

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC., AND SUBSIDIARIES  
ORLANDO, FLORIDA**

**JUNE 30, 2016 AND 2015**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
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**THE UNIVERSITY OF CENTRAL FLORIDA  
RESEARCH FOUNDATION, INC., AND SUBSIDIARIES  
ORLANDO, FLORIDA**

**JUNE 30, 2016 and 2015**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The University of Central Florida  
Research Foundation, Inc., and subsidiaries  
Orlando, Florida

### **Report on the Financial Statements**

We have audited the accompanying consolidated statements of net position of The University of Central Florida Research Foundation, Inc., and subsidiaries (the "Research Foundation") (a component unit of The University of Central Florida), as of and for the years ended June 30, 2016 and 2015, and the related consolidated statements of revenues, expenses, and changes in net position, cash flows and the related notes to the consolidated financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Research Foundation as of June 30, 2016 and 2015, and the changes in the consolidated net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2016 on our consideration of the Research 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 Research Foundation's internal control over financial reporting and compliance.

*Carr, Riggs & Ingram, L.L.C.*

Orlando, Florida  
September 1, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The University of Central Florida Research Foundation's (the "Research Foundation") (a direct support organization of the University of Central Florida) (the "University") management prepared the following discussion and analysis of the Research Foundation's consolidated financial statements, as of and for the years ended June 30, 2016 and 2015. This discussion and analysis is intended to serve as an introduction to the Research Foundation's basic consolidated financial statements. It should be read in conjunction with the basic consolidated financial statements and notes thereof.

The report consists of the following:

- Management's Discussion and Analysis
- Basic Financial Statements, which include:
  - Consolidated Statements of Net Position
  - Consolidated Statements of Revenues, Expenses, and Changes in Net Position
  - Consolidated Statements of Cash Flows
  - Notes to the Consolidated Financial Statements

The consolidated statements of net position present all of the Research Foundation's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Research Foundation is improving or declining.

The consolidated statements of revenues, expenses, and changes in net position explain whether revenues and other support exceed expenses, which results in an increase in net position, or whether there is a decrease in net position. All changes in net position are reported as soon as the underlying events, giving rise to the change occurs, regardless of the timing of related cash flows.

The consolidated statements of cash flows are another way of assessing the Research Foundation's financial viability. The primary purpose of the consolidated statements of cash flows is to provide relevant information about cash receipts and cash payments of the Research Foundation throughout the fiscal year.

These consolidated financial statements include all assets and liabilities using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and the pronouncements of the Governmental Accounting Standards Board.

Footnotes to the consolidated financial statements provide additional information that is essential to a full understanding of the data provided in the basic consolidated financial statements.

## FINANCIAL HIGHLIGHTS

**Net Position** – The consolidated statements of net position report all financial resources of the Research Foundation and subsidiary at the end of the fiscal year. Net position over time can be a useful indicator of an entity's financial position. The Research Foundation's assets exceed liabilities as of June 30, 2016 and 2015 by \$4,337,858 and \$5,007,926, respectively. Those amounts include the net position which was temporarily restricted as of June 30, 2016 and 2015 of \$762,296 and \$762,867, respectively. The following schedule is a summary of the Research Foundation's consolidated statements of net position.

## CONSOLIDATED STATEMENTS OF NET POSITION

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Assets:</b>		
Current Assets	\$ 10,787,540	\$ 10,574,452
Noncurrent Assets	<u>\$ 1,132,528</u>	<u>\$ 985,219</u>
Total Assets	<u>\$ 11,920,068</u>	<u>\$ 11,559,671</u>
<b>Liabilities:</b>		
Current Liabilities	<u>\$ 7,582,210</u>	<u>\$ 6,551,745</u>
Total Liabilities	<u>\$ 7,582,210</u>	<u>\$ 6,551,745</u>
<b>Net position:</b>		
Unrestricted	\$ 3,575,562	\$ 4,245,059
Temporarily Restricted	<u>\$ 762,296</u>	<u>\$ 762,867</u>
Total net position	<u>\$ 4,337,858</u>	<u>\$ 5,007,926</u>

During fiscal year 2016, total assets increased by \$360,397 primarily due to a decrease in cash of \$414,698, an investment decrease of \$298,196, offset by an increase in prepaid expenses of \$19,600 and an increase in accounts receivable of \$1,053,691. Total liabilities increased by \$1,030,465 due to liabilities related to the increase in restricted cash for contracts, grants, restricted contributions, other agreements and research initiatives of \$821,885 plus an increase of other additional payables of \$208,580.

