

**FLORIDA STATE UNIVERSITY
RESEARCH FOUNDATION, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida State University Research Foundation, Inc. (the Research Foundation), a direct-support organization and component unit of Florida State University, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Florida State University Research Foundation, Inc. as of June 30, 2020 and 2019, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

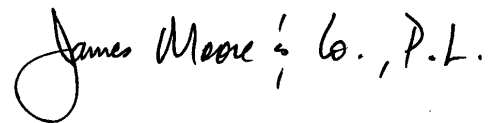
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis as noted in the table of contents 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 23, 2020, 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.

James Moore & Co., P.L.

Tallahassee, Florida
September 23, 2020

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

Florida State University Research Foundation, Inc. (the Research Foundation) is pleased to present its financial statements for fiscal years 2020 and 2019. 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. It 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 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 considered 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 notes 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 \$146.5 million to \$152.8 million at June 30, 2020. The net increase is a result of the earnings from investments and operations. Net position indicates the overall financial strength of the Research Foundation and is equal to assets less liabilities. 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.

- **Royalty revenues and licensing fees** decreased from the previous year. Royalties and license fees were approximately \$559,177 in fiscal year 2020 as compared to \$1,060,608 in fiscal year 2019. The decrease is related to approximately \$550,000 in nonrecurring royalties that were received the prior year related to two specific license agreements offset by new revenue received during the current year.
- **Contract and grant revenues** increased from the prior year. Contract and grant revenues were \$11.6 million in 2020 as compared to \$11.1 million in 2019. This increase in contract and grant revenue is attributed to the increase of contract and grant research activity during fiscal year 2020.
- **Building rental revenues** were \$3.2 million and \$2.7 million in fiscal year 2020 and 2019, respectively, an increase of approximately \$436,000. The increase is primarily attributable to an extended vacancy in the prior year caused after a large tenant purchased their own building and moved out. At June 30, 2020, the space was fully rented.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

- **Investment revenues** consisted of a gain of \$5.4 million during fiscal year 2020 compared to \$5.7 million during fiscal year 2019. During the fiscal year 2020, the Research Foundation realized an investment return of approximately 4.3% as compared to 5.3% the previous fiscal year. In the overall market, returns were substantially lower this fiscal year as compared to the prior year.

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:

- ***Krafft Professorships*** – assist the University in recruiting national scholars by providing a \$40,000 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, and a former chair of the National Endowment for the Arts. Krafft Professors bring new opportunities to students and campus. The grants are funded from investment earnings with up to \$800,000 committed to this program annually. During fiscal year 2020 there were seven full Krafft professors, one partial Krafft professor, and two Edgar professors for a total commitment of \$328,000 to the program.
- ***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 fifteen years.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statements of Net Position

The Statements of Net Position present the assets, liabilities, and net position of the Research Foundation as of the end of the fiscal years. From the data presented, readers are able to determine the net position available to continue the operations of the organization. In 2020, there was an increase in total assets of \$2.6 million.

The current assets increased by \$1.5 million. Cash and cash equivalents were higher at year end as the cash was transferred from current investments to be available to pay upcoming payroll expenses. Current investments increased by approximately \$1 million due to allowing earnings to be reinvested during the current year as a result of not issuing additional Note Receivables.

Grants receivable decreased by \$632,000 due to several projects with large outstanding balances in the prior year either ending during the current fiscal year or obtaining newly executed amendments which allowed for invoicing to be brought current during fiscal year 2020.

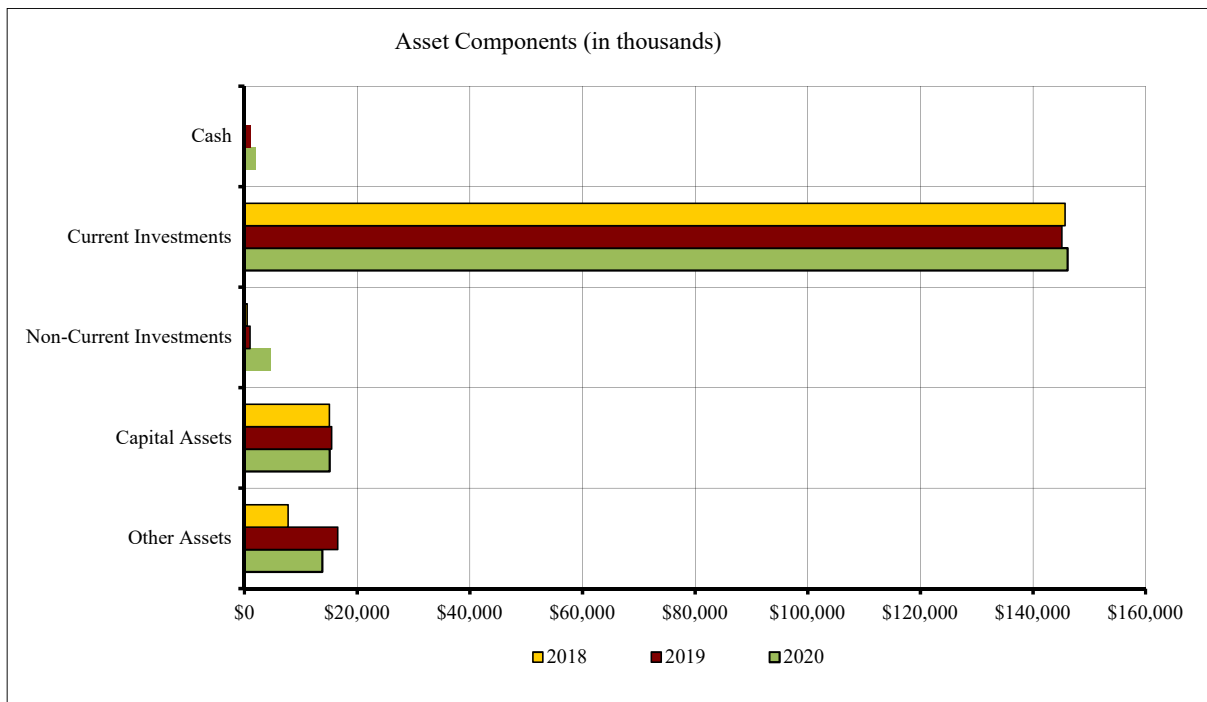
FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

