237,000 from the settlement of a prior year claim.

In 2018, the Foundation continued its contribution toward payment of WSRE's annual PBS dues and other program acquisition costs. Contributions toward these expenses in 2018 and 2017 were \$161,000 and \$154,000, respectively. Non-operating revenue includes interest income and dividends and realized and unrealized gains/losses on the Foundation's investment portfolio held with an external investment manager. At June 30, 2018 and 2017, the market values of the Foundation's investments were \$2,059,000 and \$1,915,000 respectively.

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30, 2018	June 30, 2017
OPERATING REVENUE		
Contributions	\$ 938,383	\$ 668,514
Studio related income/contracted services	73,597	113,797
Settlement income	-	237,387
In-kind income and other	489,415	479,380
TOTAL OPERATING REVENUE	1,501,395	1,499,078
OPERATING EXPENSE		
Programming and production	465,207	476,635
Broadcasting	128,238	76,100
Fundraising and development	445,870	405,994
Management and general	330,043	361,425
Total operating expense	1,369,358	1,320,154
NET OPERATING INCOME	132,037	178,924
NON-OPERATING REVENUE (EXPENSE)		
Investment income	35,200	33,067
Net gain on investments	111,209	152,173
Total non-operating revenue	146,409	185,240
INCREASE IN NET POSITION	278,446	364,164
NET POSITION, BEGINNING OF YEAR	2,907,521	2,543,357
NET POSITION, END OF YEAR	\$ 3,185,967	\$ 2,907,521

STATEMENT OF CASH FLOWS

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Foundation during the year. The net change (increase or decrease) in cash is shown for different types of activities:

- Operating cash flows (net cash used by operating activities)
- Investing activities (cash used to purchase investments, cash received from the sale of investments, cash income received and management expenses paid)
- Capital and related financing activities (cash used for the acquisition and construction of capital and related items)

WSRE TV FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2018

This information is consolidated to show the total increase or decrease in Cash for the year as shown on the Statement of Net Position. A reconciliation is provided showing how the Operating Income (Loss) as shown on the Statement of Revenues, Expenses and Changes in Net Position is related to the net cash generated or consumed by operations. The difference between operating income (loss) and net cash provided by (used in) operating activities occurs because of the use of accrual accounting. Income will reflect revenues earned but not collected in cash and expenses incurred but not paid as of the end of the year. Thus, operating income (loss) may be more or less than net cash provided by (used in) operating activities.

The Cash Flow Statement is important to readers because it shows the Foundation's ability to generate cash required for its operations and payment of obligations in a timely fashion. It also provides information as to the decisions made by management as to the use of cash available. Operating cash flows mirror the changes in operating income and expense in the Statement of Revenues, Expenses and Changes in Net Position. Restricted cash represents funds on hand that have been restricted as to use by donors and/or grantors. Unrestricted cash may be used for any lawful purpose of the Foundation.

The increase in cash balances in 2018 is directly related to the increase in contributions received during the year. Cash balance provided by operating activities decreased in 2018 as the prior year amount included the receipt of settlement proceeds.

STATEMENTS OF CASH FLOWS

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 119,221	\$ 227,757
Investing activities	2,085	4,896
Capital related financing activities	<u>(84,469)</u>	<u>(12,512)</u>
Net Increase in cash	36,837	220,141
CASH, BEGINNING OF YEAR	<u>928,717</u>	<u>708,576</u>
CASH, END OF YEAR	<u><u>\$ 965,554</u></u>	<u><u>\$ 928,717</u></u>

FINANCIAL STATEMENTS

**WSRE-TV FOUNDATION, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

ASSETS		
	2018	2017
CURRENT ASSETS		
Cash	\$ 965,554	\$ 928,717
Real estate held for sale	25,000	25,000
Accounts receivable, net	40,883	38,988
Pledges receivable, net	1,543	900
Prepaid expenses	54,301	54,683
Total current assets	1,087,281	1,048,288
NONCURRENT ASSETS		
Pledges receivable, net	41,018	42,189
Investments	2,059,078	1,914,754
Capital assets, net	96,190	23,231
Total noncurrent assets	2,196,286	1,980,174
TOTAL ASSETS	\$ 3,283,567	\$ 3,028,462
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 14,754	\$ 32,693
Accrued tax liability	3,622	640
Unearned revenue	79,224	87,608
Total current liabilities	97,600	120,941
NET POSITION		
Invested in capital assets	96,190	23,231
Restricted - expendable	1,206,284	1,137,973
Unrestricted	1,883,493	1,746,317
TOTAL NET POSITION	3,185,967	2,907,521
TOTAL LIABILITIES AND NET POSITION	\$ 3,283,567	\$ 3,028,462

See notes to the financial statements.

