

Financial Statements



Florida State University Research Foundation, Inc.

*Years ended June 30, 2013 and 2012
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

Florida State University Research Foundation, Inc.

Financial Statements

Years ended June 30, 2013 and 2012

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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 net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 respective financial position of Florida State University Research Foundation, Inc. as of June 30, 2013 and 2012, and the respective changes in its 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 the 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 13, 2013, 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 13, 2013

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 2013 and 2012. 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 Net Position** and the **Statements of Revenues, Expenses, and Changes in 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 net position** of the Research Foundation increased from approximately \$101 million to approximately \$103 million at June 30, 2013. The net increase is a result of the difference between the investment earnings and the operating loss. 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 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 \$300,000 from the Weather Predict royalty in fiscal year 2013 compared to \$100,000 in 2012.

FINANCIAL HIGHLIGHTS (continued)

- **Privately-funded contract and grant revenue** recognized in fiscal year 2013 remained consistent with the previous year. The number of the awards received by the Research Foundation decreased in the current fiscal year. The Research Foundation expects the contract and grant revenue to begin to decrease in fiscal year 2014.
- **Building revenues** decreased by 4%, as a result of the reduction of the rental rate for the Materials Research Building. Building expenses decreased \$600,000 or 21% overall as a result of three factors; (1) the Research Foundation received a significant savings on interest payments as a result of the bond refunding on the obligations under capital leases, (2) the depreciation of the Commonwealth Building ended on October 5, 2012 when the property was donated to The Florida State University (the University), and (3) the Research Foundation incurred operational expenses during fiscal year 2012 and was released from those obligations when the related property was donated to the University at the beginning of fiscal year 2013.
- **Investment revenues** consisted of \$4.7 million in unrealized gains and \$4.6 million in realized gains which comprised the total gain of \$9.3 million during fiscal year 2013. The Research Foundation sold equity investments worth \$10 million and recognized a significant realized gain from those transactions. The Research Foundation realized an investment return on its equities in Northern Trust of 12.6% in fiscal year 2013, compared to 5% in fiscal year 2012.

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 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.

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 nine years.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statements of Net Position

The Statements of Net Position present the assets, deferred outflows, liabilities, deferred inflows, and 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 2013, there was a decrease in **total assets** of \$6.3 million. The variance was mainly a result of the difference in the donation of the Commonwealth Building and the Transmission Electron Microscope to the University and the increase in investments.

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 \$115,892 in CAMP-MM and \$602,886 in Fund B at June 30, 2013.

The **short-term investments** increased by approximately \$4.3 million due to the net effect of the \$9.3 million investment earnings and the \$5 million used to reduce the obligations under capital leases during the bond refunding (discussed below).

Property under capital leases (net) decreased by \$1.2 million 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 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 2013, this payable declined by nearly \$1.5 million due to continued departmental spending.