Non-current investments increased by \$3,778,000 during fiscal year 2020 mainly due to the Research Foundation's investment in the Burt Reynolds Hall rental property.

The non-current portion of notes receivable decreased by approximately \$1.5 million. The decrease is due payments received against the current outstanding notes balance based on the corresponding payment schedules.

Depreciable capital assets (net) decreased by \$204,000. This was the result of capital additions related to the completion of the Building A, third floor renovations, of \$818,000 offset by the annual amortization of \$1 million 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.

The following chart illustrates the asset components as June 30, 2020, 2019 and 2018:



The royalty allocations payable consists primarily of past royalties not yet spent by departments held on deposit at the Research Foundation plus the current year department allocations. For 2020, this payable increased by \$634,000 due to the continued departmental spending being less than additions to the departmental funds held by the Research Foundation.

Unearned 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 Net Position is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Unearned restricted revenue decreased by \$4.5 million in 2020 due to the decrease in contract and grant funding received by the Research Foundation but not yet spent during the current fiscal year.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
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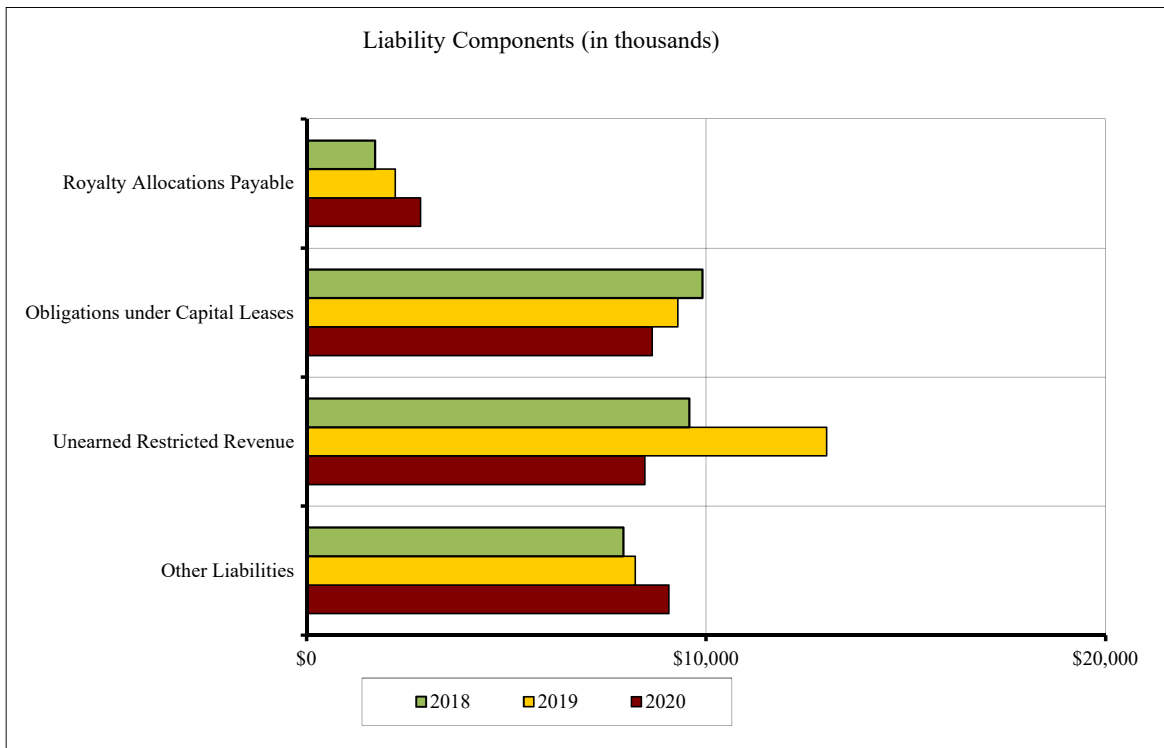
Other liabilities decreased by \$121,000 primarily due to a prior year construction retainage payable related to building renovations at prior fiscal year-end being completed during the current fiscal year.

