

Financial Statements



Florida State University Research Foundation, Inc.

*Years ended June 30, 2011 and 2010
with Report of Independent Auditors*

Florida State University Research Foundation, Inc.

Financial Statements

Years ended June 30, 2011 and 2010

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Report of Independent Auditors

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

We have audited the accompanying statements of financial position of Florida State University Research Foundation, Inc. (the Research Foundation), a component unit of Florida State University, as of June 30, 2011 and 2010, and the related statement of revenues, expenses, and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Research Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of Florida State University Research Foundation, Inc. as of June 30, 2011 and 2010, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2011, on our consideration of the Research Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 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 assurance.

Thomas Howell Ferguson P.A.

September 21, 2011

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 2011 and 2010. 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 Financial Position** and the **Statements of Revenues, Expenses, and Changes in Fund Net Assets** 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 and liabilities 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

- **Net assets** of the Research Foundation increased by \$12,197,874 in 2011. They increased from \$92.8 million to approximately \$105 million by June 30, 2011. A favorable investment climate accounted for most of the net asset increase. Net assets indicate the overall financial strength of the Research Foundation and are equal to total assets less total liabilities. These net assets 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.** During fiscal year 2011, the Research Foundation sold the PortStar intellectual property for \$500,000 and secured it with a note receivable. The PortStar revenue was offset by the decrease in Taxol and Center for Prevention and Early Innovation Policy (CPEIP) royalties. The Research Foundation received \$92,000 from Taxol revenue in fiscal year 2010, and none during fiscal year 2011. The Research Foundation does not expect any future income from the Taxol royalty. The CPEIP royalty revenue decreased by approximately \$200,000 from the previous year due to large printing expenses incurred by the CPEIP department.

FINANCIAL HIGHLIGHTS (continued)

- **Privately-funded contracts and grant revenue** recognized in 2011 remained consistent with the prior year. The dollar value of the awards received increased during fiscal year 2011, and the Research Foundation expects the contract and grant revenue to increase in the next fiscal year.
- **Building revenues** increased by 8%, as tenants were placed in renovated spaces and recently purchased buildings in fiscal year 2010. Building expenses increased 9% overall. The Research Foundation purchased the Facility for Arts Research (FAR) Building in October 2010 and leased that space through March 13, 2011. The Research Foundation incurred additional expenses for the operations and repairs of that building. The University began receiving Plant Operation and Maintenance (PO&M) funds on July 1, 2010 for one of the Commonwealth properties and therefore began paying the utilities and operating expenses for that building. The reduction in the amount that the Research Foundation was paying for utilities and maintenance was offset by the increase in the costs of adding the FAR Building. Amortization and depreciation increased as a result of the completion of several construction and renovation projects being completed near the end of the prior fiscal year. Fiscal year 2011 was the first full year of depreciation/amortization of those projects.
- **Investment revenues** consisted of long-term and short-term gains of \$328,363 and \$10,593,836, respectively, which comprised the total investment gains during fiscal year 2011 of \$10,922,199. The change compared to 2010 is due to a favorable increase in the equities investment market. The Research Foundation realized a return of 17% from the Northern Trust Investments in fiscal year 2011.

RESEARCH FOUNDATION FUNDED PROGRAMS HIGHLIGHTS

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

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 the 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. In fiscal year 2009, the Board of Directors approved this program extension for four years at \$250,000 per year.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statements of Financial Position

The Statement of Financial Position presents the assets, liabilities, and net assets of the Research Foundation as of the end of the fiscal year. From the data presented, readers are able to determine the assets available to continue the operations of the organization. In 2011, there was an increase in **Total assets** of \$12.5 million. The significant increase was mainly a result of the increase in the investment income and the purchase of the FAR Building.

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 \$249,761 in CAMP-MM and \$1,076,113 in Fund B at June 30, 2011.

The **short-term investments** increased by approximately \$8M due to the net effect of the \$10.9M investment income and the spending of \$2.5M on the purchase of the FAR Building.

Property under capital leases (net) decreased by \$1.3M 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.

Construction in progress increased by \$2.3M for the expenditures related to the TEM and the AME Building that will be capitalized after project completion:

- *Transmission Electron Microscope (TEM)* – during fiscal year 2009, the Research Foundation entered into a contract to construct a Transmission Electron Microscope and renovate an existing laboratory space to accommodate the microscope. The Research Foundation intends to pay for the construction and then transfer ownership of the microscope to the University upon completion and acceptance.
- *Aeropropulsion, Mechatronics, and Energy Building (AME)* – during fiscal year 2009, the Research Foundation began preliminary feasibility work on the design and construction of a new building. The Board of Directors agreed to advance funds related to the architectural design of this project. The remaining funds for the construction of this building are to be provided by Public Education Capital Outlay (PECO) money funded by the State of Florida and the University's Division of Sponsored Research.