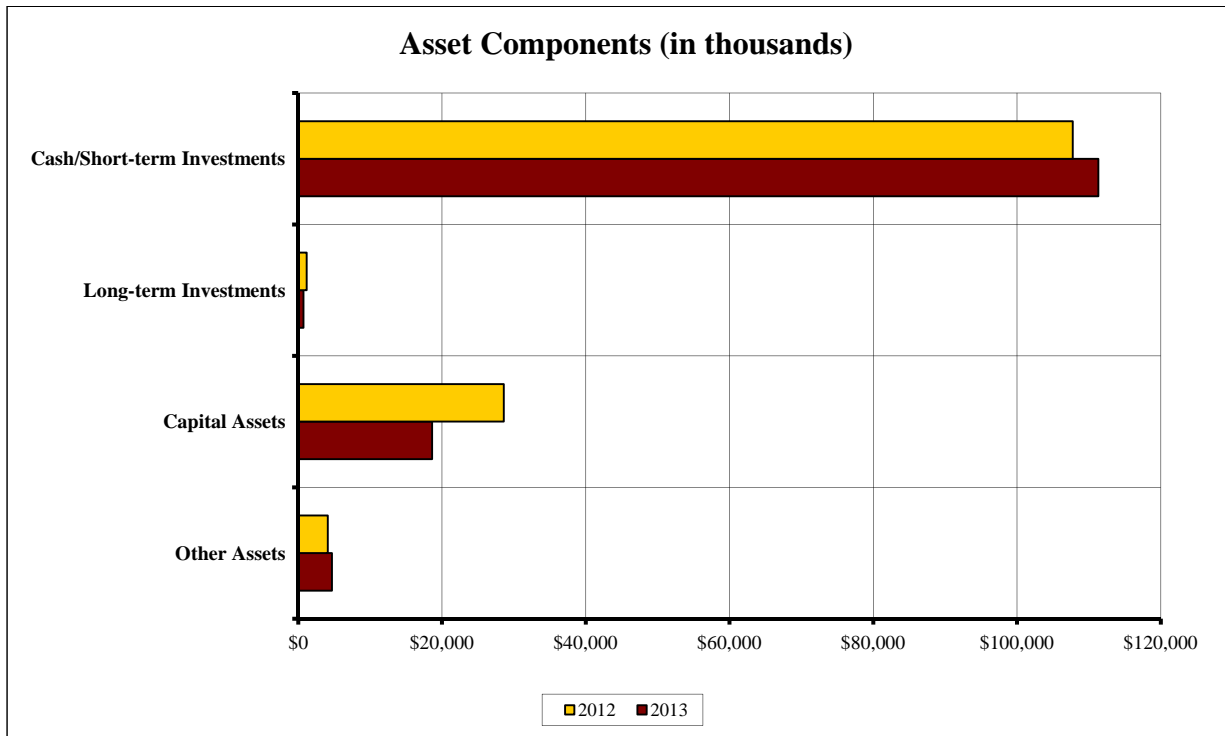
Unearned revenue consists of the unexpended portions of contract and grant revenue receipts that are being administered by the Research Foundation. Revenue per the Statements of Revenues, Expenses, and Changes in Net Position is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Unearned revenue decreased by \$1.5 million in 2013 due to the decrease in the cash received for grants in fiscal year 2013.

During fiscal year 2013, the Research Foundation refunded the bonds outstanding that are recorded as an **obligation under capital leases**. The Research Foundation provided \$5 million of cash in the refunding. The refunding resulted in a reduction in future minimum lease payments of \$11 million over the next 19 years and a net present value savings of \$3.8 million.

