

Financial Statements



Florida State University Research Foundation, Inc.

*Years ended June 30, 2014 and 2013
with Report of Independent Auditors*

Florida State University Research Foundation, Inc.

Financial Statements

Years ended June 30, 2014 and 2013

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Report of Independent Auditors

The Board of Directors
Florida State University Research Foundation, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Florida State University Research Foundation, Inc. (the Research Foundation) which comprise the statements of fund net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in fund 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 Florida State University Research Foundation, Inc. as of June 30, 2014 and 2013, and the changes in its fund net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014, 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.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
September 10, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Florida State University Research Foundation, Inc. (the Research Foundation) is pleased to present its financial statements for fiscal years 2014 and 2013. The intent of this discussion and analysis of financial performance is to provide readers with a comprehensive picture of the Research Foundation's financial condition and results of operations and should be read in conjunction with the audited financial statements and related footnotes as details provided there are not necessarily repeated in this analysis.

This annual report consists of a series of financial statements. The **Statements of Fund Net Position** and the **Statements of Revenues, Expenses, and Changes in Fund Net Position** provide information about the activities of the Research Foundation as a whole and present an overall view of the Research Foundation's finances. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All current year revenues and expenses are taken into account regardless of when cash was received or disbursed. The primary purpose of the **Statements of Cash Flows** is to provide information about the cash receipts and disbursements of an entity during a period. This statement aids in the assessment of an organization's ability to generate future net cash flows and meet obligations as they come due. The accompanying footnotes to the financial statements provide further information related to amounts presented on the financial statements. The following discussion is meant to focus on key changes that occurred during the current financial period.

FINANCIAL HIGHLIGHTS

- **The fund net position** of the Research Foundation increased from approximately \$103 million to approximately \$112 million at June 30, 2014. The net increase is a result of the difference between the investment earnings and the operating loss. Fund net position indicates the overall financial strength of the Research Foundation and is equal to assets plus deferred outflows, less liabilities and deferred inflows. The fund net position will provide the resources necessary to continue funding research programs and research facilities, as well as to meet other obligations in the coming years.
- **Revenues** at the Research Foundation consist of licensing and royalty revenues, privately-funded contracts and grants, building rentals, and investment earnings.
 - **Licensing fees and royalty revenues** increased from the previous year. The Research Foundation recognized royalty revenues in the amount of \$886,000 compared to \$528,000 in 2013. The Research Foundation recognized \$510,000 in license fees related to website development during fiscal year 2014. These were one-time license fees to transition the websites that have been managed by the Research Foundation to the licensees.

FINANCIAL HIGHLIGHTS (continued)

- **Privately-funded contract and grant revenue** recognized in fiscal year 2014 decreased from the previous year. The number of the awards received by the Research Foundation during fiscal year 2013 was less than previous years. However, the number and amount of awards increased in the current fiscal year. The Research Foundation expects the contract and grant revenue to increase in fiscal year 2015.
- **Building revenues** decreased by 10%, as a result of the reduction of the rental rate for the Buildings A&B and the termination of the Johnson Building lease with the LCRDA. The Research Foundation received significant savings on the debt service as a result of the refunding that occurred in FY 2013, so the Research Foundation reduced the rental rates for the tenants in Buildings A&B. Building expenses decreased by approximately \$110,000 or 5% overall as a result of the termination of the Johnson and Shaw leases with LCRDA. There was a reduction in the interest on the bonds of \$263,000, however, that was offset by the expense of the bond issuance costs in the current year. A change in accounting principle forced the expense of the bond issuance costs in the current year.
- **Investment revenues** consisted of \$10.7 million during fiscal year 2014 compared to a total gain of \$9.3 million during fiscal year 2013. The Research Foundation realized an investment return on its equities in Northern Trust of 25% in fiscal year 2014, compared to 12.6% in fiscal year 2013.

RESEARCH FOUNDATION FUNDED PROGRAMS HIGHLIGHTS

Past royalty revenue and investment earnings provide resources for various internal research programs developed at the University. Spending for these programs is listed as “Research Foundation funded programs” on the Statements of Revenues, Expenses, and Changes in Fund Net Position. These programs include:

- ***Eppes Professorships*** – assist the University in recruiting national scholars by providing a \$40K annual grant to selected scholars employed by the University in various disciplines. Past recipients include Pulitzer Prize winners in literature and music composition, a four-time Emmy Award winner, a Nobel Prize winner in Chemistry, and a former chair of the National Endowment for the Arts. Eppes Professors bring new opportunities to students and campus. The grants are funded from investment earnings with up to \$800K committed to this program annually. During fiscal year 2014 there were 12 full Eppes professors, 1 partial Eppes professor, and 1 George Matthew Edgar professor for a total commitment of \$468,000 to the program.

RESEARCH FOUNDATION FUNDED PROGRAMS HIGHLIGHTS (continued)

- *Grants for Application Proof of Concept (GAP) Funding Program* – support enhancements of inventions or other original works that have been disclosed to the University. It funds projects that University researchers and other interested parties agree will quickly improve the odds that current research results will lead to public availability of a new product or service. The Research Foundation has funded \$250,000 per year for the past ten years.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statements of Fund Net Position

The Statements of Fund Net Position present the assets, deferred outflows, liabilities, deferred inflows, and fund net position of the Research Foundation as of the end of the fiscal year. From the data presented, readers are able to determine the net position available to continue the operations of the organization. In 2014, there was an increase in **total assets** of \$6.1 million. The variance was mainly a result of the difference in the termination of the capital leases for the Shaw Building, the Johnson Building, and the ground lease, as well as an increase in investments resulting from a favorable investment climate.

The Research Foundation's **long-term investment** funds with the State Board of Administration Commingled Asset Management Money Market Pool (CAMP-MM) and Local Government Investment Pool Fund B are currently illiquid and therefore restricted for use by the Research Foundation. The restricted balances consist of \$30,087 in CAMP-MM and \$231,345 in Fund B at June 30, 2014.

The **short-term investments** increased by approximately \$9 million due to the net effect of the \$10.7 million investment earnings and the \$1.5 million used to fund operations.

Property under capital leases (net) decreased by \$1.3 million primarily due to the amortization of the various properties under the capital lease agreements. These assets represent the current amortized cost of various Research Foundation leasehold agreements in Innovation Park.

Statements of Fund Net Position (continued)

The **royalty allocations payable** consists primarily of past royalties not yet spent by departments held on deposit at the Research Foundation. For 2014, this payable declined by nearly \$1.6 million due to continued departmental spending.