Cash is classified as restricted if it offsets the liability from cash received for contracts, grants, contributions, other agreements, and research initiatives and offsets the net position restricted for contributions.

The following schedule is a summary of the Research Foundation's consolidated statements of revenues, expenses, and changes in net position.

## CONSOLIDATED REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Unrestricted Net Position</b>		
Operating Revenue	\$ 8,947,771	\$ 7,267,273
Net Position Released from Restrictions	<u>\$ 177,188</u>	<u>\$ 66,554</u>
Operating Expenses	<u>\$ (9,950,161)</u>	<u>\$ (6,651,573)</u>
Operating Income (Loss)	\$ (825,202)	\$ 682,254
Non-operating Revenues (Expenses)	<u>\$ 155,705</u>	<u>\$ (526)</u>
Increase (Decrease) in Net Position	\$ (669,497)	\$ 681,728
Net Position, Beginning of Year	<u>\$ 4,245,059</u>	<u>\$ 3,563,331</u>
Unrestricted Net Position, End of Year	<u>\$ 3,575,562</u>	<u>\$ 4,245,059</u>

## CONSOLIDATED REVENUES, EXPENSES, AND CHANGES IN NET POSITION (*Continued*)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Temporarily Restricted Net Position</b>		
Restricted Contribution Revenue	\$ 176,617	\$ 298,741
Net Position Released from Restrictions	<u>\$ (177,188)</u>	<u>\$ (66,554)</u>
Increase (Decrease) in Net Position	\$ (571)	\$ 232,187
Net Position, Beginning of Year	<u>\$ 762,867</u>	<u>\$ 530,680</u>
Temporarily Restricted Net Position, End of Year	<u>\$ 762,296</u>	<u>\$ 762,867</u>

**Analysis of Operating Revenue** – Operating revenue includes royalties, contracts and grants, other agreements, and research initiatives. In fiscal year 2016, operating revenue was more than fiscal year 2015 by \$1,680,498 due to an increase in royalties and licensing fees, projects related to contracts, grants, other agreements of \$1,942,493 offset by a decrease in research initiatives of \$15,285, ORC contributions of \$151,083 and royalty profit on investment of \$95,627. The royalty profit on investment was the result of the valuation of the Finisar Corporation stock at June 30, 2016.

**Analysis of Non-operating Revenue (Expenses)** – Non-operating revenues (expenses) consist of interest, investment gains and losses, and dividends. In fiscal year 2016, non-operating revenue (expense) was greater than fiscal year 2015 by \$156,231 due to an increase in investment revenue.

**Analysis of Temporarily Restricted Net Position** – The temporarily restricted net position is a result of donations or contributions received during the year which are restricted by the donor for a specific purpose, such as research by a professor. The temporarily restricted net position is restricted for the general purpose of research activities. Restricted net position is released from restrictions and transferred to unrestricted net position when all donor or principal investigator provisions have been met. Total restricted contribution revenue received during fiscal year 2016 was \$176,617 compared to \$298,741 received in fiscal year 2015.

## ANALYSIS OF CONSOLIDATED OPERATING EXPENSES

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Operating Expenses:		
Contracts, Grants, Contributions,		
Royalty and License Expense,		
Other Agreements and		
Research Initiatives	\$ 9,011,827	\$ 6,459,226
Royalty Expense Valuation on Investments	\$ 6,612	\$ (29,715)
Professional Expenses	\$ 33,594	\$ 22,054
Salaries and Other Benefits	\$ 576,000	\$ -
ORC and Other Expenses	<u>\$ 322,128</u>	<u>\$ 200,008</u>
Total Operating Expenses	<u>\$ 9,950,161</u>	<u>\$ 6,651,573</u>

## **ANALYSIS OF CONSOLIDATED OPERATING EXPENSES (*Continued*)**

Operating expenses were \$3,298,588 greater in fiscal year 2016 than in fiscal year 2015. Contracts, grants, contributions and other agreements, and research initiatives expense were \$3,112,255 greater in fiscal year 2016. Royalty and licensing expense decreased in fiscal year 2016 by \$559,653. ORC sponsored activities increased by \$122,120. In fiscal year 2016, the Research Foundation reimbursed the University for salaries and benefits of \$576,000. Royalty expense valuation also increased by \$36,327 and professional expenses increased by \$11,540.