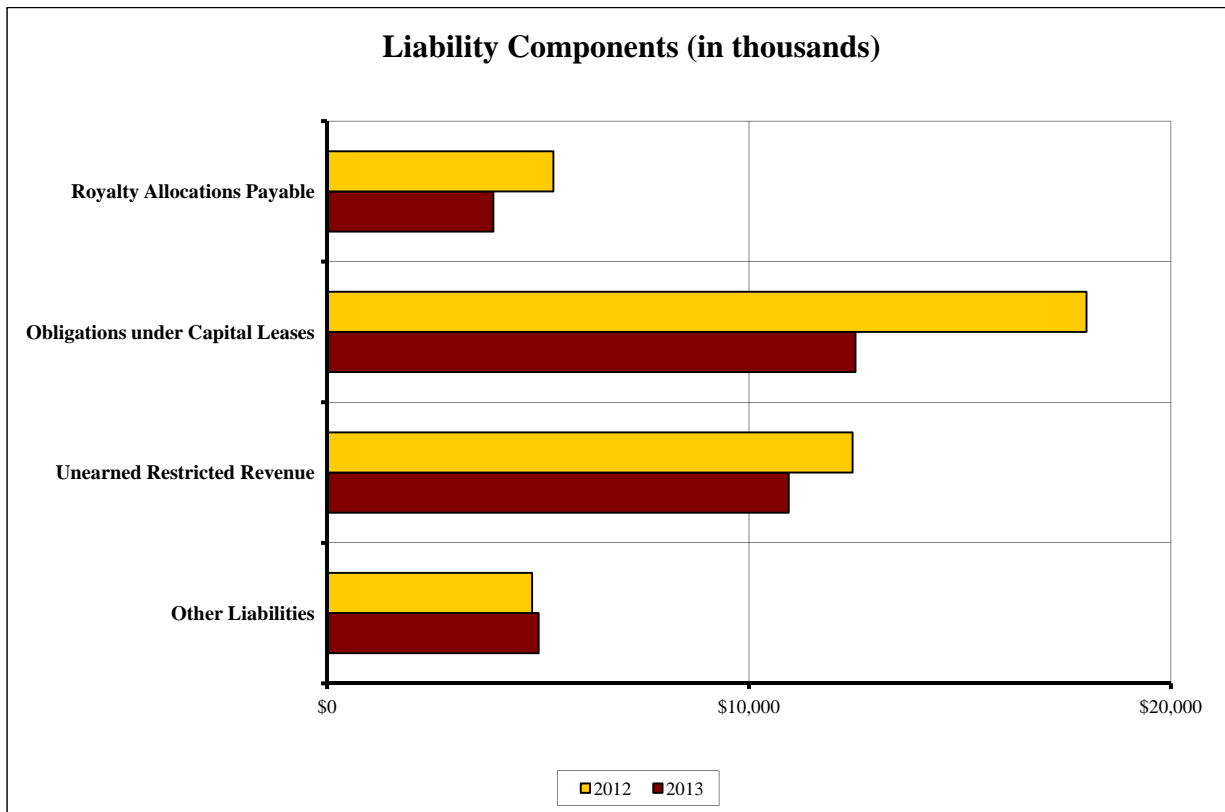
Total liabilities decreased by \$8.3 million in fiscal year 2013. The combination of activities in the royalty allocations payable, unearned revenues, and the obligations under capital leases resulted in the overall change. The royalty allocations payable decreased due to the continuous spending of the department's share of the royalty distributions. The obligations under capital leases, including unamortized bond issuance costs and premium, decreased by nearly \$5.5 million, which is approximately equal to the amount of the capital provided by the Research Foundation during the bond refunding (\$5 million) along with the required principal payments (\$365,000) made to the State Board of Administration in fiscal year 2013.