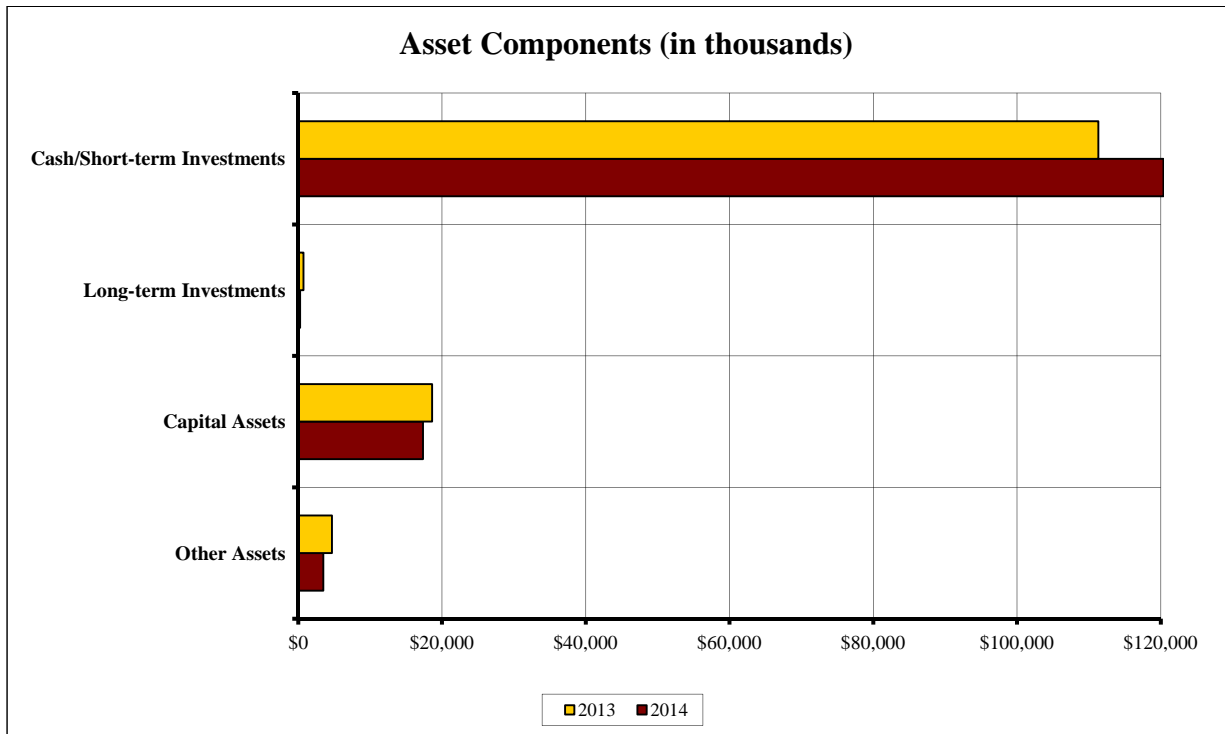
Unearned revenue consists of the unexpended portions of contract and grant revenue receipts that are being administered by the Research Foundation. Revenue per the Statements of Revenues, Expenses, and Changes in Fund Net Position is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Unearned revenue decreased by \$1.4 million in 2014 due to the decrease in the cash received for grants in fiscal year 2014.

During fiscal year 2014, the Research Foundation expensed the remaining portion of its **bond issuance costs** as a result of a change in accounting principle.

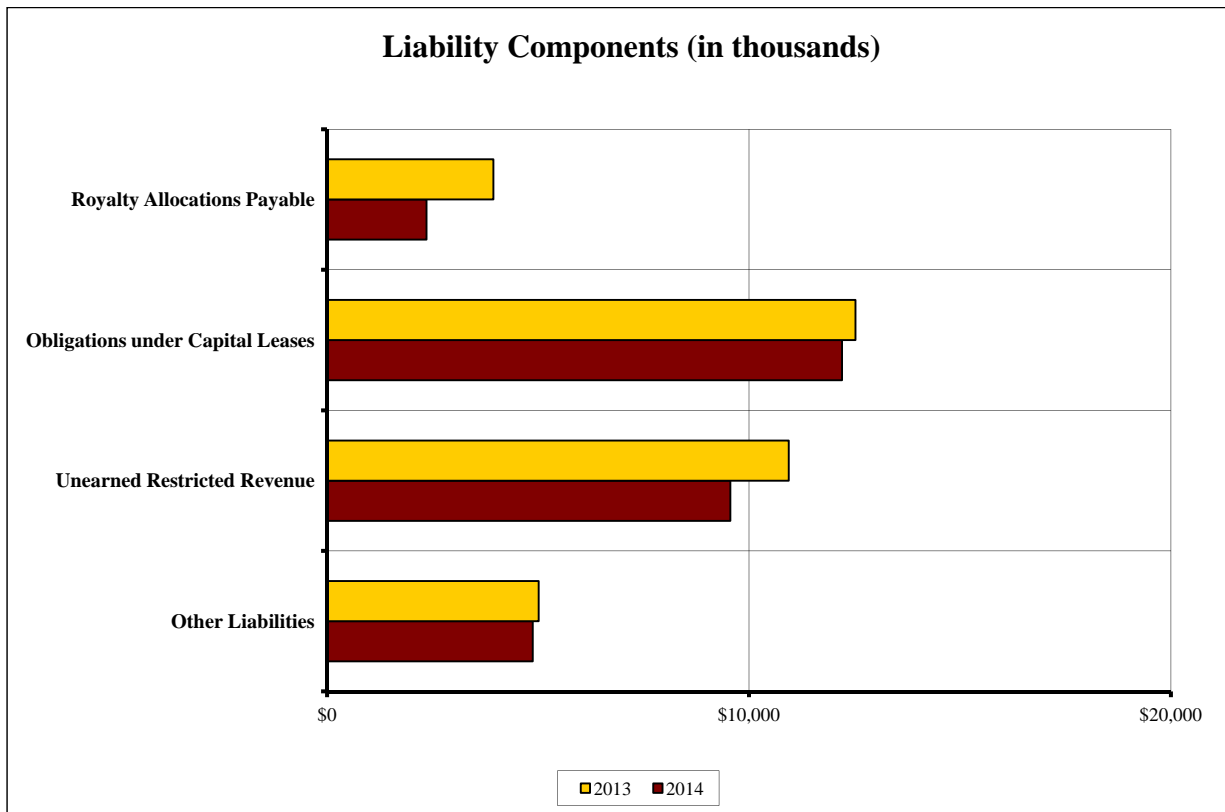
Total liabilities decreased by \$3.4 million in fiscal year 2014. The combination of activities in the royalty allocations payable, unearned revenues, and the obligations under capital leases resulted in the overall change. The royalty allocations payable decreased due to the continual spending of the department's share of the royalty distributions. The obligations under capital leases, including unamortized bond issuance costs and premium, decreased by more than \$300,000, which is mainly consists of the annual principle payment to the State Board of Administration.