In addition, obligations under capital leases (current and non-current, net) decreased by \$641,000 which is equal to the annual principle payment to the State Board of Administration and the amortization of the bond premium.

The University fund payable increased by \$965,000 mainly due to departmental spending being less than additions to the departmental indirect cost funds held by the Research Foundation and others payables due at the end of the fiscal year.

In 2020, total liabilities decreased by \$3.7 million. The decrease is primarily attributable to the decrease in unearned restricted revenue of \$4.5 million offset by the increase in the University fund payable of \$965,000, both as noted above.

The following chart illustrates the liability components at June 30, 2020, 2019 and 2018:



Computing and presenting the net position (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 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:

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

Net Position (in millions)	Years Ended June 30,		
	2020	2019	2018
Current and Other Assets	\$ 166.7	\$ 163.8	\$ 154.0
Capital Assets and Land	15.2	15.5	15.0
Total Assets	\$ 181.9	\$ 179.3	\$ 169.0
Debt Outstanding - Capital Assets	\$ 8.7	\$ 9.3	\$ 9.9
Other Liabilities	20.4	23.5	19.2
Total Liabilities	\$ 29.1	\$ 32.8	\$ 29.1
Net Investment in Capital Assets	\$ 6.3	\$ 6.0	\$ 4.9
Unrestricted	146.5	140.5	135.0
Net Position	\$ 152.8	\$ 146.5	\$ 139.9

The Research Foundation's overall financial condition remains healthy with total assets exceeding total liabilities by \$152.8 million and \$146.5 million, respectively.

Capital Assets and Debt Administration

Capital Assets: At June 30, 2020, the Research Foundation had \$30 million in capital assets, less accumulated depreciation of \$14.8 million, for net capital assets of \$15.2 million. Amortization and depreciation expenses totaled \$1,110,103 and \$988,840 for the fiscal years ended June 30, 2020 and 2019, respectively.

The following table summarizes the Research Foundation's capital assets, net of accumulated amortization and depreciation, as of June 30:

	2020	2019
Land	\$ 2,618,820	\$ 2,585,318
Property under capital leases, net	12,485,049	12,674,238
Construction in progress	-	175,450
Equipment	54,473	69,071
Total capital assets, net	\$ 15,158,342	\$ 15,504,077

Additional information about the Research Foundation's capital assets is presented in the notes to the financial statements.

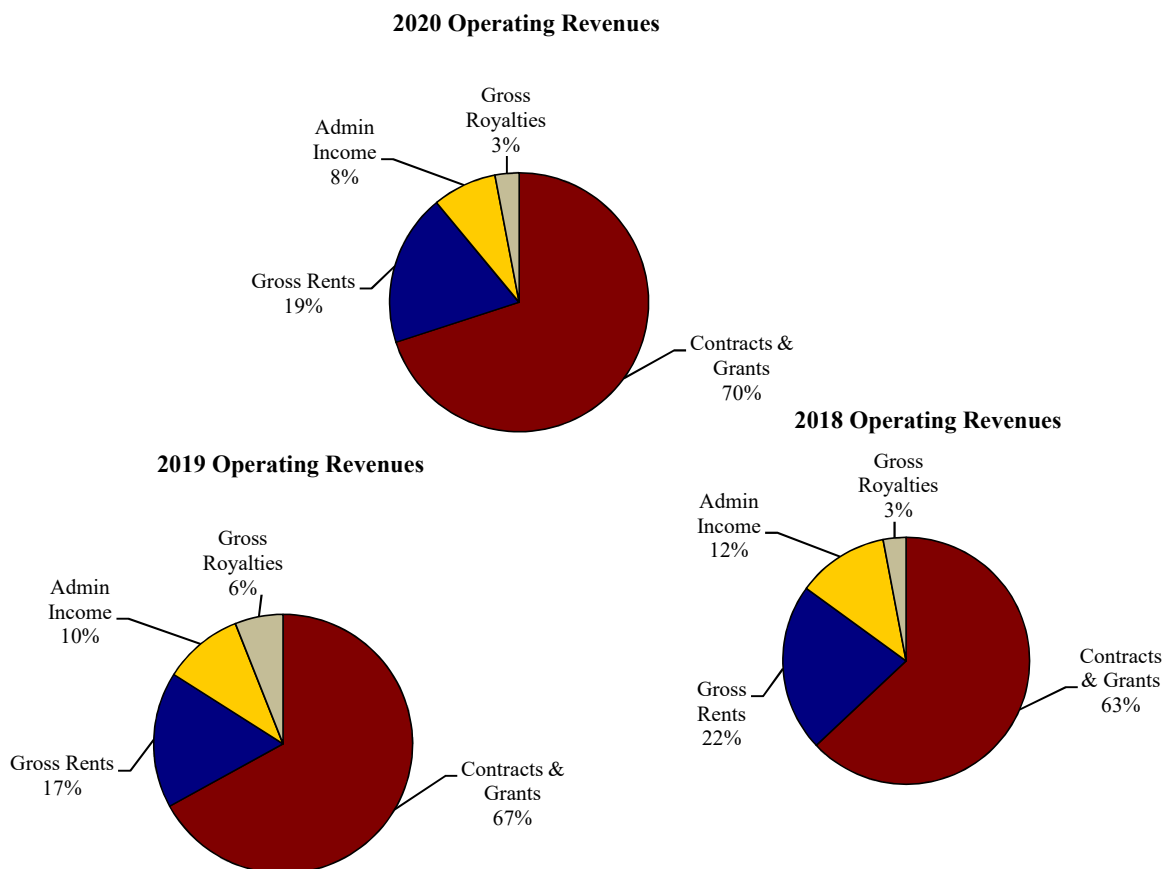
Debt Administration: As of June 30, 2020, the Research Foundation had approximately \$8,654,000 in outstanding obligations under capital lease representing a decrease of \$641,000 from the prior fiscal year balance of \$9,295,000. Additional information about the Research Foundation's long-term debt is presented in the notes to the financial statements.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