Statements of Net Position (continued)

The following chart illustrates the **asset** components at June 30, 2013 and 2012:



The following chart illustrates the **liability** components at June 30, 2013 and 2012:



Statements of Net Position (continued)

Computing and presenting the 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

	2013	2012	% change
Current and Other Assets	\$ 116.7	\$ 113.0	3.3%
Capital Assets and Land	18.6	28.6	-35.0%
Total Assets	\$ 135.3	\$ 141.6	-4.4%
Debt Outstanding - Capital Assets	\$ 12.5	\$ 18.0	-30.6%
Other Liabilities	19.9	22.7	-12.3%
Total Liabilities	\$ 32.4	\$ 40.7	-20.4%
Net Investment in Capital Assets	\$ 5.8	\$ 10.3	-43.7%
Unrestricted	97.1	90.6	7.2%
Net Position	\$ 102.9	\$ 100.9	2.0%

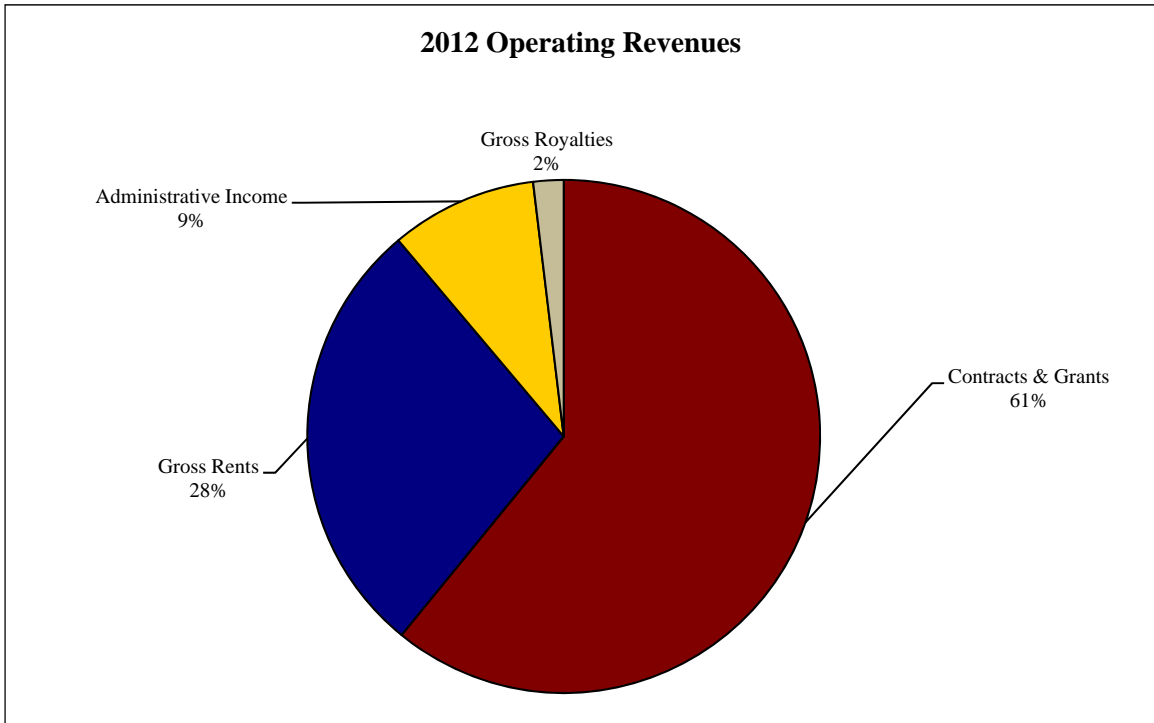
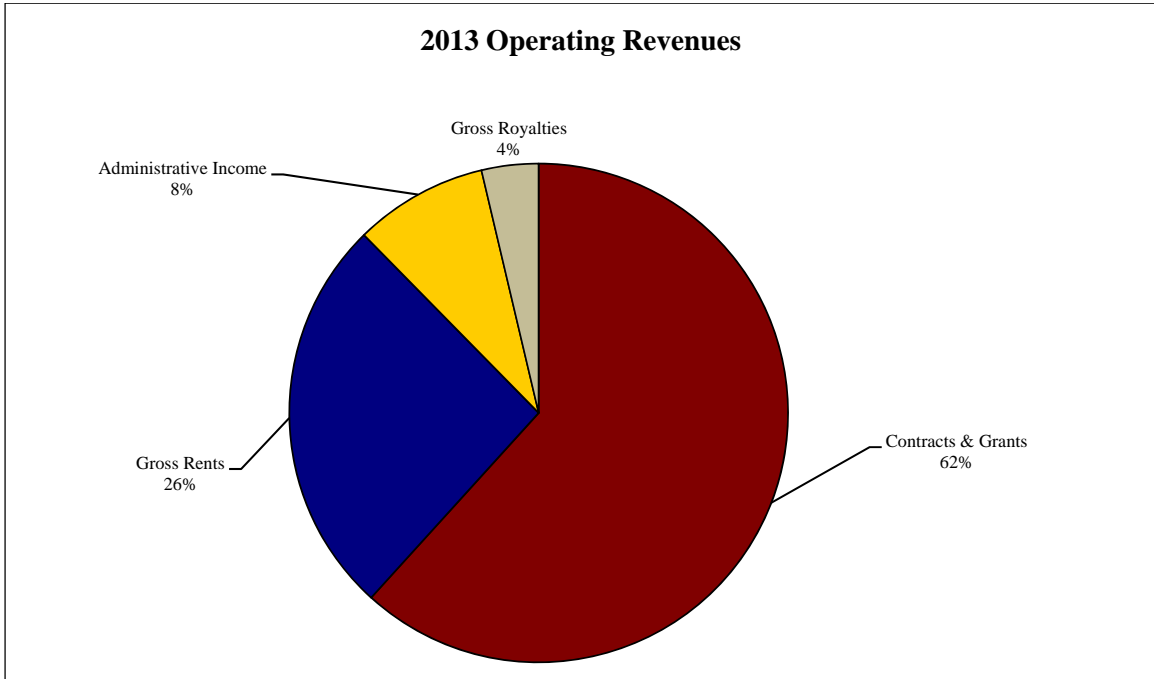
The Research Foundation's overall financial condition remains healthy with total assets exceeding total liabilities by \$102.9 million.

Statements of Revenues, Expenses, and Changes in 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 \$23.6 million in revenues during fiscal year 2013 compared to \$15.7 million in fiscal year 2012. The largest source of income in fiscal year 2013 came from the investment earnings with an amount that exceeded \$9 million. During fiscal year 2012, the largest source of income came from the contract and grant revenue with an amount that was \$8.4 million. The Research Foundation recognized a 5% increase in that area, with \$8.8 million in contract and grant revenue during fiscal year 2013.