Statements of Fund Net Position (continued)

The following chart illustrates the **asset** components at June 30, 2014 and 2013:



The following chart illustrates the **liability** components at June 30, 2014 and 2013:



Statements of Fund Net Position (continued)

Computing and presenting the fund net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) is one way to illustrate the financial health or financial position of the Research Foundation. Over time, increases or decreases in net position are an indicator of whether the overall financial health is improving or deteriorating. The following table summarizes assets, liabilities, and net position as of June 30:

Net Position (in millions), End of Year

	2014	2013	% change
Current and Other Assets	\$ 124.1	\$ 116.7	6.3%
Capital Assets and Land	17.4	18.6	-6.5%
Total Assets	\$ 141.5	\$ 135.3	4.6%
Debt Outstanding - Capital Assets	\$ 12.2	\$ 12.5	-2.4%
Other Liabilities	16.8	19.9	-15.6%
Total Liabilities	\$ 29.0	\$ 32.4	-10.5%
Net Investment in Capital Assets	\$ 4.9	\$ 5.8	-15.5%
Unrestricted	107.6	97.1	10.8%
Net Position	\$ 112.5	\$ 102.9	9.3%

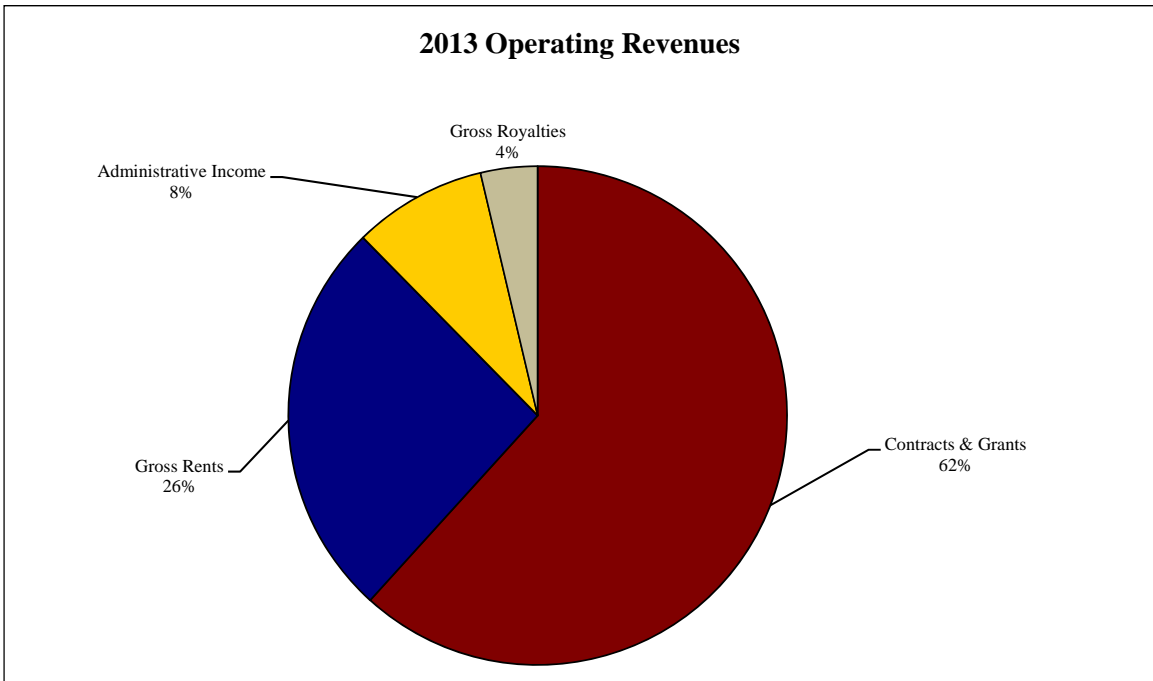
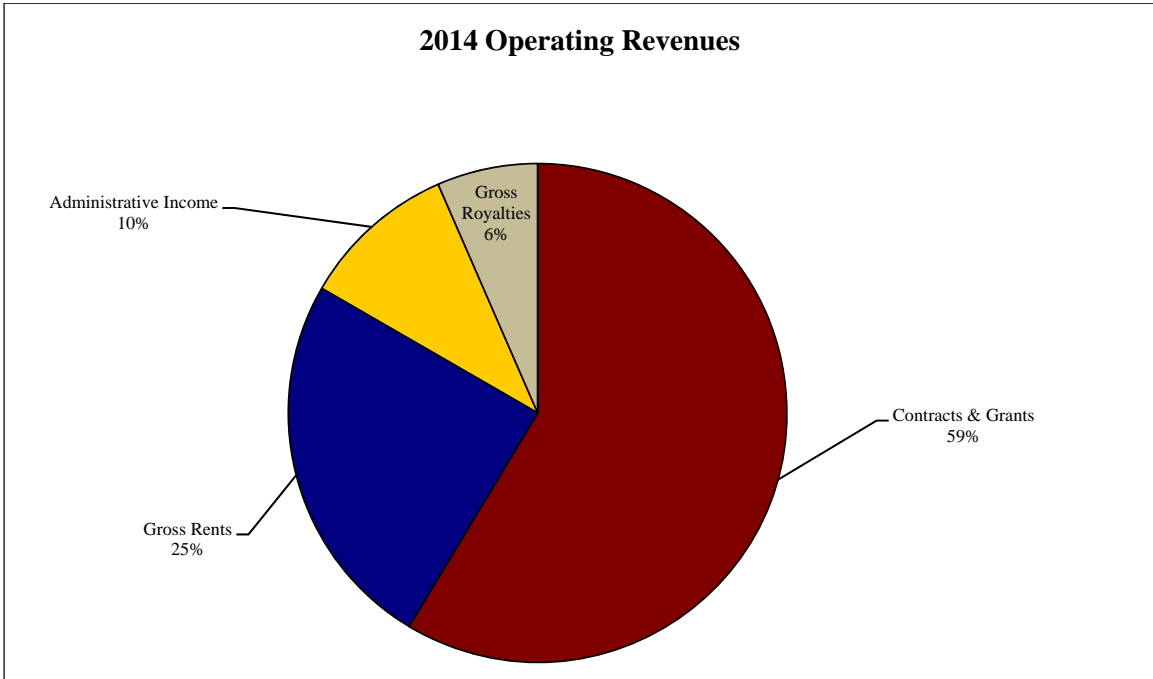
The Research Foundation's overall financial condition remains healthy with total assets exceeding total liabilities by \$112.5 million.