Statements of Revenues, Expenses and Changes in Net Position

Revenues from licenses and copyrights, contracts and grants, administrative income, rental of research facilities, and investments provide the primary resources used to fund Research Foundation activities. The Research Foundation received \$22.4 million in total revenues during fiscal year 2020 compared to \$22.5 million in fiscal year 2019. The decrease in revenues is primarily attributable to an increase of rental revenues of \$436,000 offset by decreases in total license and grant revenues and investment earnings of \$150,000 and \$288,000, respectively. The largest source of income in fiscal year 2020 resulted from the \$11.6 million in contract and grant earnings. The Research Foundation also recognized \$3.2 million in rental revenue and \$5.4 million from investment earnings during fiscal year 2020. During fiscal year 2019, the largest source of income resulted from contract and grant earnings in the amount of \$11.1 million.

The following charts depict the sources of operating revenues for the periods ending June 30, 2020, 2019 and 2018.



Other operating expenses were \$1.2 million in fiscal year 2020 and 2019.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

Contributions to Florida State University increased by \$185,000 from the prior year. The University partially reimburses the Research Foundation for overall patent expenses incurred. Due to decreased patent activity and patent expenses, reimbursements by the University to the Research Foundation were lower than in the previous year. The \$460,189 reimbursement from the University was less than the \$517,812 in contributions made by the Research Foundation.

The following list describes the types of receipts and disbursements made as Contributions (from) to the University in 2020, 2019, and 2018:

	Years Ended June 30,		
	2020	2019	2018
Contributions toward Office of Commercialization	\$ 33,519	\$ 50,028	\$ 46,370
Residuals available for research spending	102,242	240,984	367,448
Contracted services, recruiting, and other	182,051	159,134	177,381
Indirect Cost Distributed to Departments	200,000	250,000	250,000
Projects established at the Research Foundation, for the benefit of the University	-	-	-
Transfer from the Office of Research to fund University projects at the Research Foundation	-	-	-
Contributions from the University	(460,189)	(827,447)	(420,247)
	\$ 57,623	\$ (127,301)	\$ 420,952

Nonoperating revenues were approximately \$340,000 less in 2020 compared to 2019. This decrease was primarily due to decreased investment earnings as a result of less favorable market conditions. The Research Foundation had investment revenues of \$5.4 million in 2020 compared to \$5.7 million in 2019.

Economic Factors and Next Year's Budget

The Research Foundation finished the 2020 fiscal year with over \$11.6M awarded across 121 contracts and grants. While the second half of the fiscal year experienced a decreased in dollars awarded; the first half of the year was strong enough that overall awards outpaced the yearly average of \$10.9M.

The contracts and grants awarded to the Research Foundation stem primarily from private companies and foundations and foreign governments. As a number of those funders may be negatively impacted by the current global coronavirus pandemic, contract and grant revenue could decrease in the future. The extent of this decrease is yet to be determined. Budgets are limited, unemployment is rising, and the coronavirus infection rates have yet to see a significant decline. Like the rest of the country, it is difficult to predict the scope and scale of the pandemic's impact on business.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019
(Continued)

We are optimistic that loss of award dollars will be minimal due to a number of contributing factors. Many foreign countries have continuously seen declining infection rates and are looking to return to more normal business conditions. Companies that have not only survived but thrived during the current pandemic are looking to innovate their businesses so that they remain successful in the future. Innovation can often mean partnering with Universities for research and development.

The Research Foundation is closely monitoring revenue which will allow us to remain in the best positioned to handle the coming economic climate. In addition, we are assessing administrative costs and preemptively reducing administrative budget spending.