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

The following charts depict the sources of operating revenues for the periods ending June 30, 2013 and 2012. The allocation of revenues has remained consistent from the prior year.



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

Other operating expenses increased \$1.7 million in 2013 which is primarily attributable to the increase in **Contributions to Florida State University** (see below).

Contributions to Florida State University increased \$1.8 million in 2013 from the prior year. During fiscal year 2012, the Research Foundation donated the FAR Building, which was valued at \$5.7 million. During fiscal year 2013, the Research Foundation 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, but that variance was offset by contributions that were received from the University which were related to the Chemistry Building. The following list describes the types of disbursements made as Contributions to Florida State University in 2013 and 2012:

	Years Ended June 30,	
	2013	2012
Contributions toward Office of Commercialization	\$ 44,821	\$ 46,706
Residuals available for research spending	356,695	280,864
Advocacy groups assisting with federal funding	108,000	80,000
Contracted services, recruiting, and other	215,392	246,312
Contribution to Chemistry Department	2,000,000	-
Donation of property to the University	6,758,309	5,680,118
Contributions from the University	(1,736,444)	(352,054)
	<u>\$ 7,746,773</u>	<u>\$ 5,981,946</u>

Nonoperating revenues increased \$7.4 million in 2013 compared to 2012. This increase was primarily due to the favorable equities investment market. The Research Foundation had **investment revenues** of \$9.3 million in 2013 compared to \$1.9 million in 2012.

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 Net Position

	June 30,	
	2013	2012
Assets		
Current assets:		
Cash	\$ 218,248	\$ 978,312
Short-term investments	111,092,506	106,769,233
License fees and royalties receivable	214,288	2,334
Grants receivable	1,051,201	563,526
Note receivable, current portion	11,563	15,500
Accounts receivable - other	8,481	77,287
Prepaid expenses	126,441	108,006
Total current assets	112,722,728	108,514,198
Noncurrent assets:		
Long-term investments	718,778	1,168,737
Note receivable, net long-term portion	216,681	217,794
Land	785,000	3,447,260
Property under capital leases, net	17,782,435	18,969,498
Building and improvements, net	-	2,002,118
Equipment, net	18,584	4,135,846
Computer software, net	28,933	45,466
Lease payments in advance, net	2,403,966	2,447,980
Other assets, net	658,072	668,934
Total noncurrent assets	22,612,449	33,103,633
Total assets	\$ 135,335,177	\$ 141,617,831
Liabilities and net position		
Current liabilities:		
Royalty allocations payable	\$ 3,941,879	\$ 5,363,984
Other liabilities	744,937	630,231
Unearned restricted revenue	10,940,691	12,456,498
Florida State University fund payable	3,985,201	3,914,914
Obligations under capital leases, current portion	470,000	615,000
Total current liabilities	20,082,708	22,980,627
Noncurrent liabilities:		
Obligations under capital leases, long-term portion	11,085,000	17,385,000
Bond issuance costs and premium, net	968,109	-
Annuity obligations	285,161	311,972
Total noncurrent liabilities	12,338,270	17,696,972
Total liabilities	32,420,978	40,677,599
Net position:		
Net investment in capital assets	5,806,682	10,288,216
Unrestricted	97,107,517	90,652,016
Total net position	102,914,199	100,940,232
Total liabilities and net position	\$ 135,335,177	\$ 141,617,831

See accompanying notes.

Florida State University Research Foundation, Inc.