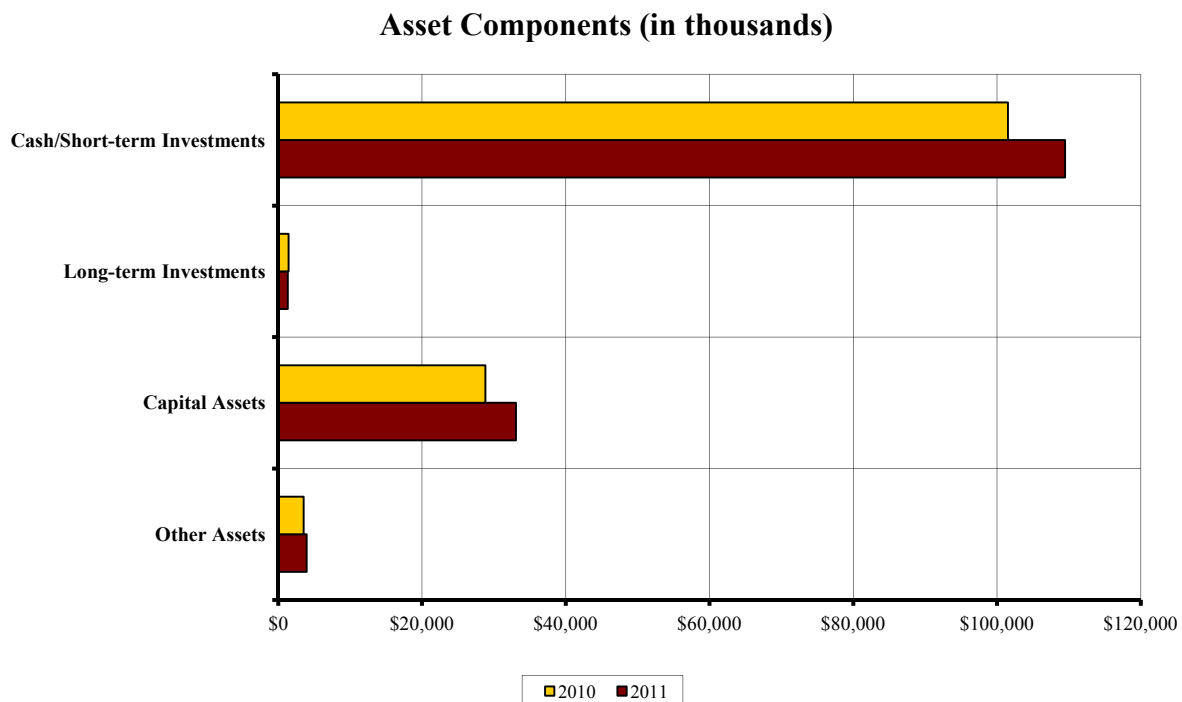
Statement of Financial Position (continued)

Total liabilities remained consistent with only a \$305,000 increase in fiscal year 2011. The combination of activities in the royalty allocations payable, deferred restricted revenue, and the obligations under capital leases resulted in the overall change. Deferred revenue increased significantly due to the increase in cash received related to contracts and grants. The royalty allocations payable decreased due to the continuous spending of the department's share of royalty distributions. The obligations under capital leases decreased by \$570,000, which was equal to the amount of the required principal payments made to the State Board of Administration.

The **royalty allocations payable** consists primarily of past royalties not yet spent by departments held on deposit at the Research Foundation. For 2011, this payable declined by \$1.5 million due to continued departmental spending.

Deferred restricted 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 Assets is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Deferred restricted revenue increased by \$2.9 million in 2011 due to the increase in contract and grant cash received.

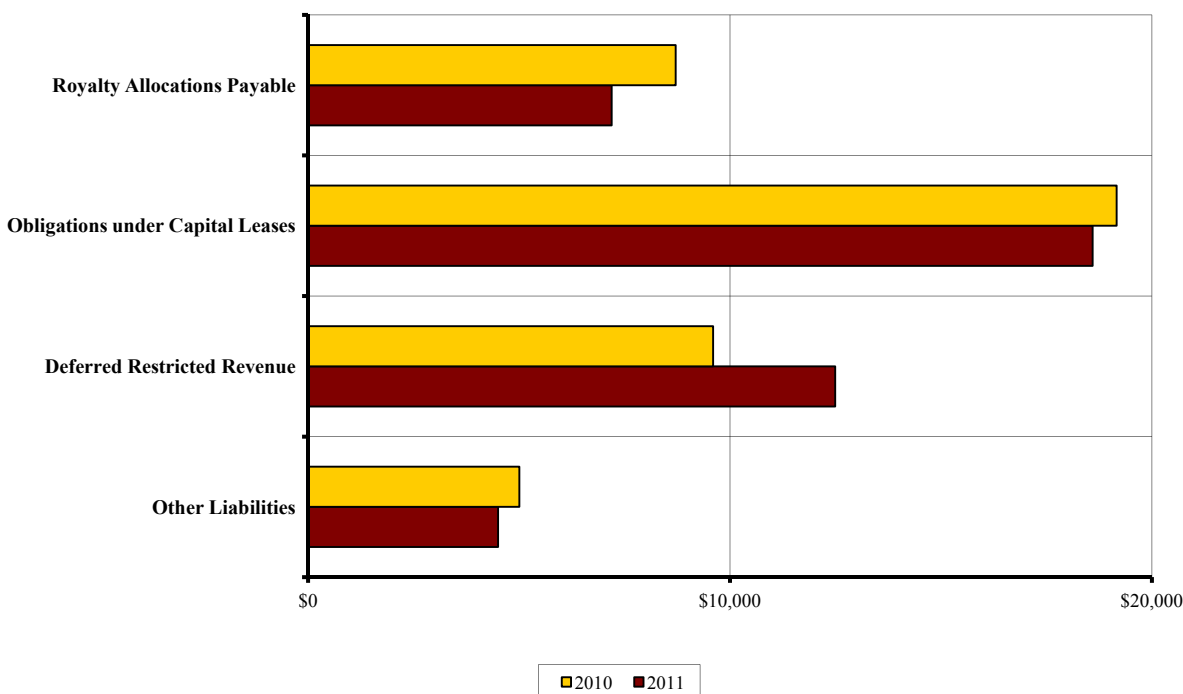
The following chart illustrates the **asset** components at June 30, 2011 and 2010:



Statement of Financial Position (continued)

The following chart illustrates the **liability** components at June 30, 2011 and 2010:

Liability Components (in thousands)



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

Net Assets (in millions), End of Year

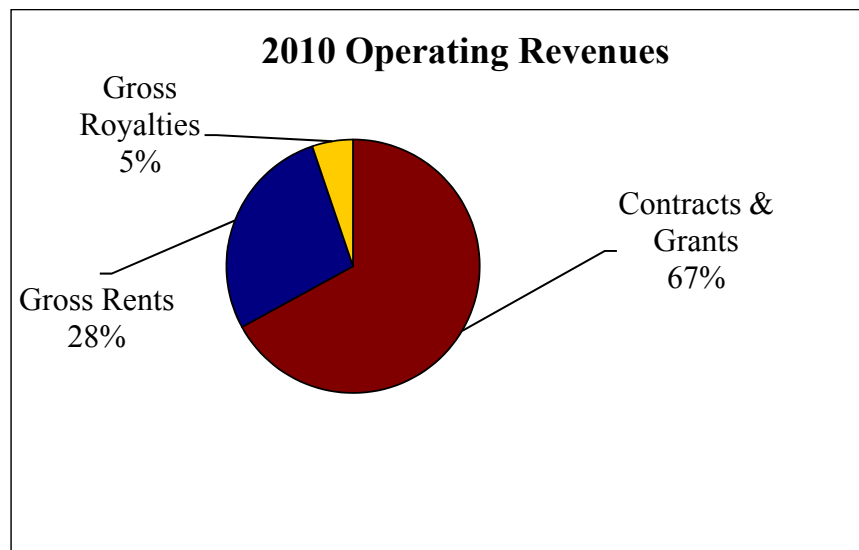
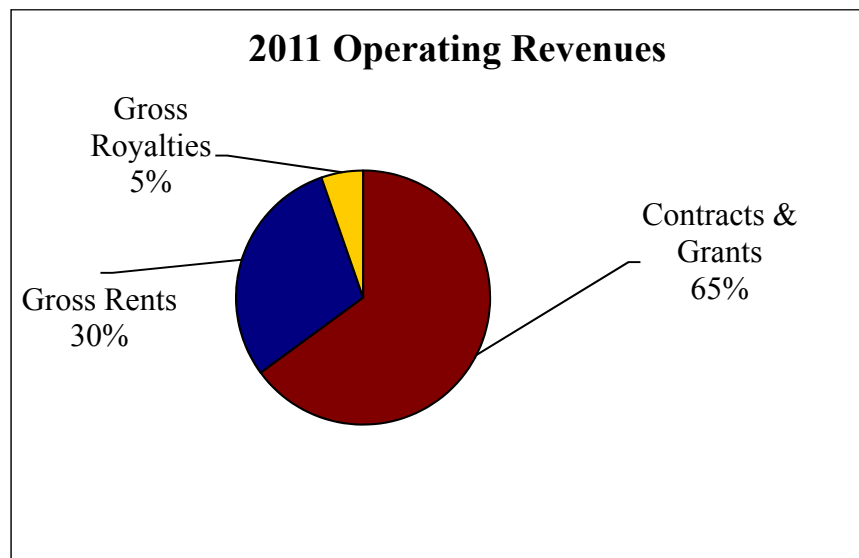
	<u>2011</u>	<u>2010</u>	<u>% change</u>
Current and other assets	\$ 114.7	\$ 106.5	7.7%
Capital assets and land	33.1	28.8	14.9%
Total assets	\$ 147.8	\$ 135.3	9.2%
Debt outstanding – capital assets	\$ 18.6	\$ 19.2	-3.1%
Other liabilities	24.2	23.3	3.9%
Total liabilities	\$ 42.8	\$ 42.5	0.7%
Invested in capital assets (net of debt)	\$ 14.1	\$ 9.3	51.6%
Unrestricted	90.9	83.5	8.9%
Total net assets	\$ 105.0	\$ 92.8	13.1%

The Research Foundation's net assets have increased by 13.1%. Liabilities increased slightly with a 0.7% increase. The Research Foundation's overall financial condition remains healthy.