## **ANALYSIS OF CONSOLIDATED CASH FLOWS**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash Flows:		
Net Cash Provided (Used) by Operating Activities	\$ (922,451)	\$ 1,118,347
Net Cash Provided (Used) by Investing Activities	<u>\$ 507,753</u>	<u>\$ (268,038)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (414,698)	\$ 850,309
Cash and Cash Equivalents, Beginning of Year	<u>\$ 8,762,862</u>	<u>\$ 7,912,553</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,348,164</u>	<u>\$ 8,762,862</u>

Overall cash and cash equivalents decreased by \$414,698 in fiscal year 2016. This was primarily due to contracts, grants, other agreements, and research initiatives cash payments not exceeding related cash received by \$746,184, cash paid for salaries and other expenses of \$629,194, offset by royalty cash received exceeding royalty allocation payouts of \$452,927, and a net cash increase for investing activities of \$507,753.

## **OTHER SIGNIFICANT EVENTS**

For the year ended June 30, 2015 it was determined the Research Foundation had an economic interest and control over ICAMR, Inc., a separate entity that was in its start-up phase, and therefore the Research Foundation elected to consolidate ICAMR's operations with those of the Research Foundation. The status has changed in 2016 whereas the Research Foundation does not have control over ICAMR. Accordingly, ICAMR's operations were not consolidated with the Research Foundation for the year ended June 30, 2016.

The Research Foundation had projects for conducting some of the initial ICAMR activities. In January 2016, any remaining funds in these projects were disbursed to ICAMR, Inc. once it became fully operational.

### **OTHER SIGNIFICANT EVENTS (*Continued*)**

Activities in the ICAMR projects included on the Research Foundation's financial statements for the year ended June 30, 2016 include:

Beginning net position restricted for ICAMR	\$ 1,173,286
Contributions received through December 31, 2015	\$ 500,000
Expenditures through December 31, 2015	\$ (1,070,644)
Final disbursement to ICAMR, Inc. January 1, 2016	\$ (602,642)
Ending net position restricted for ICAMR	\$ -

The University of Central Florida Applied Research Institute (UCFARI) was created in fiscal year 2016 as a DBA to compete for contracts and grants related to applied research efforts. There was no financial activity on the Research Foundation's statements in FY2016 related to this initiative.

### **ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE**

Since the Research Foundation has no employees, funding for employees is provided by the University. Other items such as office space and minor operating expenses such as travel are also provided for by the University. The University is expected to continue to provide this support. However, should the economy significantly affect state appropriations, this may have an impact on the support provided for the Research Foundation's activities. For the first time, in 2016, the Research Foundation reimbursed the University for salaries and related benefits of \$576,000.

**CONSOLIDATED STATEMENTS OF NET POSITION**  
**JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARIES**  
**ORLANDO, FLORIDA**

**ASSETS**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 411,541	\$ 2,631,504
Restricted Cash and Cash Equivalents	6,939,413	6,118,099
Cash with Fiscal Agent	997,210	13,259
Accounts Receivable, Net of Allowance for Doubtful Accounts	2,419,776	1,811,590
Prepaid Expenses	19,600	-
<b>Total Current Assets</b>	<b><u>10,787,540</u></b>	<b><u>10,574,452</u></b>
<b>Noncurrent Assets</b>		
Investments	687,023	985,219
Long-Term Accounts Receivable, Net of Allowance for Doubtful Accounts	445,505	-
<b>Total Noncurrent Assets</b>	<b><u>1,132,528</u></b>	<b><u>985,219</u></b>
<b>Total Assets</b>	<b><u>\$ 11,920,068</u></b>	<b><u>\$ 11,559,671</u></b>

**LIABILITIES AND NET POSITION**

	<b>2016</b>	<b>2015</b>
<b>Current Liabilities</b>		
Accounts Payable	\$ 264,110	\$ 373,516
Allocations and F&A Payable	1,140,983	822,997
Deferred Restricted Revenues	6,177,117	5,355,232
<b>Total Current Liabilities</b>	<b><u>7,582,210</u></b>	<b><u>6,551,745</u></b>
<b>Net Position</b>		
Unrestricted	3,575,562	4,245,059
Temporarily Restricted	762,296	762,867
<b>Total Net Position</b>	<b><u>4,337,858</u></b>	<b><u>5,007,926</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 11,920,068</u></b>	<b><u>\$ 11,559,671</u></b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARIES  
ORLANDO, FLORIDA**