Statements of Revenues, Expenses, and Changes in Fund Net Position

Royalty revenues, contract and grant revenues, building rents (**Operating income**) and investment earnings (**Nonoperating income**) provide the primary resources used to fund Research Foundation activities. The Research Foundation received \$24.2 million in revenues during fiscal year 2014 compared to \$23.6 million in fiscal year 2013. The largest source of income in fiscal year 2014 came from the investment earnings with an amount that exceeded \$10.7 million. During fiscal year 2013, the largest source of income came from the investment earnings as well. The Research Foundation also recognized nearly \$8 million in contract and grant revenues and \$3.3 million in rental revenues during fiscal year 2014.

Statements of Revenues, Expenses, and Changes in Fund Net Position (continued)

The following charts depict the sources of operating revenues for the periods ending June 30, 2014 and 2013. The allocation of revenues has remained consistent from the prior year.



Statements of Revenues, Expenses, and Changes in Fund Net Position (continued)

Other operating expenses decreased \$6.8 million in 2014 which is primarily attributable to the decrease in **Contributions to Florida State University** (see below).

Contributions to Florida State University decreased \$6.9 million in 2014 from the prior year. During fiscal year 2013, the Research Foundation donated the FAR Building, which was valued at \$5.7 million. The Research Foundation also donated the Transmission Electron Microscope, valued at \$4.1 million, and a building and land in the amount of \$2.6 million. The Research Foundation made an additional contribution to the Chemistry Department in the amount of \$2 million. The following list describes the types of disbursements made as Contributions to Florida State University in 2014 and 2013:

	Years Ended June 30,	
	2014	2013
Contributions toward Office of Commercialization	\$ 80,256	\$ 44,821
Residuals available for research spending	182,879	356,695
Advocacy groups assisting with federal funding	90,000	108,000
Contracted services, recruiting, and other	278,706	215,392
Contribution to Chemistry Department	-	2,000,000
Indirect Cost Distributed to Departments	270,000	-
Donation of property to the University/ Termination of leases	863,350	6,758,309
Contributions from the University	(950,000)	(1,736,444)
	<u>\$ 815,191</u>	<u>\$ 7,746,773</u>

Nonoperating revenues increased \$1.4 million in 2014 compared to 2013. This increase was primarily due to the favorable equities investment market. The Research Foundation had **investment revenues** of \$10.7 million in 2014 compared to \$9.3 million in 2013.

The Research Foundation is considered a component unit of The Florida State University, and as such, submits required financial information to be included in their government-wide and fund financial statements.

Florida State University financial statements can be viewed at the following website: <http://controller.vpfa.fsu.edu/Annual-Financial-Reports>.

Florida State University Research Foundation, Inc.

Statements of Fund Net Position

	June 30,	
	2014	2013
Assets		
Current assets:		
Cash	\$ 172,317	\$ 218,248
Short-term investments	120,196,059	111,092,506
License fees and royalties receivable	21,738	214,288
Grants receivable	1,037,674	1,051,201
Note receivable, current portion	-	11,563
Accounts receivable - other	4,707	8,481
Prepaid expenses	93,624	126,441
Total current assets	<u>121,526,119</u>	<u>112,722,728</u>
Noncurrent assets:		
Long-term investments	261,432	718,778
Note receivable, net long-term portion	-	216,681
Land	785,000	785,000
Property under capital leases, net	16,465,193	17,782,435
Construction in progress	76,661	-
Equipment, net	9,292	18,584
Computer software, net	12,400	28,933
Lease payments in advance, net	2,333,565	2,403,966
Other assets, net	-	658,072
Total noncurrent assets	<u>19,943,543</u>	<u>22,612,449</u>
Total assets	<u><u>\$ 141,469,662</u></u>	<u><u>\$ 135,335,177</u></u>
Liabilities and fund net position		
Current liabilities:		
Royalty allocations payable	\$ 2,354,490	\$ 3,941,879
Other liabilities	398,193	744,937
Unearned restricted revenue	9,557,997	10,940,691
Florida State University fund payable	4,188,076	3,985,201
Obligations under capital leases, current portion	485,000	470,000
Total current liabilities	<u>16,983,756</u>	<u>20,082,708</u>
Noncurrent liabilities:		
Obligations under capital leases, long-term portion	10,600,000	11,085,000
Bond issuance costs and premium, net	1,118,918	968,109
Annuity obligations	289,173	285,161
Total noncurrent liabilities	<u>12,008,091</u>	<u>12,338,270</u>
Total liabilities	<u>28,991,847</u>	<u>32,420,978</u>
Fund net position:		
Net investment in capital assets	4,855,455	5,806,682
Unrestricted	107,622,360	97,107,517
Total fund net position	<u>112,477,815</u>	<u>102,914,199</u>
Total liabilities and fund net position	<u><u>\$ 141,469,662</u></u>	<u><u>\$ 135,335,177</u></u>

See accompanying notes.

Florida State University Research Foundation, Inc.

Statements of Revenues, Expenses, and Changes in Fund Net Position

	Years ended June 30,	
	2014	2013
License and grant revenues		
Licensing fees and royalties	\$ 886,648	\$ 528,812
Contracts and grants - restricted	7,962,393	8,848,610
Administrative - unrestricted:		
Contracts and grants	1,074,867	1,110,074
Licenses and other	181,482	132,899
Total license and grant revenues	10,105,390	10,620,395
License and grant expenses		
Royalty allocations	(636,138)	(378,485)
Patent and licensing costs	(1,271,881)	(908,012)
Bad debt expense	(220,777)	(84,020)
Contracts and grants	(7,962,393)	(8,848,610)
Total license and grant expenses	(10,091,189)	(10,219,127)
Net license and grant income	14,201	401,268
Rent revenues (expenses)		
Rental revenue	3,354,561	3,716,068
Building occupancy costs:		
Interest on bonds	(336,781)	(600,691)
Amortization and depreciation	(1,208,215)	(1,318,142)
Management and leasing fees	(142,420)	(156,211)
Utilities, net of reimbursements	-	(4,911)
Bond issuance costs	(216,628)	-
Other	(266,330)	(197,715)
Net rental income	1,184,187	1,438,398
Other operating expenses		
Personnel costs	(529,090)	(478,796)
Contributions to Florida State University	(815,191)	(7,746,773)
Software amortization	(16,533)	(18,511)
Miscellaneous	(75,420)	(119,798)
Research Foundation funded programs	(807,663)	(690,675)
Total other operating expenses	(2,243,897)	(9,054,553)
Operating loss	(1,045,509)	(7,214,887)
Nonoperating revenues (expenses)		
Investment revenue	10,740,165	9,310,928
Investment portfolio fees	(86,567)	(85,439)
Change in annuity value	(54,644)	(40,699)
Miscellaneous income	10,171	4,064
Total nonoperating revenues (expenses)	10,609,125	9,188,854
Change in fund net position	9,563,616	1,973,967
Fund net position, beginning of year	102,914,199	100,940,232
Fund net position, end of year	\$ 112,477,815	\$ 102,914,199

See accompanying notes.