Statements of Revenues, Expenses, and Changes in Net Position

	Years ended June 30,	
	2013	2012
License and grant revenues		
Licensing fees and royalties	\$ 528,812	\$ 264,241
Contracts and grants - restricted	8,848,610	8,431,459
Administrative - unrestricted:		
Contracts and grants	1,110,074	1,095,408
Licenses and other	132,899	183,791
Total license and grant revenues	10,620,395	9,974,899
License and grant expenses		
Royalty allocations	(378,485)	(205,193)
Patent and licensing costs	(908,012)	(783,309)
Bad debt expense	(84,020)	-
Contracts and grants	(8,848,610)	(8,431,459)
Total license and grant expenses	(10,219,127)	(9,419,961)
Net license and grant income	401,268	554,938
Rent revenues (expenses)		
Rental revenue	3,716,068	3,870,861
Building occupancy costs:		
Interest on bonds	(600,691)	(872,271)
Amortization and depreciation	(1,318,142)	(1,500,247)
Management and leasing fees	(156,211)	(174,417)
Utilities, net of reimbursements	(4,911)	(73,083)
Other	(197,715)	(256,395)
Net rental income	1,438,398	994,448
Other operating expenses		
Personnel costs	(478,796)	(463,580)
Contributions to Florida State University	(7,746,773)	(5,981,946)
Software amortization	(18,511)	(18,016)
Miscellaneous	(119,798)	(79,545)
Research Foundation funded programs	(690,675)	(831,943)
Total other operating expenses	(9,054,553)	(7,375,030)
Operating loss	(7,214,887)	(5,825,644)
Nonoperating revenues (expenses)		
Investment revenue	9,310,928	1,876,094
Investment portfolio fees	(85,439)	(72,994)
Change in annuity value	(40,699)	(52,686)
Miscellaneous income	4,064	103
Total nonoperating revenues (expenses)	9,188,854	1,750,517
Change in net position	1,973,967	(4,075,127)
Net position, beginning of year	100,940,232	105,015,359
Net position, end of year	\$ 102,914,199	\$ 100,940,232

See accompanying notes.

Florida State University Research Foundation, Inc.

Statements of Cash Flows

	Years ended June 30,	
	2013	2012
Cash flows from operating activities		
Licensed products and building program:		
Licensing fees and royalties	\$ 321,908	\$ 303,213
Administrative fees from licenses and other	132,899	183,791
Rental income	3,730,030	3,896,233
Departmental allocation payments	(1,800,590)	(2,037,377)
Patent and licensing costs	(965,156)	(639,082)
Building occupancy	(923,548)	(1,423,341)
Lease payments in advance	(88,343)	(607,580)
Net cash provided by (used in) licensed products and building program	<u>407,200</u>	<u>(324,143)</u>
Contracts and grants:		
Receipts	7,871,182	9,374,926
Disbursements	(8,659,611)	(7,823,918)
Net cash (used in) provided by contracts and grants	<u>(788,429)</u>	<u>1,551,008</u>
Other receipts/disbursements:		
Personnel costs	(478,796)	(463,580)
Research Foundation funded programs	(699,519)	(855,026)
Contributions to Florida State University	(918,176)	(235,430)
Other disbursements	(80,923)	(80,284)
Net cash used in other receipts/disbursements	<u>(2,177,414)</u>	<u>(1,634,320)</u>
Net cash used in operating activities	<u>(2,558,643)</u>	<u>(407,455)</u>
Cash flows from noncapital financing activities		
Gift annuity payments	(67,510)	(67,510)
Administrative fees and other	4,064	101
Net cash used in noncapital financing activities	<u>(63,446)</u>	<u>(67,409)</u>
Cash flows from investing activities		
Purchases of investment securities	(5,597,825)	(2,706,472)
Sales of investment securities	10,950,000	5,825,000
Purchases of land, buildings, and/or equipment	(544,943)	(2,610,074)
Proceeds from sale of land, buildings, and/or equipment	2,531,684	8,000
Net cash provided by investing activities	<u>7,338,916</u>	<u>516,454</u>
Cash flows from capital and related financing activities		
Principal payments on obligations under capital leases	(18,365,000)	(595,000)
Borrowings for obligations under capital leases	11,920,000	-
Bond issuance costs and premium, net	968,109	-
Net cash used in capital and related financing activities	<u>(5,476,891)</u>	<u>(595,000)</u>
Net change in cash	<u>(760,064)</u>	<u>(553,410)</u>
Cash, beginning of year	978,312	1,531,722
Cash, end of year	<u>\$ 218,248</u>	<u>\$ 978,312</u>

(continued)

Florida State University Research Foundation, Inc.

Statements of Cash Flows (continued)

	Years ended June 30,	
	2013	2012
	<u> </u>	<u> </u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (7,214,887)	\$ (5,825,644)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Amortization and depreciation of capital assets	1,336,653	1,518,263
Noncash donation to Florida State University	6,758,310	5,680,118
Changes in operating assets and liabilities:		
License fees and royalties receivable	(211,954)	22,266
Other receivables	(418,869)	68,707
Notes receivable	5,050	16,706
Prepaid expenses	(18,435)	481,042
Lease payments in advance	(41,592)	(607,580)
Royalty allocations payable	(1,422,105)	(1,832,184)
Florida State University fund payable	70,287	66,397
Other liabilities	114,706	255,401
Unearned restricted revenue	(1,515,807)	(250,947)
Net cash used in operating activities	<u>\$ (2,558,643)</u>	<u>\$ (407,455)</u>

See accompanying notes.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

Years ended June 30, 2013 and 2012

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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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.