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

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 recognized \$7.3 million in contract and grant revenue during fiscal year 2011. This was a decrease of 3% from the \$7.6 million recognized in fiscal year 2010. Net building operations produced \$605,000 and \$596,000 of revenue in 2011 and 2010, respectively. Gross rents increased by 8% during fiscal year 2011 due to the rental of additional tenant space which was available as a result of recent purchases and construction of additional buildings. Due to the addition of the FAR Building and additional amortization and depreciation from completed renovations, building expenses increased 9% in fiscal year 2011.

The following charts depict the sources of operating revenues for the years ending June 30, 2011 and 2010. The allocation of revenues remained relatively consistent during 2011 and 2010.



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

Other operating expenses increased \$1.6 million or 77% in 2011 which is primarily attributable to the increase in **Contributions to Florida State University** (see below).

Contributions to Florida State University increased \$1.5 million in 2011 from the prior year, primarily due to the donation of one of the Research Foundation buildings to the University. The following list describes the types of disbursements made as Contributions to Florida State University in 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Contributions toward technology transfer	\$ 49,979	\$ 42,206
Indirect cost earned and available for research	–	49,063
Residuals available for research spending	257,885	433,096
Advocacy groups assisting with federal funding	62,232	56,823
Contracted services, publications, recruiting, and other	157,952	369,362
Donation of property to FSU	2,097,895	–
Contributions from FSU	(500,000)	(349,043)
	<u>\$ 2,125,943</u>	<u>\$ 601,507</u>

Nonoperating revenues for 2011 compared to 2010 increased over \$13.1 million. This increase was primarily due to the fiscal year 2011 favorable equities investment market and contribution revenue. The Research Foundation had **investment revenues** of \$10.9M in 2011 compared to \$923,000 in 2010. The contribution revenue consisted of a donation recognized for the excess amount of the appraised value over the purchase price of the FAR Building.

The Research Foundation is considered a component unit of 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 Financial Position

	June 30,	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,531,722	\$ 1,322,444
Short-term investments	107,927,524	100,171,674
License fees and royalties receivable	24,600	779
Grant receivable	448,488	837,025
Note receivable, current portion	26,250	-
Accounts receivable - other	46,988	32,172
Prepaid expenses	589,048	-
Deposit	-	25,000
Total current assets	110,594,620	102,389,094
Noncurrent assets:		
Long-term investments	1,325,874	1,433,244
Note receivable, long-term portion	223,750	-
Land	1,435,000	2,385,000
Property under capital leases, net	20,239,159	21,570,157
Building and improvements, net	7,547,730	3,300,251
Equipment, net	40,629	46,460
Computer software, net	62,000	64,245
Construction in progress	3,748,402	1,459,433
Lease payment in advance, net	1,906,000	1,961,094
Other assets, net	679,796	690,659
Total noncurrent assets	37,208,340	32,910,543
Total assets	\$ 147,802,960	\$ 135,299,637
Liabilities and fund net assets		
Current liabilities:		
Royalty allocations payable	\$ 7,196,168	\$ 8,710,252
Other liabilities	327,719	497,043
Deferred restricted revenue	12,493,401	9,600,659
Florida State University fund payable	3,848,517	4,171,846
Obligations under capital leases, current portion	595,000	570,000
Total current liabilities	24,460,805	23,549,800
Noncurrent liabilities:		
Obligations under capital leases, long-term portion	18,000,000	18,595,000
Annuity obligation	326,796	337,352
Total noncurrent liabilities	18,326,796	18,932,352
Fund net assets:		
Invested in capital assets, net of related debt	14,151,124	9,323,194
Unrestricted	90,864,235	83,494,291
Total fund net assets	105,015,359	92,817,485
Total liabilities and fund net assets	\$ 147,802,960	\$ 135,299,637

See accompanying notes.

Florida State University Research Foundation, Inc.