	<b>2016</b>	<b>2015</b>
<b>Unrestricted Net Position</b>		
<b>Operating Revenues</b>		
Royalties and Licensing Fees	\$ 1,297,204	\$ 1,095,097
Royalty Profit (Loss) on Investment	5,690	101,317
Contracts and Grants	4,366,328	2,872,284
Other Agreements Income	951,793	705,451
Research Initiatives	1,709,152	1,724,437
ORC Contributions and Miscellaneous Income	617,604	768,687
Net Position Released from Restrictions	177,188	66,554
<b>Total Operating Revenues</b>	<b>9,124,959</b>	<b>7,333,827</b>
<b>Operating Expenses</b>		
Royalties and Licensing Allocations	785,373	1,308,272
Royalties and Licensing Expenses	-	36,755
Royalties Expense Valuation Account	6,612	(29,715)
Contracts and Grant Expenses	4,366,328	2,872,284
Other Agreements Expense	951,793	705,451
Contribution Expense	1,350,474	66,554
Research Initiatives	1,557,859	1,469,910
Other Expenses	-	-
Salaries and Other Benefits	576,000	-
Professional Expenses	33,594	22,054
ORC and Other Expenses	322,128	200,008
<b>Total Operating Expenses</b>	<b>9,950,161</b>	<b>6,651,573</b>
<b>Net Operating Income (Loss)</b>	<b>(825,202)</b>	<b>682,254</b>
<b>Non-operating Revenues (Expenses)</b>		
Investment Revenue	138,220	25,462
Investment Gain (Loss)	17,485	(25,988)
<b>Total Non-operating Revenues (Expenses)</b>	<b>155,705</b>	<b>(526)</b>
<b>Increase (Decrease) in Unrestricted Net Position</b>	<b>(669,497)</b>	<b>681,728</b>
<b>Unrestricted Net Position, Beginning of Year</b>	<b>4,245,059</b>	<b>3,563,331</b>
<b>Unrestricted Net Position, End of Year</b>	<b>\$ 3,575,562</b>	<b>\$ 4,245,059</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARY  
ORLANDO, FLORIDA**

	<b>2016</b>	<b>2015</b>
<b><u>Temporarily Restricted Net Position</u></b>		
Restricted Contribution Revenue	\$ 176,617	\$ 298,741
Net Position Released from Restrictions	<u>(177,188)</u>	<u>(66,554)</u>
 <b>Increase (Decrease) in Temporarily Restricted Net Position</b>	 (571)	 232,187
 <b>Temporarily Restricted Net Position, Beginning of Year</b>	 <u>762,867</u>	 <u>530,680</u>
 <b>Temporarily Restricted Net Position, End of Year</b>	 <u>\$ 762,296</u>	 <u>\$ 762,867</u>
 <b>Total Net Position</b>	 <u>\$ 4,337,858</u>	 <u>\$ 5,007,926</u>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA RESEARCH FOUNDATION, INC. AND SUBSIDIARIES**  
**ORLANDO, FLORIDA**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received (Used) for:		
Licensing Fees and Royalties	\$ 926,926	\$ 818,663
Contract, Grants, Contributions and Research Initiatives	7,294,200	6,829,642
ORC Net Activity and Other Expenses	295,476	586,191
Royalties and Licensing Allocations	(473,999)	(1,109,677)
Contract, Grants, Contributions and Research Initiatives	(8,335,860)	(5,970,751)
Salaries and Other Disbursements	(629,194)	(35,721)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(922,451)</b>	<b>1,118,347</b>
<b>Cash Flows from Investing Activities</b>		
Investment Revenue	138,220	25,462
Purchase or Sale of Investments	369,533	(293,500)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>507,753</b>	<b>(268,038)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(414,698)</b>	<b>850,309</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>8,762,862</b>	<b>7,912,553</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 8,348,164</b>	<b>\$ 8,762,862</b>
<b>Presented in the Consolidated Financial Statements as:</b>		
Cash and Cash Equivalents	\$ 411,541	\$ 2,631,504
Restricted Cash and Cash Equivalents	6,939,413	6,118,099
Cash with Fiscal Agent	997,210	13,259
<b>Total Presented to the Consolidated Financial Statements</b>	<b>\$ 8,348,164</b>	<b>\$ 8,762,862</b>
<b>Cash Flows from Operating Activities</b>		
Net Operating Revenues	\$ (825,202)	\$ 682,254
Decrease in Restricted Net Assets	(571)	232,187
Gain in Fair Value of Operating Investments	(5,690)	(101,317)
Royalty Expense Valuation Account Adjustment	6,612	(29,715)
Provision for Doubtful Accounts	-	-
TekCapital Stock Received as Royalty Income	(48,162)	(162,353)
Adjustments to Reconcile Change in Net Position to Net Cash Provide by (Used in) Operating Activities:		
Increase in Accounts Receivable	(608,186)	(423,411)
Increase in Prepaid Expenses	(19,600)	3,845
Increase in Accounts Receivable Long Term	(445,505)	-
Decrease in Accounts Payable	(109,406)	(856,552)
Increase in Allocations and F&A Payable	311,374	235,350
Increase (Decrease) in Deferred Restricted Revenues	821,885	1,538,059
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (922,451)</b>	<b>\$ 1,118,347</b>