Reclassification

Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

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, 2013, the Research Foundation has \$115,892 invested in CAMP-MM and \$602,886 in Fund B.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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, 2013 and 2012.

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, 2013, 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.

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.

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, 2013 and 2012, the inventors' department allocations payable balance was \$3,809,962 and \$5,322,584, 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, 2013 and 2012, the inventors' allocations payable balance was \$131,917 and \$41,400, respectively.

Bond Issuance Costs and Premiums

The Research Foundation amortizes bond issuance costs and premiums over the term of the related obligations under capital leases (bonds) using the straight-line method.

Patent and Licensing Costs

The Research Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2013 and 2012, the Research Foundation incurred patent and licensing costs of \$931,233 and \$832,384, respectively, and received reimbursements of \$23,221 and \$49,075 for the net expense of \$908,012 and \$783,309, respectively.

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 audits in progress for any tax periods, and no significant nonfederal tax jurisdictions. The Research Foundation's income tax returns remain subject to examination for the years ended June 30, 2010, through June 30, 2013.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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,	
	2013	2012
Administrative overhead:		
Contracts and grants	\$ 753,379	\$ 839,326
Licenses and other	132,899	183,791
Contract and grant residuals	356,695	256,082
	<u>\$ 1,242,973</u>	<u>\$ 1,279,199</u>

2. Investments

Investments at June 30, 2013 and 2012, 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, 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
Taxolog, Inc. stock	–
Total	<u>\$ 111,811,284</u>

At June 30, 2012, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Short-term – SBA LGIP Fund A	\$ 31,739,713
Short-term – Northern Trust GSP	31,365,643
Short-term – Northern Trust NTGI-QM	43,663,877
Long-term – SBA LGIP Fund B	945,916
Long-term – SBA CAMP-MM Restricted	222,821
Taxolog, Inc. stock	–
Total	<u>\$ 107,937,970</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, 2013, the weighted average maturity of the GSP is 52 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, 2013, 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 3.98 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, 2013, the Research Foundation received distributions of approximately \$143,000 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, 2013. 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, 2013. 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 startup 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:

	Years ended June 30,	
	2013	2012
Realized gains on long-term investments	\$ 5,512	\$ 3,503
Unrealized gains on long-term investments	307,855	115,800
Realized gains on short-term investments	4,518,301	920,452
Unrealized gains on short-term investments	4,479,260	836,339
	<u>\$ 9,310,928</u>	<u>\$ 1,876,094</u>

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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

3. Unearned Restricted Revenue (continued)

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

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 12,456,498	\$ 12,493,401
Contracts and grants	8,442,877	9,489,964
Restricted contracts and grants expenditures	(8,848,610)	(8,431,459)
Administrative contracts and grants expenditures	(1,110,074)	(1,095,408)
Ending balance	<u>\$ 10,940,691</u>	<u>\$ 12,456,498</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, 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, 2013, is \$1,774,800, including accumulated amortization of \$284,267. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2040, using the straight-line method.

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 were \$658,972. 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, 2013 is \$629,166, including accumulated amortization of \$29,806. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2043, using the straight-line method.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

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. The Research Foundation depreciated the portion of the purchase price allocated to the building over its estimated remaining useful life at acquisition of 23 years using the straight line method. Total depreciation taken on the building through October 5, 2012, was \$274,460. On May 1, 2010, the Research Foundation completed construction of a Chemistry Laboratory (Lab) in the 3000 Commonwealth Boulevard Building at a cost of \$500,486. The Research Foundation depreciated the total cost of the Lab over the remaining useful life of the building of 21 years, 11 months. Total depreciation taken on the Lab through October 5, 2012, was \$52,818.

On October 5, 2012, the Research Foundation transferred ownership of the property to the University. The donated value of the land, building, and Lab was \$2,576,798, and is included in contributions to Florida State University for the year ended June 30, 2013.