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

	Years ended June 30,	
	2011	2010
License and grant revenues		
Licensing fees and royalties	\$ 915,270	\$ 700,422
Contracts and grants - restricted	7,329,590	7,584,887
Administrative - unrestricted:		
Contracts and grants	1,211,770	1,243,433
Licenses and other	190,754	149,690
Total license and grant revenues	9,647,384	9,678,432
License and grant expenses		
Royalty allocations	(287,160)	(495,051)
Patent and licensing costs	(632,849)	(573,245)
Bad debt expense	(250,000)	-
Contracts and grants	(7,329,590)	(7,584,887)
Total license and grant expenses	(8,499,599)	(8,653,183)
Net license and grant income	1,147,785	1,025,249
Rent revenues (expenses)		
Rent revenues	3,997,549	3,715,299
Building occupancy:		
Interest on bonds	(895,071)	(914,324)
Amortization and depreciation	(1,751,818)	(1,588,053)
Management and leasing fees	(168,446)	(175,743)
Utilities, net of reimbursements	(101,703)	(87,836)
Other	(474,947)	(353,785)
Net rental income	605,564	595,558
Other operating expenses		
Personnel costs	(460,083)	(444,544)
Contributions to Florida State University	(2,125,943)	(601,507)
Software amortization	(15,266)	(3,381)
Miscellaneous	(126,157)	(32,804)
Research Foundation funded programs	(852,724)	(939,794)
Total other operating expenses	(3,580,173)	(2,022,030)
Operating loss	(1,826,824)	(401,223)
Nonoperating revenues (expenses)		
Investment revenue	10,922,199	923,406
Investment portfolio fees	(73,593)	(16,992)
Contribution revenue	3,232,886	-
Change in annuity value	(56,954)	(47,392)
Miscellaneous income	160	26
Total nonoperating revenues (expenses)	14,024,698	859,048
Change in fund net assets	12,197,874	457,825
Fund net assets, beginning of year	92,817,485	92,359,660
Fund net assets, end of year	\$ 105,015,359	\$ 92,817,485

See accompanying notes.

Florida State University Research Foundation, Inc.

Statements of Cash Flows

	Years ended June 30,	
	2011	2010
Operating activities		
Licensed products and building program:		
Licensing fees and royalties	\$ 391,449	\$ 705,167
Administrative fees from licenses and other	190,754	149,690
Rental income	3,982,733	3,704,575
Departmental allocation payments	(1,801,244)	(2,001,843)
Patent and licensing costs	(639,757)	(602,635)
Building occupancy	(1,712,889)	(1,494,419)
Lease payments in advance	(10,506)	(230,487)
Net cash provided by licensed products and building program	<u>400,540</u>	<u>230,048</u>
Contracts and grants:		
Receipts	11,822,639	9,839,546
Disbursements	(7,852,007)	(7,565,783)
Net cash provided by contracts and grants	<u>3,970,632</u>	<u>2,273,763</u>
Other receipts/disbursements:		
Personnel costs	(460,083)	(444,544)
Research Foundation funded programs	(822,507)	(934,836)
Contributions to Florida State University	(351,377)	(232,586)
Other disbursements	(126,416)	(32,150)
Net cash used in other receipts/disbursements	<u>(1,760,383)</u>	<u>(1,644,116)</u>
Net cash provided by operating activities	<u>2,610,789</u>	<u>859,695</u>
Noncapital financing activities		
Gift annuity payments	(67,510)	(67,510)
Administrative fees and other	160	26
Net cash used in noncapital financing activities	<u>(67,350)</u>	<u>(67,484)</u>
Investing activities		
Purchases of investment securities	(78,041,791)	(3,344,132)
Sales of investment securities	81,241,917	7,413,187
Purchases of buildings and equipment	(4,848,783)	(2,107,500)
Purchase of software	(12,032)	(67,626)
Net cash (used in) provided by investing activities	<u>(1,660,689)</u>	<u>1,893,929</u>
Capital and related financing activities		
Building renovations	(103,472)	(1,081,240)
Principal payments on obligations under capital leases	(570,000)	(550,000)
Net cash used in capital and related financing activities	<u>(673,472)</u>	<u>(1,631,240)</u>
Net change in cash and cash equivalents	<u>209,278</u>	<u>1,054,900</u>
Cash and cash equivalents, beginning of year	<u>1,322,444</u>	<u>267,544</u>
Cash and cash equivalents, end of year	<u>\$ 1,531,722</u>	<u>\$ 1,322,444</u>

(continued)

Florida State University Research Foundation, Inc.

Statements of Cash Flows (continued)

	Years ended June 30,	
	2011	2010
	<u> </u>	<u> </u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (1,826,824)	\$ (401,223)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Amortization and depreciation of capital assets	1,767,084	1,591,434
Noncash donation to Florida State University	2,097,895	-
Changes in operating assets and liabilities:		
License fees and royalties receivable	(23,821)	4,745
Other receivables	373,721	(709,944)
Note receivable	(250,000)	-
Prepaid expenses	(589,048)	-
Royalty allocations payable	(1,514,084)	(1,506,792)
Florida State University fund payable	(323,329)	368,921
Other liabilities	16,959	32,595
Deferred restricted revenue	2,892,742	1,710,446
Lease payments in advance	(10,506)	(230,487)
Net cash provided by operating activities	<u>\$ 2,610,789</u>	<u>\$ 859,695</u>

See accompanying notes.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

Years ended June 30, 2011 and 2010

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 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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Election to Apply FASB Statements

The Research Foundation has elected not to apply all FASB Statements and interpretations issued after November 30, 1989, as permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor. Bank deposits at times may exceed federally insured limits. The Research Foundation has not experienced any losses in such accounts.