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA**  
**RESEARCH FOUNDATION, INC., AND SUBSIDIARIES**  
**ORLANDO, FLORIDA**

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

**Organization and Purpose**

The University of Central Florida Research Foundation, Inc., and subsidiaries (the “Research Foundation”), is a not-for-profit Florida Corporation incorporated April 30, 1991. The Research Foundation is operated exclusively for the benefit of The University of Central Florida (the “University” or “UCF”). The Research Foundation is a University Direct-Support Organization within the definition of Florida Statutes Section 240.299, and as such is organized and operated exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of the University. Since the Research Foundation’s purpose complements that of the University’s Office of Research, many functions are coordinated to maximize the benefit to the University’s research community.

The purpose of the Research Foundation is to facilitate opportunities for the University of Central Florida to increase sponsored program activities, to protect and maximize the University’s intellectual property, and to support economic development.

During 2015, International Consortium for Advanced Manufacturing Research (ICAMR, Inc. or “ICAMR”) was formed. ICAMR is a Florida not-for-profit corporation, established June 5, 2014, through the collaboration of UCF, the Research Foundation, Osceola County (“Osceola”), Florida High Tech Corridor Council, Inc. (“FHTCC”), and other collaborators. Its mission is to promote local economic development and commercialization of advanced photonics and sensor technologies, to lead development of a high impact industry center by growing new, and attracting, high-tech companies, and to promote cooperative research and development by leveraging the capabilities of research and development by leveraging the capabilities of UCF and other educational institutions to accelerate the advancement of sensor-photonics manufacturing and development.

The Research Foundation formed a wholly owned subsidiary, UCF Research Foundation Real Estate LLC, for the purpose of holding land and a building that was donated by Intersil Corp in April 2010, but subsequently returned to Intersil. There was no activity for this company for the years ended June 30, 2016 and 2015.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA**  
**RESEARCH FOUNDATION, INC., AND SUBSIDIARIES**  
**ORLANDO, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (*Continued*)**

**Basis of Accounting and Financial Reporting**

The financial statements of the Research Foundation are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. GASB is the standard-setting body for governmental accounting and financial reporting.

In accordance with GAAP, the Research Foundation qualifies for treatment as a component unit of the University of Central Florida; therefore, the Research Foundation's consolidated financial statements are included in the University's financial statements.

For financial reporting purposes, the Research Foundation is considered a special-purpose government organization engaged only in business-type activities. Accordingly, the Research Foundation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Changes in the net position of the Research Foundation as a result of support, revenue, expenses, gains and losses are classified based on the existence of any funding restrictions. Accordingly, the net position of the Research Foundation and changes therein are classified and reported as follows:

- Unrestricted – net position that is not subject to funding restrictions. The unrestricted net position may be designated for specific purposes by action of the Board of Directors.
- Temporarily Restricted – net position whose use by the Research Foundation is subject to donor-imposed or principal investigator stipulations that can be fulfilled by actions of the Research Foundation pursuant to those stipulations or that expire by the passage of time.

Expenses are reported as decreases in the unrestricted net position. Expirations of donor-imposed or principal investigator stipulations that simultaneously increase one class of net position and decrease another are reported as reclassifications between the applicable classes of net position. Residual funds from fixed priced contracts remain restricted for the principal investigator to spend on research related activities. Revenue is recognized as the respective project expenditures occur. When both restricted and unrestricted resources are available for use, it is the Research Foundation's policy to use restricted resources first, then unrestricted resources as they are needed.

These financial statements are entirely those of the Research Foundation alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**  
**THE UNIVERSITY OF CENTRAL FLORIDA**  
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**ORLANDO, FLORIDA**  
*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (*Continued*)**

**Principles of Consolidation**

The consolidated financial statements include the accounts of The University Central Florida Research Foundation, Inc., and its wholly owned subsidiary, UCF Research Foundation Real Estate LLC, which had no activity in the years ended June 30, 2016 and 2015. All intercompany accounts and transactions have been eliminated.