For fiscal year 2021, the Research Foundation's Board of Directors approved a net operating budget of \$489,900 which represents a \$161,000 or 24% decrease from the prior year. This decrease is a combination of expected reduced earning on investments due to current economic conditions and reduced receipts from indirect costs as a result of one of the major projects administered by the Research Foundation not being subject to indirect cost charges.

Component Unit

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>.

Request for Information

Questions concerning the financial information included in this report or requests for additional information should be addressed to Florida State University Research Foundation, Inc., 2000 Levy Ave Building A., Suite 351, Tallahassee, FL 32310.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 1,995,081	\$ 1,069,829
Current investments	146,150,409	145,133,228
License fees and royalties receivable, net	306,741	207,486
Grants receivable, net	1,145,682	1,777,805
Notes receivable, current portion	1,486,954	1,453,285
Accounts receivable, other, net	304,477	323,753
Prepaid expenses	219,591	114,804
Total current assets	151,608,935	150,080,190
Noncurrent assets		
Non-current investments	4,768,077	990,363
Notes receivable, long term portion	5,096,413	6,583,486
Deposit held with Florida State University	3,442,063	4,215,368
Lease payments in advance, net	1,810,514	1,897,472
Capital assets:		
Non-depreciable	2,618,820	2,760,768
Depreciable, net	12,539,522	12,743,309
Total noncurrent assets	30,275,409	29,190,766
Total assets	181,884,344	179,270,956
<u>LIABILITIES</u>		
Current liabilities		
Inventors' royalty allocations payable	437,222	311,576
Departmental royalty allocations payable	2,415,099	1,907,105
Other liabilities	211,242	332,474
Unearned restricted revenue	8,468,317	13,017,691
Florida State University fund payable	8,664,037	7,698,634
Obligations under capital leases, current portion	595,000	575,000
Total current liabilities	20,790,917	23,842,480
Noncurrent liabilities		
Obligations under capital leases, long-term portion	8,059,006	8,719,825
Annuity obligations	192,993	192,685
Total noncurrent liabilities	8,251,999	8,912,510
Total liabilities	29,042,916	32,754,990
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	6,311,343	6,016,567
Unrestricted	146,530,085	140,499,399
Total net position	\$ 152,841,428	\$ 146,515,966

The accompanying notes to financial statements
are an integral part of these statements.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
License and grant revenues		
Licensing fees and royalties	\$ 559,177	\$ 1,060,608
Contracts and grants - restricted	11,641,776	11,094,874
Administrative - unrestricted:		
Contracts and grants	1,190,661	1,314,458
Licenses and other	97,986	169,888
Total license and grant revenues	<u>13,489,600</u>	<u>13,639,828</u>
License and grant expense		
Inventors' royalty allocations	(374,745)	(575,118)
Departmental royalty allocations	(121,608)	(232,167)
Patent and licensing costs, net	(852,982)	(1,154,438)
Contracts and grants	(11,641,776)	(11,094,874)
Total license and grant expenses	<u>(12,991,111)</u>	<u>(13,056,597)</u>
Net license and grant income	<u>498,489</u>	<u>583,231</u>
Rent revenues (expenses)		
Rental revenue	3,165,465	2,729,951
Building occupancy costs:		
Interest on bonds	(225,881)	(247,971)
Amortization and depreciation	(1,110,103)	(988,840)
Management and leasing fees	(11,162)	(11,233)
Other	(283,195)	(207,457)
Net rental income	<u>1,535,124</u>	<u>1,274,450</u>
Other operating revenues (expenses)		
Personnel costs	(765,150)	(699,353)
Contributions (to) from Florida State University	(57,623)	127,301
Miscellaneous	67,565	(97,333)
Research Foundation funded programs	(480,704)	(508,094)
Total other operating expenses	<u>(1,235,912)</u>	<u>(1,177,479)</u>
Operating income	<u>797,701</u>	<u>680,202</u>
Nonoperating revenues (expenses)		
Investment revenue	5,438,718	5,726,816
Investment portfolio fees	(67,650)	(47,950)
Interest income	224,445	225,044
Change in annuity value	(67,817)	(37,096)
Miscellaneous revenue	65	1,255
Total nonoperating revenues	<u>5,527,761</u>	<u>5,868,069</u>
Change in net position	6,325,462	6,548,271
Net position, beginning of year	146,515,966	139,967,695
Net position, end of year	<u>\$ 152,841,428</u>	<u>\$ 146,515,966</u>