During the fiscal year 2010 and the first part of fiscal year 2011, the cash deposits of the Research Foundation were swept nightly into a money market mutual fund for interest earning purposes. The money market mutual fund is rated AAAM by Standard & Poors. These overnight investments were not covered by federal insurance or collateralized by any other securities. The Research Foundation terminated the overnight sweep investment in December 2010.

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 of investments 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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

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, 2011, the Research Foundation has \$249,761 invested in CAMP-MM and \$1,076,113 in Fund B.

Accounts Receivable

Receivables include grants receivables and other receivables such as rents, 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, 2011 and 2010.

Note Receivable

The Research Foundation's note receivable is valued at net realizable value and is secured by an executed note, 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 is \$500,000, with payments due quarterly in accordance with the terms of the amended note. At June 30, 2011, the Research Foundation had established an allowance for uncollectible amounts of \$250,000 related to the note.

Concentration of Credit Risk

The financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, 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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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. This prepayment entitles the Research Foundation to use certain land for a research facility for approximately 72 years and is amortized at \$10,862 per year over that term. The unamortized balance is reported as other assets in the financial statements.

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, 2011 and 2010, the inventors' department allocations payable balance was \$7,124,345 and \$8,606,672, 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, 2011 and 2010, the inventors' allocations payable balance was \$71,823 and \$103,580, respectively.

Patent and Licensing Costs

The Research Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2011 and 2010, the Research Foundation incurred patent and licensing costs of \$644,669 and \$658,079, respectively, and received reimbursements of \$11,820 and \$84,834 for the net expense of \$632,849 and \$573,245, 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.

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:

	Year ended June 30,	
	<u>2011</u>	<u>2010</u>
Administrative overhead:		
Contracts and grants	\$ 953,885	\$ 810,337
Licenses and other	190,754	149,690
Contract and grant residuals	<u>257,885</u>	<u>433,096</u>
	<u>\$ 1,402,524</u>	<u>\$ 1,393,123</u>

2. Investments

Investments at June 30, 2011 and 2010, 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, 2011, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Short-term – SBA LGIP Fund A	\$ 34,487,278
Short-term – Northern Trust GSP	31,434,642
Short-term – Northern Trust NTGI-QM	42,005,604
Long-term – SBA LGIP Fund B	1,076,113
Long-term – SBA CAMP-MM Restricted	249,761
Taxolog, Inc. stock	-
Total	<u>\$ 109,253,398</u>

At June 30, 2010, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Short-term – SBA LGIP Fund A	\$ 100,171,674
Long-term – SBA LGIP Fund B	1,160,967
Long-term – SBA CAMP-MM Restricted	272,277
Taxolog, Inc. stock	-
Total	<u>\$ 101,604,918</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, 2011, the weighted average maturity of the GSP is 43 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, 2011, is 31 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 7.16 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, 2011, the Research Foundation received distributions of approximately \$18,766 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, 2011. 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, 2011. 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)

The Research Foundation owns 320,000 shares of Taxolog, Inc. (Taxolog), a privately owned start up company with the exclusive license to develop and commercialize the Taxol® analogs created at the University. The shares of the company are not listed on an exchange and, therefore, there are no readily available market quotations or credit quality ratings available.

Additionally, 50,000 shares of Taxolog common stock were received by the University as part of the original license agreement of certain intellectual property rights. The Research Foundation holds the shares on behalf of the University. No carrying amount has been assigned to the common stock.

Included in the Taxolog shares owned by the Research Foundation are 270,000 shares of Series C convertible preferred stock with a cost of \$7,500,600 issued during a round of private financing which netted Taxolog \$30,000,000 in a private equity placement in July 2001, concurrent with a collaboration agreement between Taxolog and Wyeth Pharmaceutical, Inc.

Prior to the fiscal year ended June 30, 2006, the Taxolog preferred stock had been carried and reported at cost of \$7,500,600. However, after repeated unsuccessful attempts to document the valuation of this investment, management decided to record an investment impairment allowance as of June 30, 2006 in an amount equal to the original cost of the Taxolog preferred stock investment. The result of recording this impairment was a reduction to long-term investments and investment income of \$7,500,600 at June 30, 2006. This action will be reevaluated if and when Taxolog is able to provide independent verification or reliable evidence to a market valuation of its shares.

Investment revenues consisted of the following amounts:

	Year ended June 30,	
	2011	2010
Realized gains on long-term investments	\$ 17,924	\$ 112,203
Unrealized gains on long-term investments	310,439	515,409
Realized gains on short-term investments	88,232	295,794
Unrealized gains on short-term investments	10,505,604	-
	<u>\$ 10,922,199</u>	<u>\$ 923,406</u>

3. Deferred Restricted Revenue

Deferred 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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

3. Deferred Restricted Revenue (continued)

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

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 9,600,659	\$ 7,890,213
Contracts and grants	11,434,102	10,538,766
Restricted expenditures	(7,329,590)	(7,584,887)
Administrative revenue – contracts and grants	<u>(1,211,770)</u>	<u>(1,243,433)</u>
Ending balance	<u>\$ 12,493,401</u>	<u>\$ 9,600,659</u>

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, 2011, the University funded a total of \$14,601,334 towards the construction and the Research Foundation had expended or obligated a total of \$16,660,401. 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, 2011, is \$2,059,067, with accumulated amortization of \$153,067. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2040, using the straight-line method.