WSRE-TV FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Contributions	\$ 938,383	\$ 668,514
Studio related income/contracted services	73,597	113,797
In-kind income	425,149	415,014
Settlement income	-	237,387
Other operating revenues	<u>64,266</u>	<u>64,366</u>
Total operating revenues	1,501,395	1,499,078
OPERATING EXPENSES		
Programming and production	465,207	476,635
Broadcasting	128,238	76,100
Fundraising and development	445,870	405,994
Management and general	<u>330,043</u>	<u>361,425</u>
Total operating expenses	<u>1,369,358</u>	<u>1,320,154</u>
OPERATING INCOME	132,037	178,924
NON-OPERATING REVENUES (EXPENSES)		
Investment income	35,200	33,067
Net gain on investments	<u>111,209</u>	<u>152,173</u>
Total non-operating revenues	<u>146,409</u>	<u>185,240</u>
NET INCOME	278,446	364,164
NET POSITION, BEGINNING OF YEAR	<u>2,907,521</u>	<u>2,543,357</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,185,967</u></u>	<u><u>\$ 2,907,521</u></u>

See notes to the financial statements.

**WSRE-TV FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from memberships and contributions	\$ 938,911	\$ 677,783
Cash receipts from studio related income/contracted services	40,973	101,969
Cash receipts from settlement income	-	237,387
Cash receipts from other operating revenue	55,882	74,599
Cash payments for operating expenses	<u>(916,545)</u>	<u>(863,981)</u>
Net cash provided by operating activities	119,221	227,757
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(196,581)	(549,451)
Sale of investments	171,143	529,156
Payments for investment management	(7,677)	(7,262)
Interest and dividends received	<u>35,200</u>	<u>32,453</u>
Net cash provided by investing activities	2,085	4,896
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(84,469)</u>	<u>(12,512)</u>
NET INCREASE IN CASH	36,837	220,141
CASH AT BEGINNING OF YEAR	<u>928,717</u>	<u>708,576</u>
CASH AT END OF YEAR	<u>\$ 965,554</u>	<u>\$ 928,717</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 132,037	\$ 179,538
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation	11,510	6,014
Uncollectible accounts receivable	30,729	8,769
Decrease (Increase) in operating assets:		
Accounts receivable	(32,624)	(11,828)
Pledges receivable	528	9,269
Prepaid expenses	382	16,871
Increase (decrease) in operating liabilities:		
Accounts payable	(17,939)	11,232
Accrued tax liability	2,982	(2,341)
Unearned revenue	<u>(8,384)</u>	<u>10,233</u>
Net reconciliation of net operating income to net cash flows from operating activities	<u>\$ 119,221</u>	<u>\$ 227,757</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Taxes	<u>\$ 5,856</u>	<u>\$ 25,029</u>

See notes to the financial statements.

WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The WSRE-TV Foundation, Inc. (the Foundation) was formed in 1990 as a Florida not-for-profit corporation to raise funds and support the activities, operations, and capital needs of WSRE, a public telecommunications entity licensed by the Federal Communications Commission to the District Board of Trustees of Pensacola State College (the College). The Foundation serves as a direct-support organization of the College in accordance with Florida Statutes and benefits from the use of property, facilities, and personnel services of the College and WSRE. The Foundation and WSRE also issue combined financial statements for external reporting purposes.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Presentation and Accounting

The Foundation's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Because the Foundation serves to support the activities of a service of a government-owned college, as permitted by Governmental Accounting Standards Board ("GASB") Statement No. 34, the Foundation elects to use the economic resources measurement focus and the accrual basis of accounting.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments (other than those specifically identified as a component of the Foundation investment portfolio) with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets are recorded at cost, except for donated assets which are recorded at estimated acquisition value at the date of receipt. Assets with a cost of \$5,000 or more are capitalized and depreciated in sufficient amounts to allocate the cost to operations over their estimated service lives on a straight-line basis. Estimated lives used in determining depreciation range from three to 15 years.