Florida State University Research Foundation, Inc.

Statements of Cash Flows

	Years ended June 30,	
	2014	2013
Cash flows from operating activities		
Licensed products and building program:		
Licensing fees and royalties	\$ 1,084,503	\$ 321,908
Administrative fees from licenses and other	181,482	132,899
Rental income	3,357,920	3,730,030
Departmental allocation payments	(2,223,527)	(1,800,590)
Patent and licensing costs	(1,269,217)	(965,156)
Building occupancy	(760,515)	(923,548)
Lease payments in advance	(18,959)	(88,343)
Net cash provided by licensed products and building program	<u>351,687</u>	<u>407,200</u>
Contracts and grants:		
Receipts	7,670,255	7,871,182
Disbursements	(8,304,436)	(8,659,611)
Net cash used in contracts and grants	<u>(634,181)</u>	<u>(788,429)</u>
Other receipts/disbursements:		
Personnel costs	(529,090)	(478,796)
Research Foundation funded programs	(801,707)	(699,519)
Contributions to Florida State University	251,034	(918,176)
Other disbursements	(114,785)	(80,923)
Net cash used in other receipts/disbursements	<u>(1,194,548)</u>	<u>(2,177,414)</u>
Net cash used in operating activities	<u>(1,477,042)</u>	<u>(2,558,643)</u>
Cash flows from noncapital financing activities		
Gift annuity payments	(50,632)	(67,510)
Administrative fees and other	10,171	4,064
Net cash used in noncapital financing activities	<u>(40,461)</u>	<u>(63,446)</u>
Cash flows from investing activities		
Purchases of investment securities	(1,827,609)	(5,597,825)
Sales of investment securities	3,835,000	10,950,000
Purchases of land, buildings, and/or equipment	-	(544,943)
Proceeds from sale of land, buildings, and/or equipment	-	2,531,684
Net cash provided by investing activities	<u>2,007,391</u>	<u>7,338,916</u>
Cash flows from capital and related financing activities		
Principal payments on obligations under capital leases	(470,000)	(18,365,000)
Borrowings for obligations under capital leases	-	11,920,000
Bond issuance costs and premium, net	(65,819)	968,109
Net cash used in capital and related financing activities	<u>(535,819)</u>	<u>(5,476,891)</u>
Net change in cash	(45,931)	(760,064)
Cash, beginning of year	218,248	978,312
Cash, end of year	<u>\$ 172,317</u>	<u>\$ 218,248</u>

(continued)

Florida State University Research Foundation, Inc.

Statements of Cash Flows (continued)

	Years ended June 30,	
	2014	2013
	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,045,509)	\$ (7,214,887)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization and depreciation of capital assets	1,224,748	1,336,653
Noncash donation to Florida State University	863,350	6,758,310
Bond issuance costs	216,628	-
Write-off of note receivable	222,939	-
Changes in operating assets and liabilities:		
License fees and royalties receivable	192,550	(211,954)
Other receivables	17,301	(418,869)
Note receivable	5,305	5,050
Prepaid expenses	32,817	(18,435)
Lease payments in advance	(16,558)	(41,592)
Royalty allocations payable	(1,587,389)	(1,422,105)
Florida State University fund payable	202,875	70,287
Other liabilities	(423,405)	114,706
Unearned restricted revenue	(1,382,694)	(1,515,807)
Net cash used in operating activities	<u>\$ (1,477,042)</u>	<u>\$ (2,558,643)</u>

See accompanying notes.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

Years ended June 30, 2014 and 2013

1. Summary of Significant Accounting Policies

Reporting Entity

The Florida State University Research Foundation, Inc. (the Research Foundation) is a direct support organization as provided for in Section 1004.28, Florida Statutes, Board of Governors Regulation 9.011, and Board of Trustees Regulation 6C2R-2.025. The Research Foundation is considered a component unit of The Florida State University (the University). The Research Foundation was formed as a not-for-profit organization in September 1993, in the state of Florida. The purpose of the Research Foundation is to promote and assist the research and training activities of the University through income from contracts, grants, and other sources, including income derived from the development and commercialization of the University's work products.

The Research Foundation is responsible for (1) administering awards funded with private monies for research and development activities of the University where there is a commitment of the University's personnel, equipment, or other facilities; (2) administering income derived from patents and copyrights in accordance with the University's Policies on Patents and University-Sponsored Educational Materials (Copyrights); and (3) developing an infrastructure that supports research activities.

Basis of Accounting

The Research Foundation's financial statements are prepared on the accrual basis of accounting in which transactions are recognized when they occur, regardless of the timing of related cash flows. These financial statements are those of the Research Foundation alone and, accordingly, are not intended to present the financial position or the results of operations of the University.

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. Separate accounts are maintained for each fund; however, for financial statement reporting purposes all funds are combined.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Cash

Cash consists of deposits with financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor or collateralized with securities in Florida's multiple financial institution collateral pool pursuant to Chapter 280, Florida Statutes. Bank deposits at times may exceed insured limits. The Research Foundation has not experienced any losses in such accounts.

Investments

Short-term investments have maturities of one year or less. Short-term funds consist of monies invested with the State Board of Administration (SBA) Local Government Investment Pool (LGIP) and two funds with Northern Trust, the Northern Institutional Government Select Portfolio (GSP) and the QM Common Daily United States IMI Fund-Non-Lending (NTGI-QM). The Research Foundation invests in the LGIP and owns a share of the respective pool, not the underlying securities. The LGIP's underlying investments consist of federal agency obligations, U.S. Treasury bonds, commercial paper, and various other securities with short-term maturities. The LGIP is not a registrant with the Securities and Exchange Commission (SEC), and operates as an SEC Rule 2a-7 like fund. The Northern Trust GSP is a short-term fund that invests exclusively in high-quality money market instruments. The NTGI-QM is an equity fund that approximates the overall performance of the MSCI United States Investable Market Index.

Long-term investments have maturities of greater than one year. Long-term funds are invested in the Commingled Asset Management Program Money Market (CAMP-MM) Pool and Fund B at the SBA. The CAMP-MM Pool and Fund B's underlying investments consist of commercial paper, corporate notes, and mutual funds with long-term maturities. These underlying investments are currently illiquid and, therefore, restricted for use by the Research Foundation. At June 30, 2014, the Research Foundation has \$30,087 invested in CAMP-MM and \$231,345 in Fund B.