5. Buildings

3000 Commonwealth Boulevard

On October 1, 2008, the Research Foundation purchased a building and land for \$2.3 million and subsequently renovated the building. The Research Foundation does not intend to enter into a lease agreement with the University, therefore ownership of the property will remain with the Research Foundation. The Research Foundation depreciates the portion of the purchase price allocated to the building over its estimated remaining useful life at the date of acquisition of 23 years using the straight-line method.

On May 1, 2010, the Research Foundation completed construction of a Chemistry Laboratory in the 3000 Commonwealth Boulevard Building at a cost of \$498,519. During the 2011 fiscal year, the Research Foundation expended additional resources of \$1,967 in relation to the construction of the laboratory. The total cost of the laboratory was \$500,486, which will be depreciated over the remaining useful life of the building.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

5. Buildings (continued)

3200 Commonwealth Boulevard

On December 1, 2008, the Research Foundation purchased a building and land for \$2.1 million (including land of \$1 million) and subsequently renovated the building. On September 1, 2009, the Research Foundation completed renovations of this building. During the period from September 2009 through June 30, 2010, the Research Foundation depreciated the total cost of the building and renovations over the estimated remaining useful life of the building at the date of acquisition of 23 years using the straight-line method. Total depreciation taken on the building through June 30, 2010 was \$41,274. On July 1, 2011, the Research Foundation transferred ownership of the property to the University. The donated value of the building was \$2,097,895, and is included in contributions to Florida State University for the year ended June 30, 2011.

Facility for Arts Research (FAR)

On October 1, 2010, the Research Foundation purchased a building and land for \$2,392,114. At the time of purchase, an appraisal was obtained which valued the building and land at \$5,625,000. The Research Foundation assigned \$50,000 of the appraisal value to land. The difference between the appraised value and the purchase price was recorded as contribution revenue in the amount of \$3,232,886. The Research Foundation is depreciating the recorded value of the building over the estimated remaining useful life of the building at the date of acquisition of 32 years using the straight-line method.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
3000 Commonwealth	\$ 1,803,590	\$ -	\$ -	\$ 1,803,590
Chemistry Laboratory	498,519	1,967	-	500,486
3200 Commonwealth	1,139,169	-	(1,139,169)	-
Facility for Arts Research	-	5,575,000	-	5,575,000
Accumulated depreciation	<u>(141,027)</u>	<u>(231,593)</u>	<u>41,274</u>	<u>(331,346)</u>
	<u>\$ 3,300,251</u>	<u>\$ 5,345,374</u>	<u>\$ (1,097,895)</u>	<u>\$ 7,547,730</u>

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases

The Research Foundation operates all or portions of five buildings as lessor. Four of these buildings 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 each 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 each of 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 Research Foundation was assigned the master lease and operates as lessor for the Sliger Building. The bonds previously associated with this building were paid off prior to the master lease being assigned to the Research Foundation; therefore, no costs are capitalized in these financial statements relative to the construction of this building. The following paragraphs describe the terms of the bonds that the Research Foundation has guaranteed, details the capitalized costs and amortization associated with the property under capital leases, provides a schedule of annual debt obligations, and summarizes minimum lease payments to be received under current leases in force for all five buildings.

Obligations Under Capital Leases - Guaranty Agreements

On November 1, 1994, the Research Foundation entered into a guaranty agreement for the issuance by the Leon County Research and Development Authority 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 continues to operate the rental of the building.

On July 1, 1996, the Research Foundation executed a guaranty agreement on a \$4,400,000 Leon County Research and Development Authority 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 during the fiscal year.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

Obligations Under Capital Leases - Guaranty Agreements (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 will be paid from pledged lease payments received by the Research Foundation from the occupants of these buildings. The bonds bear 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.