The accompanying notes to financial statements
are an integral part of these statements.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities		
Licensed products and building program:		
Licensing fees and royalties	\$ 459,922	\$ 1,004,002
Administrative fees from licenses and other	97,986	169,888
Rental income	3,163,965	2,728,681
Departmental allocation payments	137,287	(304,331)
Patent and licensing costs	(766,765)	(1,082,152)
Building occupancy	(350,855)	(291,437)
Interest paid on obligations under capital lease	(225,881)	(247,971)
Net cash provided by licensed products and building program	2,515,659	1,976,680
Contracts and grants:		
Receipts	8,915,452	15,191,586
Disbursements	(11,847,443)	(11,117,024)
Net cash (used in) provided by contracts and grants	(2,931,991)	4,074,562
Other receipts or disbursements:		
Personnel costs	(765,150)	(699,353)
Research Foundation funded programs	(481,032)	(509,979)
Contributions to Florida State University	955,494	336,100
Other disbursements	67,565	(97,333)
Net cash used in other receipts or disbursements	(223,123)	(970,565)
Net cash (used in) provided by operating activities	(639,455)	5,080,677
Cash flows from noncapital financing activities		
Administrative fees and other	65	1,255
Deposit to Florida State University	678,253	(789,803)
Net cash provided by (used in) noncapital financing activities	678,318	(788,548)
Cash flows from investing activities		
Purchase of investments	(2,896,126)	(8,647,246)
Sale of investments	7,154,585	14,393,957
Purchase of real estate investment	(3,730,000)	-
Interest income	224,445	225,044
Collections on notes receivable	1,453,404	580,729
Advances on notes receivable	-	(8,000,000)
Net cash provided by (used in) investing activities	2,206,308	(1,447,516)
Cash flows from capital and related financing activities		
Principal payments on obligations under capital leases	(575,000)	(550,000)
Gift annuity payments	(67,509)	(67,511)
Purchase of land, land improvements, property under capital lease, and/or equipment	(677,410)	(1,244,237)
Net cash used in capital and related financing activities	(1,319,919)	(1,861,748)
Net increase in cash and cash equivalents	925,252	982,865
Cash and cash equivalents, beginning of year	1,069,829	86,964
Cash and cash equivalents, end of year	\$ 1,995,081	\$ 1,069,829

The accompanying notes to financial statements
are an integral part of these statements.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(Continued)

	2020	2019
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ 797,701	\$ 680,202
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Amortization and depreciation of capital assets	1,110,103	988,840
Amortization of bond premium	(65,819)	(65,818)
Changes in operating assets and liabilities:		
License fees and royalties receivables	(117,366)	(116,846)
Other receivables	651,399	(633,416)
Prepaid expenses	(104,787)	(1,372)
Change in allowance	18,111	60,240
Royalty allocations payable	633,640	502,954
Florida State University fund payable	1,013,117	208,799
Other liabilities	(26,180)	22,523
Unearned restricted revenue	(4,549,374)	3,434,571
Net cash provided by operating activities	\$ (639,455)	\$ 5,080,677
Supplemental noncash information		
Unrealized net investment gain	\$ 575,174	\$ 884,387
Long term investment purchased with accounts payable	\$ 47,714	\$ -
Construction in process acquired with accounts payable	\$ -	\$ 95,052

The accompanying notes to financial statements
are an integral part of these statements.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(1) 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.

(2) Summary of Significant Accounting Policies:

(a) **Basis of accounting**— The financial statements of the Research Foundation have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

For financial reporting purposes, the Research Foundation is considered a special purpose government entity engaged only in business-type activities. Accordingly, the Research Foundation prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting in accordance with GAAP for proprietary funds, which is similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

(b) **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.

(c) **Cash and cash equivalents**—Cash consists of deposits with financial institutions and cash held by a property management company on behalf of the Research Foundation.

(d) **Investments**—In general, investments are reported at fair value when available. The Research Foundation categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in 2a7-like external investment pools are measured at amortized cost.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(2) **Summary of Significant Accounting Policies:** (Continued)

(e) **Accounts receivable**—Receivables include grants receivables, license fees and royalty 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.

(f) **Deposits held with Florida State University**—The Research Foundation reports costs and contributions to Florida State University related to the architectural and engineering of the Interdisciplinary Research and Commercialization Building (IRCB) and deposits related to other construction projects as deposits held with Florida State University.

(g) **Notes receivable**—Notes receivable include an amount due from the Florida State University College of Medicine, the Florida State University Board of Trustees for and on behalf of its Department of Intercollegiate Athletics, and an amount due from a private corporation.

(h) **Capital assets**—Capital assets include land, construction in progress, property under capital lease, equipment, and computer software and are defined as building assets with a initial cost greater than \$100,000 and a useful life greater than one year and equipment assets with an initial cost greater than \$5,000 and a useful life greater than one year. Initial costs are capitalized and depreciated over the assets useful lives. Useful lives of buildings are between 12 and 30 years while equipment assets useful lives are 5 years.

(i) **Royalty allocations payable**—Royalty allocations payable consists of two balance sheet components, the inventors' allocations payable and the inventors' department allocations payable.

(j) **Bond premiums**—The Research Foundation amortizes bond premiums over the term of the related obligations under capital leases (bonds) using the straight-line method.

(k) **Patent and licensing costs**—The Research Foundation recognizes patent and licensing costs as incurred. The Research Foundation receives patent and license cost reimbursements from licensees, which are recorded as offsetting the patent and licensing cost expense incurred by the Research Foundation during the year.

(l) **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 for the past three years remain subject to examination.