Net Position

Net position comprises the various accumulated net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position reflects assets less liabilities for each of the following components:

Invested in capital assets consists of all capital assets, net of accumulated depreciation, and any direct debt related to the assets.

WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position – Continued

Restricted –non-expendable net position includes permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to principal in accordance with the donor’s wishes. The Foundation did not hold any permanent endowments at year end.

Restricted –expendable net position relates to contributions designated by donors for use by particular programs or for specific purposes or functions of the Foundation. They also include funds functioning as endowments, of which the principal can be spent. Income and change in fair market value of endowment investments are classified as restricted-expendable net position unless otherwise specified by the donor. The Amos Endowment is included in this category based on the ability of the Board to expend principal upon affirmative vote of eighty percent of the Board, coupled with the occurrence of unforeseen circumstances.

Unrestricted net position consists of all other items not included in the above categories and includes Board Designated Endowments.

Revenues and Expenses

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the Foundation in support of the mission of WSRE. Operating revenues consist primarily of membership and contribution revenues. Contributions and pledges are recognized as operating revenues in the period received or pledged.

Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available, restricted resources are used first.

Gifts for permanent endowment purposes and other additions of permanently restricted net position are classified under other changes in net position.

Pledges Receivable

Pledges receivable are unconditional promises to make future payments to the Foundation. Pledges meeting the requirements specified by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (“GASB 33”) are included in the financial statements as pledges receivable and recognized in the period pledged. Pledges extending beyond one year are discounted to recognize the present value of the future cash flows. In addition, an allowance for uncollectible pledges is recorded as determined by management.

Conditional pledges, which depend on the occurrence of a specified future or uncertain event such as matching gifts from other donors, plus all pledges for endowment purposes, are recognized when the conditions are substantially met.

WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The Foundation is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. The Foundation is not aware of any uncertain tax positions that would require disclosure or accrual in accordance with generally accepted accounting principles.

Unearned Revenue

Unearned revenue includes amounts received from grants and gifts that have not yet been earned because the Foundation has not met all of the eligibility requirements, primarily time requirements, of the applicable gift or grant.

In-Kind Contributions

Donated services and materials are reflected as both revenue and as an equal amount of expense in the financial statements at the estimated fair value of such contributions.

Advertising

Advertising costs are expensed as incurred and were approximately \$42,000 and \$48,000 for the years ended June 30, 2018 and 2017, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect amounts reported in the financial statements. Actual results could differ from those estimates.

Endowments Policy

Although no permanent endowments existed during the year, the Foundation has policies to follow the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) adopted by the State of Florida in 2012. UPMIFA does not set specific expenditure limits, but allows the Foundation to spend the amount it deems prudent after considering the following factors:

- The duration and preservation of the fund.
- The purpose of the fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Foundation and Station.
- The investment policies of the Foundation.

Functional Allocation of Expenses

The costs of various programs and activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

The Foundation has evaluated events and transactions that occurred between June 30, 2018, and July 27, 2018, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain prior period financial statement amounts have been reclassified to conform to current period presentation.

2. CASH AND INVESTMENTS

The Foundation's investment policy provides guidelines for the investment of Foundation assets. The objectives of the Foundation's policy are to assure the preservation of capital, provide a reasonable rate of return, and to provide liquidity and growth of assets to meet the operational and capital needs of WSRE. Allowable long-term investments include debt and equity securities; allowable short term investments of cash may include overnight repurchase agreements, Florida State Board of Administration (SBA) Florida PRIME investments (an external investment pool), money market funds, and bank-insured certificates of deposit. Prohibited investments include margin or derivative securities, and investments greater than 5% with any one issuer (except for U.S. Government bonds).

Cash

The amount reported as cash and cash equivalents consists of cash on hand, cash in demand accounts, money market funds, the SBA Florida PRIME investment account, and an overnight repurchase agreement. At June 30, 2018 and 2017, the carrying amounts of cash and money market funds held at year end were \$966,000 and \$929,000, respectively. Custodial credit risk is the risk that the Foundation's deposits might not be recovered. The Foundation does not have a deposit policy for custodial credit risk; however, the Foundation has not experienced any losses in its cash and money market fund accounts and believes it is not exposed to any significant risk.

Cash invested with the SBA represents the Foundation's participation in Florida PRIME, which is authorized by Section 218.415(17), Florida Statutes. Florida PRIME operates under investment guidelines established by Section 215.47, Florida Statutes. The Foundation's investments in Florida PRIME are reported at amortized cost. As of June 30, 2018 and 2017, the balance was \$49,000 and \$48,000, respectively. The fair value of the District's position in Florida PRIME is the same as the value of the pool shares.