For the year ended June 30, 2015 the Research Foundation had an economic interest and control over ICAMR, and therefore the Research Foundation elected to consolidate ICAMR's operations with those of the Research Foundation. The status has changed in 2016 whereas the Research Foundation does not have control over ICAMR. Accordingly, the ICAMR's operations were not consolidated with the Research Foundation

**Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available to the Research Foundation, the accounts of the Research Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. All of the Research Foundation's financial activity is accounted for in a single enterprise fund.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of amounts on deposit in checking and repurchase sweep account.

Restricted cash and cash equivalents are that portion of the cash balance held by the Research Foundation that is restricted for contracts and grants and project balances. These funds are held in accounts by fiscal agents.

**Cash with Fiscal Agent**

Cash with fiscal agent consists of amounts held by the UCF Foundation and UCF to be invested in investment opportunities which are permissible under the current investment policy.

**Investments**

The Research Foundation accounts for investments with a readily determinable value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*. Under this provision, investments are recorded at fair value on the consolidated statements of net position. Investment income, including changes in the fair value of investments, is reported as revenue in the consolidated statements of revenues, expenses and changes in net position.

Fair value is based on quoted market price for securities other than closely held common stock and is adjusted to fair value upon known relevant information.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (*Continued*)**

**Investments (*Continued*)**

Closely held common stock is accounted for using the cost or equity method. The equity method is utilized for investments which the Research Foundation has significant influence and the cost method is utilized for investments which do not qualify for the equity method and a readily determinable fair value is not available. Under the equity method, the investment is recorded at historical cost and increased or decreased by the investor's share of the Research Foundation's profit or loss and the Research Foundation's share of dividends. Under the cost method, a long-term investment is recorded at cost and carried at that amount until it is sold or otherwise disposed of or if there is an impairment in the value.

**Accounts Receivables**

Accounts receivables are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. The allowance as of June 30, 2016 and 2015 was \$73,321. The allowance is determined based on management's review of the accounts. Long-term accounts receivables are grant and contract amounts that will be collected after one year from the statement of net position date.

**Derivative Instruments**

The Research Foundation did not hold any derivative instruments for trading purposes at June 30, 2016 and 2015, and does not invest in derivative instruments.

**Capital Assets**

It is the Research Foundation's policy to record fixed assets at cost, if purchased, or at their estimated fair value at the date of donation, if donated. Maintenance and repairs are charged to expense when incurred, betterments are capitalized.

**Allocations Payable**

Allocations payable consist of royalty and license fee distributions accrued to individuals, University departments, and Colleges/Institutes responsible for the development of various patented or copyrighted research. The Research Foundation calculates the amount due to those parties and accrues a liability for this amount, less any payments made. Also included is the Facilities and Administrative ("F&A") payable accrued to University Colleges/Institutes responsible for the project.

**Deferred Restricted Revenues**

Deferred restricted revenues consist primarily of the unexpended portions of contracts and grants that are being administered by the Research Foundation. Revenue is recognized only to the extent expenses are incurred in executing the applicable contracts and grants.

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*(Continued)*

**Note 1 - Summary of Significant Accounting Policies (*Continued*)**

**Classification of Revenues**

The Research Foundation classifies its revenues as operating or non-operating according to the following criteria:

- **Operating Revenues**—include activities that have the characteristics of exchange transactions, such as royalty and licensing transactions and contracts and grants. Exchange transactions are transactions in which each party receives and gives up essentially equal values. Contribution income is also considered operating revenues.
- **Non-operating Revenues**—include activities that are not normal Research Foundation operating activities, such as investment income and investment gains and losses.

**Revenue Recognition**

The Research Foundation negotiates with licensees for their purchase of or license to use inventions and the related patents, trademarks, and copyrights developed by the University and its employees. Pursuant to its operating agreement with the University, the Research Foundation collects the licensees' payments and distributes the proceeds to the inventors and the University. The Research Foundation recognizes royalty and licensing revenue when amounts are earned with licensees in accordance with the terms in the license agreement. Patent, trademark and copyright application costs are expensed when incurred. Revenue is recognized on contracts & grants, other agreements, and research initiatives when disbursements are incurred. Revenue is recognized on contributions when received or when an enforceable promise is made and it is recognized as contributions when earned.

**Income Taxes**

The Research Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for income tax expense or liability has been made.

**Estimates**

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

**Facilities Use and Personnel**

Prior to fiscal year 2016, facilities and personnel were provided at no cost to the Research Foundation by the Office of Research and Commercialization, a division of the University. The Research Foundation did reimburse the University for salaries in fiscal year 2016.