(m) **Licensing fees and royalties**—The Research Foundation recognizes licensing and royalty revenues on commercialization agreements resulting from intellectual property produced at Florida State University. Revenue is reported net of changes in allowance for doubtful accounts on related receivables.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(2) **Summary of Significant Accounting Policies:** (Continued)

(n) **Revenue recognition—**

- (i) *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.
- (ii) *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.

(o) **Administrative revenue – unrestricted**—The Research Foundation recognizes administrative overhead and residual revenues on restricted contracts, 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.

(p) **Pronouncements issued**—GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The provisions in GASB 87 are effective for periods beginning after June 15, 2021.

GASB also issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB No. 84 seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2019.

The Research Foundation is currently evaluating the effects that implementation of the new standards will have on its financial position, results of operations, and cash flows.

(q) **Subsequent events**—The Research Foundation evaluated all events and transactions that occurred from July 1, 2019 through September 23, 2020, the date the financial statements were available for issuance. During the period from July 1, 2019 to September 23, 2020, the Research Foundation did not have any material recognized subsequent events. The Research Foundation did have non-recognized subsequent events described in the related note disclosure.

(r) **Reclassifications**—Certain accounts in the prior year information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) Deposits and Investments:

Current investments have maturities of one year or less. Current investments consist of SBA Florida PRIME Money Market Pool and Vanguard Mutual Funds. Non-Current Investments have maturities of greater than one year. As of June 30, 2020 and June 30, 2019, non-current investments consist of an equity interest in a Florida Limited Liability Company and a commercial real estate property in which the sole purpose is to generate cash flows.

Fair value of investments—In general, investments are reported at fair value when available. The Research Foundation categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The Fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value:

Level 1 – Inputs are quoted prices in active markets for identical assets.

Level 2 – Inputs are significant other observable inputs.

- The real estate investment is valued using a combination of the sale price of the asset and an appraisal using various appraisal methods.

Level 3 – Inputs are significant unobservable inputs.

Investments not reported at fair value:

- Investments in 2a7-like external investment pools are reported at amortized cost.
- Partnership investment in which the Research Foundation does not exercise significant influence over the operations and financial policies of the partnership is reported at cost.

<u>As of June 30, 2020</u>	<u>Reported Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Domestic equity mutual funds	\$ 38,751,256	\$ 38,751,256	\$ -	\$ -
International equity mutual funds	26,136,593	26,136,593	-	-
Domestic bond mutual funds	20,385,619	20,385,619	-	-
International bond mutual funds	8,399,046	8,399,046	-	-
Real estate investment	3,730,000	-	3,730,000	-
Total Investments by Fair Value Level	<u>\$97,402,514</u>	<u>\$ 93,672,514</u>	<u>\$ 3,730,000</u>	<u>\$ -</u>
Investments not reported at fair value				
SBA Florida PRIME (<i>amortized cost</i>)	\$ 52,477,895			
Partnership investment (<i>cost</i>)	1,038,077			
Total investments not reported at fair value	<u>53,515,972</u>			
Total Investments	<u>\$ 150,918,486</u>			

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) **Deposits and Investments:** (Continued)

<u>As of June 30, 2019</u>	<u>Reported Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Domestic equity mutual funds	\$ 34,902,777	\$ 34,902,777	\$ -	\$ -
International equity mutual funds	22,135,832	22,135,835	-	-
Domestic bond mutual funds	22,518,812	22,518,812	-	-
International bond mutual funds	9,685,647	9,685,644	-	-
Total Investments by Fair Value Level	<u>\$ 89,243,068</u>	<u>\$ 89,243,068</u>	<u>\$ -</u>	<u>\$ -</u>
 Investments not reported at fair value				
SBA Florida PRIME (<i>amortized cost</i>)	\$ 55,890,160			
Partnership Investment (<i>cost</i>)	990,363			
Total investments not reported at fair value	<u>56,880,523</u>			
Total Investments	<u>\$ 146,123,591</u>			

At June 30, 2020, the Research Foundation has the following investments and maturities:

	<u>Reported Value</u>	<u>Years</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Money Market Accounts	\$ 52,477,895	\$ 52,477,895	\$ -	\$ -	\$ -
Domestic Equity Mutual Funds	38,751,256	No Maturity			
International Equity Mutual Funds	26,136,593	No Maturity			
Domestic Bond Mutual Funds	20,385,619	680,623	10,573,531	4,441,820	4,689,645
International Bond Mutual Funds	8,399,046	103,308	3,163,081	2,507,115	2,625,902
Commercial real estate	3,730,000	No Maturity			
Partnership Investment	1,038,077	No Maturity			
	<u>\$ 150,918,486</u>	<u>\$ 53,261,826</u>	<u>\$ 13,736,612</u>	<u>\$ 6,948,935</u>	<u>\$ 7,315,547</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) **Deposits and Investments:** (Continued)

Money Market Accounts includes \$52,477,895 invested in SBA Florida PRIME with a Weighted Average Maturity (WAM) of 53 days.