Since Florida PRIME is similar to money market funds, where shares are owned in the fund rather than the actual underlying investments, disclosures for foreign currency risk are not applicable. In addition, there are no security lending activities for these funds as the Foundation does not own the underlying shares. In accordance with GASB Statement 79, Florida Prime qualifies to measure its investments at amortized cost and management of the pool believes that the pool is exempt from the GASB 72 fair value hierarchy disclosures. As of June 30, 2018, there were no redemption fees, maximum transaction amounts, or other requirements limiting participants' daily access to 100% of their account value.

**WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

2. CASH AND INVESTMENTS – CONTINUED

Cash – Continued

The SBA’s interpretation of GASB Statement No. 40 is that information related to credit risk and interest rate risk are applicable to the SBA accounts as noted below:

Credit Quality:

Florida PRIME is rated by Standard and Poors and carries an AAAM rating for both June 30, 2018 and 2017.

Interest Rate Risk:

The weighted average days to maturity (WAM) of Florida PRIME’s investment portfolio was 51 days at June 30, 2018, and 50 days at June 30, 2017. WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM is relevant as an assessment of the sensitivity of Florida PRIME’s investments to interest rate changes.

Investments

Investments held by the Foundation at June 30, 2018 and 2017, are reported at fair market value as determined by level one inputs (valuation based on directly observable, quoted prices (unadjusted) in active markets for identical assets or liabilities), as shown in the following tables:

2018 - Investment Type	Maturity	Fair Market Value
Federal Government Obligations - Cash Equivalent	N/A	\$ 120,054
Equities:		
Alliance Bernstein Small Cap Growth	N/A	68,582
American EuroPacific Growth Fund	N/A	90,128
Fidelity Small Cap Value Fund	N/A	53,633
Vanguard Developed Markets	N/A	87,743
Oppenheimer Developing Markets Fund	N/A	44,943
Vanguard 500 Index Fund	N/A	754,262
JP Morgan Mid Cap Value Fund	N/A	54,138
Massmutual Select Mid Cap Growth	N/A	58,747
Fixed Income:		
Federated Total Return Bond Fund	Average Maturity 7 years Average quality A-	302,157
Pimco Funds Low Duration	Average duration 4.9 years Average Maturity 2 years Average quality AA	152,995
Dodge and Cox Income Fund	Average duration 1.8 years Average Maturity 8 years Average quality A	271,696
	Average duration 4.4 years	
Total Investments		\$ 2,059,078

WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

2. CASH AND INVESTMENTS – CONTINUED

Investments – (Continued)

<u>2017 - Investment Type</u>	<u>Maturity</u>	<u>Fair Market Value</u>
Federal Government Obligations - Cash Equivalent	N/A	\$ 88,727
Equities:		
Alliance Bernstein Small Cap Growth	N/A	55,670
American EuroPacific Growth Fund	N/A	87,915
Fidelity Small Cap Value Fund	N/A	51,223
Vanguard Developed Markets	N/A	84,640
Oppenheimer Developing Markets Fund	N/A	40,556
Sentinel Common Stock Fund Class	N/A	109,572
Vanguard 500 Index Fund	N/A	566,245
JP Morgan Mid Cap Value Fund	N/A	52,462
Massmutual Select Mid Cap Growth	N/A	55,555
Fixed Income:		
Federated Total Return Bond Fund	Average Maturity 7 years Average quality A-	311,179
Pimco Funds Low Duration	Average duration 4.9 years Average Maturity 2 years Average quality AA	148,785
Dodge and Cox Income Fund	Average duration 1.8 years Average Maturity 8 years Average quality A	262,225
	Average duration 4.2 years	
Total Investments		\$ 1,914,754

Credit Risk

The Foundation holds assets within two separate investment portfolios separated between operating funds and endowment funds. The investment policy guidelines provide for allocations in which equity investments will not exceed 65% for the endowment portfolio and 20% for the operating account. There is a caveat included in the investment policy that allows for up to a 5% deviation from those percentages to allow for market adjustments. The endowment portfolio at June 30, 2018, meets the policy guidelines, with equities representing 66%, fixed income representing 29%, and cash representing 5%. The short-term investment portfolio meets these requirements at June 30, 2018, with 20% in equity investments, 73% in fixed income investments, and 7% in cash.