**Note 2 - Cash and Cash Equivalents**

**Custodial Credit Risk**

At June 30, 2015, the Research Foundation had deposits in banking institutions in excess of the federal insurance limit. The amount in excess of the FDIC limit was \$2,802,417 as of June 30, 2015.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Continued)*

**Note 2 - Cash and Cash Equivalents (*Continued*)**

At June 30, 2016 and 2015, funds of approximately \$7,940,000 and \$2,720,000 were invested in the Special Purpose Investment Account and other UCF investment accounts with the funds being held by UCF. These amounts are not insured or guaranteed by the FDIC and are included in the accompanying consolidated statements of net position as cash with fiscal agent and restricted cash and cash equivalents.

The Research Foundation maintains a repurchase sweep account with a local bank. Amounts above the target balance in the main operating accounting are “swept” overnight by the bank and is collateralized by mortgage-backed securities issued by the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation which have been temporarily sold to the Research Foundation under the terms of the repurchase agreement. The balance in the repurchase account as of June 30, 2016 and 2015 was \$175,973 and \$5,710,122, respectively. This amount is not included in the deposit amount uninsured by FDIC.

**Note 3 - Investments**

The Research Foundation has adopted an investment policy that includes objectives, performance measures, and guidance on authorized investments. The Research Foundation’s primary investment objective is to preserve and protect its assets by earning a total return for each category of assets which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. The Research Foundation’s Board passed by unanimous vote that the decision to sell the Finisar stock will be deferred to the President and the Vice President of the Research Foundation. All investments are held in the name of the Research Foundation.

Investments consist of the following as of June 30:

	<u>Stated Value Method</u>	<u>2016</u>	<u>2016 Portfolio Percentage</u>	<u>2015</u>
Corporate Stock: Finisar Corporation	FMV	\$321,816	47%	\$328,433
Corporate Stock: TekCapital	FMV	-0-	-0-	297,017
Preferred Stock: iTomography, LLC	Cost	50,000	7%	50,000
Investment in Geometric Intelligence	Cost	170	-0-	
Investment in IQ Orlando, Inc.(25% Owned)	Equity	174,214	25%	235,952
Investment in Banyan Fund	FMV	129,093	19%	59,989
Investment in Inflexion, LLC	FMV	11,730	2%	13,828
		<u><u>\$687,023</u></u>	<u><u>100%</u></u>	<u><u>\$985,219</u></u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Continued)*

**Note 3 - Investments (*Continued*)**

**Credit Risk and Concentration of Credit Risk**

Credit risk exists when there is a possibility the issuer or other counter-party to an investment may be unable to fulfill its obligations. As of June 30, 2016 and 2015, investments were uncollateralized and therefore exposed to credit risk. Further, the investments in Finisar Corporation, IQ Orlando, Inc. and Banyan Fund constitute a credit risk concentration. The percentage allocation of each investment type in the portfolio is shown in the table above.

**Note 4 - Risk Management**

The Research Foundation has no employees. Its staff and offices are provided by The University of Central Florida, which is covered by their self-insurance and other commercial insurance coverage, as applicable.

The Research Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Commercial insurance against losses is provided for the following types of risk:

- Business
- Property Damage
- Liability
- Director's and Officers Liability

**Note 5 – Fair Value of Financial Instruments**

Generally Accepted Accounting Principles (GAAP) defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurement. Fair value is defined as an exchange price that would be received for an asset or paid to transfer a liability (an “exit” price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date. The Research Foundation determines the fair value of financial instruments based on the fair value hierarchy described in GAAP which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes the following three levels of inputs that may be used to measure fair value:

***Level 1*** Unadjusted quoted market prices in active markets for identical assets or liabilities.

***Level 2*** Observable inputs other than quoted market prices and can include active markets and markets not considered to be active.

***Level 3*** Unobservable inputs that are supported by little or no market activity.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Continued)*

**Note 5 – Fair Value of Financial Instruments (*Continued*)**

The carrying amounts of cash equivalents, accounts receivable, accounts payable, and allocations and F&A payable approximate fair value because of the short maturity of these instruments. The fair value measurements of the cash equivalents in the repurchase agreement, Finisar Corporation stock, and TekCapital stock are based on quoted market prices. The fair value measurements of the investments in the Banyan Fund and Inflexion, LLC are based off quarterly valuations from the respective fund managers. Assets measured at fair value on a recurring basis as of June 30, 2016 and 2015 are summarized as follows:

June 30, 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Equivalents: Repurchase Agreement	\$175,973	\$-0-	\$-0-
Corporate Stock: Finisar Corporation	321,816	-0-	-0-
Investment in Banyan Fund	-0-	129,093	-0-
Investment in Inflexion, LLC	-0-	11,730	-0-
	<hr/> <u>\$497,789</u>	<hr/> <u>\$140,823</u>	<hr/> <u>\$-0-</u>
June 30, 2015	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Equivalents: Repurchase Agreement	\$5,710,122	\$-0-	\$-0-
Corporate Stock: Finisar Corporation	328,433	-0-	-0-
Corporate Stock: TekCapital	297,017	-0-	-0-
Investment in Banyan Fund	-0-	59,989	-0-
Investment in Inflexion, LLC	-0-	13,828	-0-
	<hr/> <u>\$6,335,572</u>	<hr/> <u>\$73,817</u>	<hr/> <u>\$-0-</u>

**Note 6 - Operating Leases**

The Research Foundation entered into an operating lease in March 2010 for an office building in St. Cloud, Florida for a term of 5 years. The premises were used and occupied as general business offices related to the UCF-St. Cloud business incubator, and other related incubator activities, and for no other purpose. The rental amounts were chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$263,000 for the year ended June 30 2015. This lease was not renewed by the Research Foundation upon expiration in March 2015.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Continued)*

**Note 6 - Operating Leases (*Continued*)**

The Research Foundation entered into a lease in September 2010. This lease ended in September 2013, when an amendment to the operating lease was entered into for an office building in Kissimmee, Florida for a term of 6 years. The premises shall be used and occupied as general business offices related to the Kissimmee business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$160,000 and \$159,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum rental payments for the years ended June 30, are as follows:

2017	\$ 164,601
2018	\$ 171,186
2019	\$ 178,113
2020	<u>\$ 44,967</u>
	<u>\$ 558,867</u>

The Research Foundation entered into an operating lease in October 2010 and renewed this lease when it ended in October 2013 for an office building in Winter Springs, Florida. The premises are limited to use as general business offices related to the Winter Springs business incubator, and other related incubator activities, and for no other purpose. The rental amounts are chargeable to a funded contract agreement. Total rental expense associated with the lease was approximately \$282,000 and \$272,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum rental payments for the years ended June 30, are as follows:

2017	\$ 70,506
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**Note 7 - Temporarily Restricted Net Position**

The temporarily restricted net position of \$762,296 and \$762,867 was available for research initiatives at June 30, 2016 and 2015, respectively. Portions of the temporarily restricted net position were released from donor and principal investigator restrictions by incurring expenses satisfying the restricted purposes of research activities of \$177,188 and \$66,554 during the years ended June 30, 2016 and 2015, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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*(Continued)*

**Note 8 - ICAMR Activities**

For the year ended June 30, 2015 it was determined the Research Foundation had an economic interest and control over ICAMR, Inc., a separate entity that was in its start-up phase, and therefore the Research Foundation elected to consolidate ICAMR's operations with those of the Research Foundation. The status has changed in 2016 whereas the Research Foundation does not have control over ICAMR. Accordingly, ICAMR's operations were not consolidated with the Research Foundation for the year ended June 30, 2016.

The Research Foundation had projects for conducting some of the initial ICAMR activities. In January 2016, any remaining funds in these projects were disbursed to ICAMR, Inc. once it became fully operational.

Activities in the ICAMR projects included on the Research Foundation's financial statements for the year ended June 30, 2016 include:

Beginning net position restricted for ICAMR	\$ 1,173,286
Contributions received through December 31, 2015	\$ 500,000
Expenditures through December 31, 2015	\$ (1,070,644)
Final disbursement to ICAMR, Inc. January 1, 2016	\$ (602,642)
Ending net position restricted for ICAMR	\$ -

**Note 9 - University of Central Florida Applied Research Institute**

The University of Central Florida Applied Research Institute (UCFARI) was created in fiscal year 2016 as a DBA to compete for contracts and grants related to applied research efforts. There was no financial activity on the Research Foundation's statements in FY2016 related to this initiative.

**Note 10 - Subsequent Events**

The Research Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through September 1, 2016, the date the consolidated financial statements were available to be issued.

**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  
The University of Central Florida  
Research Foundation, Inc., and subsidiaries  
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Central Florida Research Foundation, Inc. and subsidiaries (the “Research Foundation”), which comprise the consolidated statement of net position as of June 30, 2016, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 1, 2016.

**Internal Control Over Financial Reporting**

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

*Carr, Riggs & Ingram, L.L.C.*

Orlando, Florida  
September 1, 2016