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. During the 2012 fiscal year, the Research Foundation completed additional renovations to the building totaling \$237,337. The Research Foundation was 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. Total depreciation taken on the building through June 30, 2012, was \$174,219. On September 14, 2011, the Research Foundation transferred ownership of the property to the University. The donated value of the building was \$5,680,118, and is included in contributions to Florida State University for the year ended June 30, 2012.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

5. Buildings and Land (continued)

The Research Foundation's capitalized buildings consisted of the following during the year ended June 30, 2013:

	Beginning Balances	Additions	Deletions	Ending Balances
3000 Commonwealth	\$ 1,803,590	\$ –	\$ (1,803,590)	\$ –
Chemistry Laboratory	500,486	–	(500,486)	–
Accumulated depreciation	(301,958)	(25,319)	327,277	–
	\$ 2,002,118	\$ (25,319)	\$ (1,976,799)	\$ –

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.

6. Capital Leases

The Research Foundation operates all or portions of nine 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 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. Two other buildings, 3000 Commonwealth and 3200 Commonwealth, are owned by Florida State University as of June 30, 2013, and are managed/leased by the Research Foundation.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

Additionally, the Research Foundation was assigned the master lease and operates as lessor for the Slinger 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 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 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.

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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

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, 2013, is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
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>\$ —</u>	<u>\$ 34,148,200</u>

Changes in accumulated amortization for each building are as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Johnson Building	\$ 3,888,544	\$ —	\$ —	\$ 3,888,544
Shaw Building	3,870,880	296,617	—	4,167,497
Building A	4,356,922	494,496	—	4,851,418
Building B	3,062,356	395,950	—	3,458,306
	<u>\$ 15,178,702</u>	<u>\$ 1,187,063</u>	<u>\$ —</u>	<u>\$ 16,365,765</u>

Obligations Under Capital Leases

Obligations under capital leases described above consist of the following at June 30, 2013:

	Balance July 1, 2012	Refunding of Series 2001	Issuance of Series 2012	Principal Payments	Balance June 30, 2013
Buildings A and B	<u>\$ 18,000,000</u>	<u>\$ (18,000,000)</u>	<u>\$ 11,920,000</u>	<u>\$ (365,000)</u>	<u>\$ 11,555,000</u>

Florida State University Research Foundation, Inc.

Notes to Financial Statements

6. Capital Leases (continued)

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
2014	\$ 872,600	\$ 402,600	\$ 470,000
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
2019-2023	4,362,100	1,382,100	2,980,000
2024-2028	4,354,800	744,800	3,610,000
2029-2031	2,614,250	149,250	2,465,000
Total	<u>\$ 15,698,650</u>	<u>\$ 4,143,650</u>	<u>\$ 11,555,000</u>

Property Leased to Others

During the years ended June 30, 2013 and 2012, the Research Foundation recognized rental income from the properties described in Notes 4 through 6 in the amounts of \$3,716,068 and \$3,870,861, respectively. As of June 30, 2013, the tenants occupied approximately 94.5% of the available rental space.

The following is a schedule of future rentals under noncancellable leases as of June 30, 2013. 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
2014	\$ 3,406,442
2015	3,025,910
2016	2,376,645
2017	1,994,639
2018	747,831
Thereafter	265,155
	<u>\$ 11,816,622</u>

Florida State University Research Foundation, Inc.

Notes to Financial Statements

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, 2013, 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, 2013 and 2012, the annuity payable is recorded at its present value of \$285,161 and \$311,972, respectively. A discount rate of 2.7% 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.

9. Commitments and Other Matters

Capital Asset Contract Commitments

The Research Foundation entered into a contract for the architectural fees of the AME Building. As of June 30, 2013, the Research Foundation had \$31,113 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, and for a park development impact fee which relates to Buildings A and B.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

9. Commitments and Other Matters (continued)

Property Management Services (continued)

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
2014	\$ 50,824
2015	39,881
2016	37,320
2017	37,776
2018	29,049
Thereafter	1,433,697
	<u>\$ 1,628,547</u>

10. New Accounting Pronouncements

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the Research Foundation's fiscal year beginning July 1, 2013. The objective of Statement No. 65 is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The Research Foundation, in conjunction with the University, is currently evaluating the effect Statement No. 65 will have on its financial statements.

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 net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2013.

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.

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 13, 2013