Concentration of Credit Risk

There were no investments at June 30, 2018 and 2017, in which over 5% of the total investment portfolio derived from one issuer, excluding US government and US government agency-backed securities, investments in mutual funds, and other pooled investment funds.

WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

2. CASH AND INVESTMENTS – CONTINUED

Investments – (Continued)

Interest Rate Risk

The Foundation's fixed income portfolio at June 30, 2018 and 2017, consisted primarily of mutual funds.

Custodial credit risk is the risk that the Foundation will not be able to recover the value of its investments that are in the possession of an outside party if the counterparty fails. The Foundation does not have a policy for custodial credit risk; however, the Foundation has not experienced any losses and believes it is not exposed to any significant risk.

3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Amounts pledged	\$ 51,977	\$ 52,727
Less present value discount	<u>(9,000)</u>	<u>(9,000)</u>
	42,977	43,727
Less allowance for uncollectible pledges	<u>(416)</u>	<u>(638)</u>
	<u>\$ 42,561</u>	<u>\$ 43,089</u>
Amounts due in:		
Less than one year	\$ 1,543	\$ 900
One to five years	367	1,538
Thereafter	<u>40,651</u>	<u>40,651</u>
	<u>\$ 42,561</u>	<u>\$ 43,089</u>

A ten percent allowance for uncollectible pledges has been provided for outstanding pledges from the Foundation's 40th Legacy Society and from the Foundation's EnvisionIt! Campaign, which started during 2011.

**WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

4. CAPITAL ASSETS

Capital assets consist of the following as of and for the years ended June 30, 2018 and 2017:

	2018			
	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and fixtures	\$ 828,804	\$ 84,469	\$ -	\$ 913,273
Accumulated depreciation	805,573	11,510	-	817,083
Capital assets, net	\$ 23,231	\$ 72,959	\$ -	\$ 96,190
	2017			
Furniture and fixtures	\$ 816,292	\$ 12,512	\$ -	\$ 828,804
Accumulated depreciation	799,559	6,014	-	805,573
Capital assets, net	\$ 16,733	\$ 6,498	\$ -	\$ 23,231

5. RELATED PARTY TRANSACTIONS

A portion of certain salaries and expenses of the Foundation are provided by the College. These amounts totaled approximately \$409,000 and \$394,000 for the years ended June 30, 2018 and 2017, respectively.

This support is included as in-kind revenue and distributed to the appropriate operating expense classification.

Contributions made by Board members during 2018 and 2017 were approximately \$62,000 and \$110,000, respectively. Contributions made by employees were approximately \$11,000 and \$8,000, respectively. These funds were for membership and special events.

6. CONCENTRATIONS OF RISK

The Foundation's activities are funded by contributions from individuals and businesses in the Northwest Florida area and by in-kind services and facilities provided by the College. The Foundation's ability to continue to operate at current levels is dependent on continued funding from these sources.

**WSRE-TV FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

7. RISK MANAGEMENT

General liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage.

8. ENDOWMENT FUNDS

The Foundation's endowment funds consist of individual funds established for the support of the future needs of WSRE. They consist of a Board-designated endowment fund (reported as part of unrestricted net position), and a donor-restricted endowment fund established for future technological upgrades to the Jean and Paul Amos Performance Studio (reported as part of restricted-expendable net position). The Foundation does not have any true permanent endowment funds.

The following depicts the activity of funds functioning as endowment funds for the years ended June 30, 2018 and 2017:

	Board Designated Endowment	Donor Restricted Endowment
Endowment net position 6/30/16	\$ 829,810	\$ 692,552
Investment income	91,651	81,997
Expense	<u>(10,811)</u>	<u>(2,965)</u>
Endowment net position 6/30/17	<u>910,650</u>	<u>771,584</u>
Investment income	76,063	68,739
Expense	<u>(3,812)</u>	<u>(3,333)</u>
Endowment net position 6/30/18	<u><u>\$ 982,901</u></u>	<u><u>\$ 836,990</u></u>

Spending Policy

The board-designated endowment was established with the policy that earnings are reinvested until the corpus reaches \$1,000,000, at which time the earnings may be used to supplement income from other sources for program or capital expenses benefitting WSRE.

The donor restricted Amos Endowment was established to provide corpus and earnings to fund technological upgrades to the Jean and Paul Amos Performance Studio as needed. The Foundation's Board of Directors is empowered to determine the timing and distribution of funds for this purpose.