Accounts Receivable

Receivables include grants receivables and other receivables such as rents and expense reimbursements, all of which 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. No allowances were deemed necessary for grants and other receivables at June 30, 2014 and 2013.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Note Receivable

The Research Foundation previously executed a note receivable, valued at net realizable value, secured by certain assets and rights sold pursuant to the PortStar Intellectual Property Acquisition Agreement and all accounts receivable derived by the PortStar System or the PortStar assets. The receivable resulted from the July 2010 sale of certain intellectual property developed at the University. In April 2011, the original note was modified pursuant to a settlement agreement between the parties. The face amount of both the original and revised note was \$500,000, with payments due quarterly in accordance with the terms of the amended note. During the year ended June 30, 2011, the Research Foundation established an allowance for uncollectable amounts of \$250,000 related to the note. At June 30, 2014, the Research Foundation deemed the note uncollectible and wrote off the remaining balance of \$222,939.

Concentration of Credit Risk

The financial instruments exposed to concentrations of credit risk consist primarily of cash and investments. All investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Research Foundation. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Research Foundation limits its exposure by investing primarily in the SBA investment pools and Northern Trust funds which invest in higher quality investments with varying maturity rates.

Property Under Capital Leases

The buildings acquired under capital lease agreements have been capitalized at the present value of the minimum lease payments as of the beginning of the lease term, which approximated their fair value at that time. The buildings are being amortized over the lease terms using the straight-line method.

The Research Foundation made a one-time, nonrefundable prepayment of \$784,800 on October 25, 2001, to the Leon County Research and Development Authority (LCRDA). This prepayment entitled the Research Foundation to use certain land for a research facility for approximately 72 years and was scheduled to be amortized at \$10,862 per year over that term. The unamortized balance was reported as other assets in the financial statements as of June 30, 2013. During the year ended June 30, 2014, the Research Foundation terminated the lease agreement with LCRDA and, as a result, recognized a loss of \$650,246 which is included in contributions to Florida State University in the financial statements. LCRDA transferred the property to the University, and the Research Foundation will now lease the property along with certain related buildings from the University.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Royalty Allocations Payable

Royalty allocations payable consists of two balance components, the inventors' department allocations payable and the inventors' allocations payable.

The inventors' department allocations payable makes up the largest piece of this liability. The department or unit of which the inventor is a member receives a percentage of royalties earned. When royalties are accrued, the Research Foundation calculates the amount due the department and records an expense and a liability. Allocations stay on deposit with the Research Foundation and departments have authority to spend down the balance on research-related items. At year end, the payable reflects amounts earned and available to the departments. As of June 30, 2014 and 2013, the inventors' department allocations payable balance was \$2,068,669 and \$3,809,962, respectively.

The inventors' allocations payable is comprised of monies due to individuals responsible for the development of various patented or copyrighted research. As royalties are accrued, the Research Foundation calculates the amount due to the inventors, and records an expense and accrues a liability for this amount. Subsequent distributions are then charged against the accrued liability in the following fiscal year. As of June 30, 2014 and 2013, the inventors' allocations payable balance was \$285,821 and \$131,917, respectively.

Bond Issuance Costs and Premiums

The Research Foundation amortizes bond premiums over the term of the related obligations under capital leases (bonds) using the straight-line method and previously amortized bond issuance costs in a similar manner. Due to the implementation of new accounting principles during the year ended June 30, 2014, the Research Foundation expensed its remaining unamortized bond issuance costs to be consistent with the methods used by the State University System of Florida and the University.

Patent and Licensing Costs

The Research Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2014 and 2013, the Research Foundation incurred patent and licensing costs of \$1,286,424 and \$931,233, respectively, and received reimbursements of \$14,543 and \$23,221 for the net expense of \$1,271,881 and \$908,012, respectively.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Income Taxes

Pursuant to a determination letter received from the Internal Revenue Service, the Research Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and as such is liable for tax only on business income unrelated to the purpose for which it is exempt. No provision for income tax expense or liability has been made in either year presented. There are currently no Internal Revenue Service or other nonfederal tax jurisdiction audits in progress for any tax periods. With few exceptions, the Research Foundation is no longer subject to examinations by major tax jurisdictions for years ended June 30, 2010 and prior.

Revenue Recognition

Operating revenues - includes activities that have the characteristics of exchange transactions, such as contracts and grants, building rental, and royalties and licensing. Exchange transactions are transactions in which each party receives and gives up essentially equal values.

Nonoperating revenues - includes activities that have characteristics of nonexchange transactions, such as investment income. Nonexchange transactions are transactions in which an entity either gives or receives value to another party without directly giving or receiving equal value in exchange.

Administrative Revenue - Unrestricted

The Research Foundation recognizes administrative overhead and residual revenues on restricted contract, grants, and licenses on an annual basis. These amounts are considered unrestricted and remain on deposit with the Research Foundation to support research activity at the University.

The revenue breakdown for administrative revenue is as follows:

	Years ended June 30,	
	2014	2013
Administrative overhead:		
Contracts and grants	\$ 891,988	\$ 753,379
Licenses and other	181,482	132,899
Contract and grant residuals	182,879	356,695
	<u>\$ 1,256,349</u>	<u>\$ 1,242,973</u>

2. Investments

Investments at June 30, 2014 and 2013, consist of investments held in multiple investment pools at the SBA and funds held at Northern Trust. Interest earnings of the pools are allocated on a pro rata basis using the weighted average deposit balance per fund. The Research Foundation's fair value of its position in each pool approximates its value of the pool shares.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

2. Investments (continued)

At June 30, 2014, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Short-term – SBA LGIP Fund A	\$ 31,901,204
Short-term – Northern Trust GSP	35,078,649
Short-term – Northern Trust NTGI-QM	53,216,206
Long-term – SBA LGIP Fund B	30,087
Long-term – SBA CAMP-MM Restricted	231,345
Total	<u>\$ 120,457,491</u>

At June 30, 2013, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Short-term – SBA LGIP Fund A	\$ 33,352,269
Short-term – Northern Trust GSP	35,181,737
Short-term – Northern Trust NTGI-QM	42,558,500
Long-term – SBA LGIP Fund B	602,886
Long-term – SBA CAMP-MM Restricted	115,892
Total	<u>\$ 111,811,284</u>

Interest rate risk – In accordance with its investment policy, the Research Foundation manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than eight years. At June 30, 2014, the weighted average maturity of the GSP is 37 days, and there are no weighted average maturities for the NTGI-QM as those investments are considered to be perpetual maturity holdings. The LGIP’s weighted average maturity at June 30, 2014, is 40 days. Fund B’s underlying investments are illiquid and the Research Foundation has no access or control over the fund; its weighted average life of 2.86 years is based on the dollar-weighted average length of time until securities held reach maturity. Because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the weighted average life. Investments included in Fund B are classified as long-term due to changes in the structure of the LGIP that restricted the Research Foundation’s access to the investments and due to the unpredictable nature of the distributions. Subsequent to June 30, 2014, the Research Foundation received distributions of approximately \$23,000 from Fund B.