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, 2011, is as follows:

	Balance			Balance
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Johnson Building	\$ 3,888,544	\$ -	\$ -	\$ 3,888,544
Shaw Building	4,594,292	-	-	4,594,292
Building A	14,456,909	105,971	-	14,562,880
Building B	<u>11,104,984</u>	<u>-</u>	<u>(2,500)</u>	<u>11,102,484</u>
	<u>\$34,044,729</u>	<u>\$ 105,971</u>	<u>\$ (2,500)</u>	<u>\$ 34,148,200</u>

Changes in accumulated amortization for each building is as follows:

	Balance			Balance
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Johnson Building	\$ 3,556,074	\$ 249,872	\$ -	\$ 3,805,945
Shaw Building	3,277,647	296,617	-	3,574,263
Building A	3,370,396	492,031	-	3,862,427
Building B	<u>2,270,455</u>	<u>395,951</u>	<u>-</u>	<u>2,666,406</u>
	<u>\$12,474,572</u>	<u>\$ 1,434,471</u>	<u>\$ -</u>	<u>\$ 13,909,041</u>

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

Obligations Under Capital Leases

Obligations under capital leases described above consist of the following at June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Buildings A and B	\$ <u>19,165,000</u>	\$ <u>-</u>	\$ <u>570,000</u>	\$ <u>18,595,000</u>	\$ <u>595,000</u>

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

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Buildings</u> <u>A and B</u>	<u>Interest</u>	<u>Principal</u>
2012	\$ 1,467,271	\$ 872,271	\$ 595,000
2013	1,463,471	848,471	615,000
2014	1,463,256	823,256	640,000
2015	1,466,376	796,376	670,000
2016	1,467,566	767,566	700,000
2017-2021	7,324,769	3,334,769	3,990,000
2022-2026	7,324,838	2,299,838	5,025,000
2027-2031	<u>7,319,400</u>	<u>959,400</u>	<u>6,360,000</u>
Total	<u>\$29,296,947</u>	<u>\$10,701,947</u>	<u>\$18,595,000</u>

Property Leased to Others

During the years ended June 30, 2011 and 2010, the Research Foundation recognized rental income from the properties described in Notes 4 through 6 in the amounts of \$3,997,549 and \$3,715,299, respectively. As of June 30, 2011, the tenants occupied approximately 91% of the available rental space.

The following is a schedule of future rentals under noncancellable leases as of June 30, 2011. 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:

<u>Year Ending June 30,</u>	<u>Rental Income</u>
2012	\$ 3,497,998
2013	2,040,952
2014	1,013,912
2015	591,264
2016	<u>262,566</u>
	<u>\$ 7,406,692</u>

Florida State University Research Foundation, Inc.

Notes to Financial Statements

7. Construction in Progress

Transmission Electron Microscope - During fiscal year 2009, the Research Foundation entered into a contract to construct a transmission electron microscope and renovate an existing laboratory to accommodate the microscope. As of June 30, 2011, \$3,431,817 of these costs are contained in the construction in progress balance. The Research Foundation intends to transfer ownership of this equipment to the University upon completion and acceptance of the microscope.

Aeropropulsion, Mechatronics, and Energy Building (AME) - During the 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 all costs incurred by the Research Foundation through June 30, 2010 were reimbursed by the University. In fiscal year 2011, the Research Foundation incurred \$293,480 of architectural fees for the AME Building, all of which are included in the construction in progress balance at June 30, 2011.

The remaining costs included in the construction in progress balance as of June 30, 2011, consist of redesign and construction costs for the FAR Building.

	Balance			Balance
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Construction in progress	\$ <u>1,459,433</u>	\$ <u>2,288,969</u>	\$ <u>-</u>	\$ <u>3,748,402</u>

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, 2011 and 2010, the annuity payable is recorded at its present value of \$326,796 and \$337,352, respectively. A discount rate of 3% is used. 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 Assets

Designated unrestricted fund net assets are reserved by the Board for special use. The Board may rescind its action at any time. Since these assets have no donor-imposed or contractual restrictions, they are reflected as unrestricted net assets in the statements of financial position. At June 30, 2011, fund net assets were designated for the following purposes:

Transmission Electron Microscope	\$ 1,068,182
AME Building	<u>230,635</u>
	<u>\$ 1,298,817</u>

10. Commitments and Other Matters

Capital Asset Contract Commitments

The Research Foundation entered into various contracts in relation to the construction and renovations of its capital assets. As of June 30, 2011, the Research Foundation had \$987,472 in outstanding commitments.

Property Management Services

The Research Foundation entered into agreements with the Leon County Research and Development Authority for the provision of property management services for the buildings described in Note 6.

The future minimum payments required under the amended lease agreements are as follows by fiscal year:

Year ending June 30,	Property Management and Leasing Fees
2012	\$ 69,932
2013	57,170
2014	48,945
2015	48,938
2016	47,962
Thereafter	<u>25,115</u>
	<u>\$ 298,062</u>

11. Subsequent Events

On September 9, 2011, the Board of Trustees of the University approved the transfer of the FAR Building from the Research Foundation to the University. The Research Foundation expects to complete this transfer within the next fiscal year upon execution of necessary agreements.

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 the financial statements of Florida State University Research Foundation, Inc. (the Research Foundation) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency* in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

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

Compliance and Other Matters

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

We noted certain other matters that we reported to the Research Foundation's management in a separate letter dated September 21, 2011.

* * * * *

This report is intended solely for the information and use of the Board of Directors and management of Florida State University Research Foundation, Inc., others within the entity, and Florida State University, is not intended to be, and should not be, used by anyone other than those specified parties.

Thomas Howell Ferguson P.A.

September 21, 2011