9. SETTLEMENT PROCEEDS

During 2017, the Foundation received a settlement from a prior year claim in the amount of approximately \$237,000 and incurred legal fees of approximately \$47,000 in connection with this claim. No settlement proceeds were received in 2018.

SUPPLEMENTARY INFORMATION

WSRE-TV FOUNDATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR 2017

	Programming and Production		Broadcasting		Fundraising and Development		Management and General		Total Expenses	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Supplies	\$ 9,129	\$ -	\$ 3,056	\$ 10,415	\$ 1,663	\$ 24,263	\$ 31,640	\$ 24,263	\$ 31,640	\$ 31,640
Pledge premiums	-	-	-	45,873	-	45,873	53,658	45,873	53,658	53,658
Professional services	-	-	-	-	44,870	44,870	87,083	44,870	87,083	87,083
Contracted services	59,075	1,904	1,904	48,745	1,851	111,575	125,252	111,575	125,252	125,252
Leased Staff	69,431	9,508	9,508	33,546	17,492	129,977	86,043	129,977	86,043	86,043
Program and traffic services	24,000	-	-	-	-	24,000	24,000	24,000	24,000	24,000
Equipment repair & maintenance	1,668	17,687	17,687	22,839	8,048	50,242	41,983	50,242	41,983	41,983
Printing	7,614	58	58	16,714	54	24,440	20,380	24,440	20,380	20,380
Minor equipment	120	-	-	-	-	120	294	120	294	294
Rental facilities and equipment	1,161	27,978	27,978	11,464	-	40,603	36,701	40,603	36,701	36,701
Travel	15,765	2,233	2,233	7,047	13,874	38,919	41,591	38,919	41,591	41,591
Advertising	35,470	-	-	6,048	-	41,518	47,669	41,518	47,669	47,669
Insurance	-	7,034	7,034	-	5,476	12,510	12,108	12,510	12,108	12,108
Depreciation	96	11,032	11,032	-	382	11,510	6,014	11,510	6,014	6,014
Communications	6,233	3,698	3,698	1,289	4,055	15,275	15,795	15,275	15,795	15,795
Service charges	-	-	-	12,272	6,476	18,748	13,151	18,748	13,151	13,151
Memberships and subscriptions	771	85	85	1,423	1,594	3,873	3,282	3,873	3,282	3,282
Affinity group fees and dues	-	-	-	-	41,925	41,925	39,118	41,925	39,118	39,118
Program acquisitions	161,253	-	-	-	-	161,253	153,944	161,253	153,944	153,944
Hospitality	2,532	-	-	3,025	3,720	9,277	8,057	9,277	8,057	8,057
Software	-	4,205	4,205	-	-	4,205	449	4,205	449	449
Videotape/storage media	2,494	-	-	-	-	2,494	2,300	2,494	2,300	2,300
Taxes	1,546	4,045	4,045	-	265	5,856	25,029	5,856	25,029	25,029
Freight and postage	1,688	588	588	7,206	620	10,102	3,235	10,102	3,235	3,235
Bad debt expense	22,700	4,029	4,029	4,000	-	30,729	8,769	30,729	8,769	8,769
Staff development	140	57	57	594	1,311	2,102	1,259	2,102	1,259	1,259
Honoraria fees	-	-	-	122	900	1,022	300	1,022	300	300
Major equipment for station	4,281	31,041	31,041	1,477	129	36,928	16,036	36,928	16,036	16,036
In-kind value of goods and services used	2,600	-	-	1,401	12,378	16,379	21,363	16,379	21,363	21,363
Personnel costs provided by PSC/WSRE-TV Station	35,440	-	-	210,370	162,960	408,770	393,651	408,770	393,651	393,651
TOTAL FUNCTIONAL EXPENSES	\$ 465,207	\$ 128,238	\$ 445,870	\$ 1,369,358	\$ 1,320,154	\$ 1,369,358	\$ 1,320,154	\$ 1,369,358	\$ 1,320,154	\$ 1,320,154

See independent auditors' report.

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

Board of Directors
WSRE-TV Foundation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of WSRE-TV Foundation, Inc., [a 501(c)(3) nonprofit corporation], hereinafter referred to as the Foundation, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated July 27, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Warren Averett, LLC

Pensacola, Florida
July 27, 2018