Credit risk – In accordance with an investment services agreement, the Research Foundation follows the investment policies of the SBA, including those related to credit risk. The LGIP is rated by Standard & Poors and had a rating of AAAM as of June 30, 2014. Fund B is not rated by any nationally recognized statistical rating agency. The GSP is rated by Standard and Poor’s and had a rating of AAAM at June 30, 2014. The NTGI-QM fund is an equity fund and therefore S&P bond ratings do not exist on its underlying holdings.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

2. Investments (continued)

Investment revenues consisted of the following amounts:

	Years ended June 30,	
	2014	2013
Realized gains on long-term investments	\$ 4,950	\$ 5,512
Unrealized gains on long-term investments	44,744	307,855
Realized gains on short-term investments	2,906,355	4,518,301
Unrealized gains on short-term investments	7,784,116	4,479,260
	\$ 10,740,165	\$ 9,310,928

3. Unearned Restricted Revenue

Unearned restricted revenue consists 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.

Changes in unearned restricted revenue from these contracts and grants consist of the following:

	2014	2013
Beginning balance	\$ 10,940,691	\$ 12,456,498
Contracts and grants	7,654,566	8,442,877
Restricted contracts and grants expenditures	(7,962,393)	(8,848,610)
Administrative contracts and grants expenditures	(1,074,867)	(1,110,074)
Ending balance	\$ 9,557,997	\$ 10,940,691

4. Lease Payments in Advance

Materials Research Building

During fiscal year 2007, the Research Foundation began preliminary feasibility work for the construction of a new Materials Research Building. The building was completed during fiscal year 2009. During fiscal years 2010 and 2011, the Research Foundation expended additional resources to complete contract commitments in relation to the original construction of the building. As of June 30, 2012, the Research Foundation had expended or obligated a total of \$16,660,401, of which \$14,601,334 was funded by the University. The lease agreement between the University and the Research Foundation does not meet the criteria for a capital lease; therefore, the Research Foundation has classified the payments as a Lease Payment in Advance. The lease payment in advance balance at June 30, 2014, is \$1,709,065, including accumulated amortization of \$350,002. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2040, using the straight-line method.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

4. Lease Payments in Advance (continued)

Aero-Propulsion, Mechatronics, and Energy (AME) Building

During fiscal year 2008, the Research Foundation entered into an agreement with the University to construct the AME Building. The costs of construction were to be funded primarily by the University and supplemented with additional funds by the Research Foundation. The construction of the building began in fiscal year 2009 and was substantially complete in December 2011. Costs expended by the Research Foundation net of University reimbursements are \$675,530. The lease agreement between the University and Research Foundation does not meet the criteria for a capital lease; therefore, the Research Foundation has classified the payments as a Lease Payment in Advance. The lease payment in advance balance as of June 30, 2014 is \$624,500, including accumulated amortization of \$51,030. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2043, using the straight-line method.

5. Buildings and Land

3000 Commonwealth Boulevard

On October 1, 2008, the Research Foundation purchased a building and land for \$2.3 million and subsequently renovated the building. On October 5, 2012, the Research Foundation transferred ownership of the property to the University. The donated value of the land, building, and renovated chemistry lab was \$2,576,798, and was included in contributions to Florida State University for the year ended June 30, 2013.

Palm Court I

On March 7, 2012, the Research Foundation purchased land for approximately \$2 million. The Research Foundation subsequently expended \$31,206 in demolition and legal fees to prepare the land for use, resulting in a capitalized cost of \$2,062,260. On June 10, 2013, the Research Foundation sold the land to the University for \$2,035,606. The difference is included in contributions to Florida State University for the year ended June 30, 2013.

Palm Court II

On December 20, 2012, the Research Foundation purchased land for \$536,456. The Research Foundation subsequently expended \$8,487 in survey and legal fees to prepare the land for use. On June 10, 2013, the Research Foundation sold the land to the University for \$496,077. The difference is included in contributions to Florida State University for the year ended June 30, 2013.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases

The Research Foundation operates all or portions of eight buildings as lessor. At June 30, 2014, two of these buildings (four at June 30, 2013) have their construction costs capitalized in these financial statements as capital leases under the requirements of the *Leases* Topic of the Financial Accounting Standards Board's *Accounting Standards Codification*. The Research Foundation has guaranteed bonds associated with the construction of these buildings as described in the following section. Under the agreements, the Research Foundation receives rents, pays operating costs, and is responsible for making the debt service payments on the related bonds. Construction costs for these buildings were funded from bond proceeds and the discounted present value of the debt payments were recorded as obligations under capital lease liabilities.

The two buildings described in Note 4 have various lease payments in advance recognized by the Research Foundation in addition to being operated by the Research Foundation as lessor. Four other buildings, 3000 Commonwealth, 3200 Commonwealth, the Sliger Building, and the Shaw Building, are owned by Florida State University as of June 30, 2014, and are fully or partially managed/leased by the Research Foundation.

The following paragraphs describe the terms of the bonds that the Research Foundation has guaranteed, detail the capitalized costs and amortization associated with the property under capital leases, provide a schedule of annual debt obligations, and summarize minimum lease payments to be received under current leases in force for the buildings leased by the Research Foundation.

Obligations Under Capital Leases - Guaranty Agreements

On November 1, 1994, the Research Foundation entered into a guaranty agreement for the issuance by the LCRDA of \$3,865,000 of Series 1994 Lease Revenue Bonds, the proceeds of which were to be used to finance the construction of a research facility to be leased to the Research Foundation. Upon completion of the facility, the Johnson Building, on November 1, 1995, the Research Foundation redeemed the outstanding bonds for the entire principal amount of \$3,865,000, thereby fully extinguishing its obligations under the guaranty agreement dated November 1, 1994. The Research Foundation operated the rental of the building as lessor through March 18, 2014. At that time the Research Foundation terminated its lease agreement with the LCRDA.

On July 1, 1996, the Research Foundation executed a guaranty agreement on a \$4,400,000 LCRDA bond issued to construct the Shaw Building. During 2007, the Research Foundation redeemed the outstanding bonds for the remaining principal amount of \$2,597,816, thereby fully extinguishing its obligations under the guaranty agreement dated July 1, 1996. Subsequent to this debt pay-off, the Research Foundation initiated a renovation project but continued to operate the rental of the building through March 18, 2014. At that time the Research Foundation terminated its lease agreement with the LCRDA and, as a result, recognized a loss of \$213,104 which is included in contributions to Florida State University in the financial statements. The Shaw Building and related land were transferred to the University by the LCRDA.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

On December 5, 2001, the Research Foundation entered into a guaranty agreement for the issuance of \$22,590,000 of Series 2001 Revenue Bonds by the Florida Board of Education. The proceeds were used to construct research and development facilities (Buildings A and B) for the benefit of the University. All rents are collected by the Research Foundation and debt service payments are secured and were paid from pledged lease payments received by the Research Foundation from the occupants of these buildings. The bonds bore interest ranging from 4.00% to 4.875%. Both Building A and Building B construction was substantially completed during fiscal year 2003. In fiscal year 2006, Building B incurred additional build-out construction costs that were capitalized as part of the property under capital leases and amortized accordingly beginning in fiscal year 2006. During fiscal year 2010, the Research Foundation incurred additional costs in relation to the construction of the CAPS Medium Voltage Laboratory adjacent to Building A and renovations to the tenant space in Building B. The additional costs of the CAPS Lab and the tenant space in Building B were capitalized as part of the property and amortized accordingly beginning in 2010. During fiscal year 2011, the Research Foundation incurred additional costs for renovations to tenant space in Building A. The costs of the renovations in Building A were capitalized as part of the property and amortized accordingly beginning in January 2011.

On January 4, 2013, the Research Foundation entered into a guaranty agreement for the issuance of \$11,920,000 of Series 2012 Revenue Refunding Bonds by the Florida Board of Governors. The proceeds, together with \$5 million of available funds from the Research Foundation, were used to refund all of the outstanding Florida Board of Education Series 2001 Revenue Bonds, and to pay costs of issuance. All rents are collected by the Research Foundation and debt service payments are secured and will be paid from pledged lease payments received by the Research Foundation from the occupants of the Research Foundation buildings. The bonds bear interest ranging from 3.00% to 4.00%. The refunding resulted in a reduction in future minimum lease payments of \$11,053,435 over the next nineteen years and obtained a present value savings of \$3,792,528.

Amortization of Capitalized Costs

Building costs are amortized over the payment period of the related bonds using the straight-line method. The detail of capitalized costs and amortization as of June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Johnson Building	\$ 3,888,544	\$ –	\$ 3,888,544	\$ –
Shaw Building	4,594,292	–	4,594,292	–
Building A	14,562,880	–	–	14,562,880
Building B	11,102,484	–	–	11,102,484
	<u>\$ 34,148,200</u>	<u>\$ –</u>	<u>\$ 8,482,836</u>	<u>\$ 25,665,364</u>

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

Changes in accumulated amortization for each building are as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Johnson Building	\$ 3,888,544	\$ –	\$ 3,888,544	\$ –
Shaw Building	4,167,497	213,691	4,381,188	–
Building A	4,851,418	494,496	–	5,345,914
Building B	3,458,306	395,951	–	3,854,257
	<u>\$ 16,365,765</u>	<u>\$ 1,104,138</u>	<u>\$ 8,269,732</u>	<u>\$ 9,200,171</u>

Obligations Under Capital Leases

Obligations under capital leases described above consist of the following at June 30, 2014:

	Balance July 1, 2013	Principal Payments	Balance June 30, 2014
Buildings A and B	<u>\$ 11,555,000</u>	<u>\$ (470,000)</u>	<u>\$ 11,085,000</u>

The following is a schedule by years of future minimum lease payments under capital leases:

Year Ending June 30,	Buildings A and B	Interest	Principal
2015	\$ 873,500	\$ 388,500	\$ 485,000
2016	873,950	373,950	500,000
2017	873,950	358,950	515,000
2018	873,500	343,500	530,000
2019	872,300	322,300	550,000
2020-2024	4,362,900	1,262,900	3,100,000
2025-2029	4,355,650	615,650	3,740,000
2030-2031	1,740,300	75,300	1,665,000
Total	<u>\$ 14,826,050</u>	<u>\$ 3,741,050</u>	<u>\$ 11,085,000</u>

Property Leased to Others

During the years ended June 30, 2014 and 2013, the Research Foundation recognized rental income from the properties described in Notes 4 through 6 in the amounts of \$3,354,561 and \$3,716,068, respectively. As of June 30, 2014, the tenants occupied approximately 98% of the available rental space.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

The following is a schedule of future rentals under noncancellable leases as of June 30, 2014. The amounts reflected below may differ from actual future rental income due to new leases entered into, the expiration of existing leases, or the recognition of rental income resulting from escalators, if any:

Year Ending June 30,	Rental Income
2015	\$ 3,188,227
2016	2,647,868
2017	2,342,446
2018	1,150,783
2019	332,325
Thereafter	26,113
	<u>\$ 9,687,762</u>

7. Equipment

During the year ended June 30, 2012, the Research Foundation completed construction of a Transmission Electron Microscope (TEM), including renovation of an existing laboratory which now houses the equipment. Total capitalized costs were \$4,105,992. Effective July 1, 2012, the Research Foundation transferred ownership of the TEM to Florida State University. The expense related to this transfer is included in contributions to Florida State University for the year ended June 30, 2013. The Research Foundation's capitalized equipment remaining as of June 30, 2014 consists of various items depreciated over five years.

8. Gift Annuity Program

In July of 2002, the Research Foundation accepted a donation of land with an appraised value at the time of donation of \$785,000. As a condition of the donation, the Research Foundation entered into a charitable gift annuity agreement with the donor. Required payments under the annuity agreement are \$67,510 per year, payable in equal quarterly payments beginning September 30, 2002. At June 30, 2014 and 2013, the annuity payable is recorded at its present value of \$289,173 and \$285,161, respectively. A discount rate of 2.35% is used at June 30, 2014. The annuity obligation is adjusted at the end of each year based on life expectancy tables.

Florida Statutes require that qualified organizations that enter into annuity agreements with a donor must maintain admitted assets at least equal to the sum of the reserves on its outstanding annuity agreements. In addition, the organization must maintain a surplus of 25% of such reserves. To comply with these Statutes, it is management's intention to maintain assets equal to the required reserve until the annuity obligation is satisfied.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

9. Designated Fund Net Position

Designated unrestricted fund net position balances are reserved by the Board for special use. The Board may rescind its action at any time. Since these designations are not the result of donor-imposed or contractual restrictions, they are reflected as a component of unrestricted fund net position in the statements of fund net position. At June 30, 2014, the Research Foundation's Board had designated portions of the unrestricted fund net position for the following purposes:

AME Building	\$ 28,712
Southwest Campus Research Facility	<u>920,289</u>
Total	<u>\$ 949,001</u>

10. Commitments and Other Matters

Capital Asset Contract Commitments

During fiscal year ended June 30, 2010, the Research Foundation entered into a contract for the architectural fees of the AME Building. During fiscal year ended June 30, 2014, the Research Foundation also entered into a contract for programming and basis of design for a new research facility located on the University's Southwest Campus. As of June 30, 2014, the Research Foundation had \$304,860 in outstanding commitments related to these contracts.

Other Reports

Report of Independent Auditors on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Florida State University Research 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 Florida State University Research Foundation, Inc. (the Research Foundation), which comprise the statement of fund net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in fund 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 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
September 10, 2014