At June 30, 2019, the Research Foundation has the following investments and maturities:

	Reported Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money Market Accounts	\$ 55,890,160	\$ 55,890,160	\$ -	\$ -	\$ -
Domestic Equity Mutual Funds	34,902,777	No Maturity			
International Equity Mutual Funds	22,135,832	No Maturity			
Domestic Bond Mutual Funds	22,518,812	1,399,427	12,285,082	6,672,870	2,161,433
International Bond Mutual Funds	9,685,647	157,876	3,823,893	2,841,769	2,862,109
Partnership Investment	990,363	No Maturity			
	<u>\$ 146,123,591</u>	<u>\$ 57,447,463</u>	<u>\$ 16,108,975</u>	<u>\$ 9,514,639</u>	<u>\$ 5,023,542</u>

Money Market Accounts includes \$55,890,160 invested in SBA Florida PRIME with a Weighted Average Maturity (WAM) of 28 days.

Credit risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Research Foundation. In accordance with the Research Foundation’s investment policy, the minimum average credit quality rating of a bond mutual fund shall be investment grade or higher, or BBB/Baa or higher.

As of June 30, 2020, the Research Foundation has the following debt instrument credit quality ratings:

	Reported Value	AAA (AAAm)	Aa	A	Less than A rated	Not Rated
Money Market Accounts	\$ 55,890,160	\$ 55,890,160	\$ -	\$ -	\$ -	\$ -
Domestic Bond Mutual Funds	20,385,619	8,110,657	1,603,087	5,988,033	4,486,158	197,684
International Bond Mutual Funds	8,399,046	1,735,243	2,240,026	2,085,483	2,338,294	-
	<u>\$ 84,674,825</u>	<u>\$ 65,736,060</u>	<u>\$ 3,843,113</u>	<u>\$ 8,073,516</u>	<u>\$ 6,824,452</u>	<u>\$ 197,684</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) **Deposits and Investments:** (Continued)

Debt Instruments whose credit quality is not rated includes \$197,684 of not rated domestic bond mutual funds.

As of June 30, 2019, the Research Foundation has the following debt instrument credit quality ratings:

	<u>Reported Value</u>	<u>AAA (AAAm)</u>	<u>Aa</u>	<u>A</u>	<u>Less than A rated</u>	<u>Not Rated</u>
Money Market						
Accounts	\$ 55,890,160	\$ 55,890,160	\$ -	\$ -	\$ -	\$ -
Domestic Bond						
Mutual Funds	22,518,812	10,731,097	1,656,376	5,315,702	4,578,101	237,536
International Bond						
Mutual Funds	<u>9,685,647</u>	<u>2,060,138</u>	<u>2,557,979</u>	<u>2,533,765</u>	<u>2,533,765</u>	<u>-</u>
	<u>\$ 88,094,619</u>	<u>\$ 68,681,395</u>	<u>\$ 4,214,355</u>	<u>\$ 7,849,467</u>	<u>\$ 7,111,866</u>	<u>\$ 237,536</u>

Debt Instruments whose credit quality is not rated includes \$237,536 of not rated domestic bond mutual funds.

Investment revenues consisted of the following amounts:

	<u>Years Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Realized gains on current investments	\$ 4,863,544	\$ 4,882,429
Unrealized (losses) gains on current investments	575,174	844,387
Total investment revenues	<u>\$ 5,438,718</u>	<u>\$ 5,726,816</u>

Custodial credit risk—Custodial credit risk is the risk of loss attributed to the magnitude of the Research Foundation’s investments held by outside parties. 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. At June 30, 2020, the carrying amount of deposits totaled \$1,995,081. At June 30, 2019 the carrying amount of deposits totaled 1,069,829. The Research Foundation has not experienced any losses in such accounts.

Partnership investment—The Research Foundation has invested in an equity holding in a Florida Limited Liability Company (the Company) that is in the business of producing materials resulting from intellectual property of Florida State University. During the year ended June 30, 2020 the Research Foundations equity interest in the Company was roughly 33% of the total shares outstanding. During the year ended June 30, 2019 the Research Foundations equity interest in the Company was roughly 31% of the total shares outstanding. Partnership investment is reported as a non-current investment and is recorded using the cost approach.

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 Vanguard Mutual Funds, which invest in higher quality investments with varying maturity rates.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) **Deposits and Investments:** (Continued)

As of June 30, 2020, Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to Florida PRIME. The occurrence of an event that has a material impact on liquidity or operations of the trust fund can cause limits on contributions or withdrawals. During the fiscal year there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit a participant's daily access to 100% of their account value. Separate financial statements for the pool are available by contacting the Florida State Board of Administration.

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Research Foundation minimizes interest rate risk by limiting the average duration of the fixed income portfolio to not exceed the average duration of the broad US fixed income market – approximately six years as well as a maturity limit of nine years.

Foreign currency risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The Research Foundation has no formal investment policy with regard to foreign currency risk for the investments, consisting of various Vanguard mutual funds which all state that there are inherent risks involved when investing in international securities through mutual funds that are not present with investments in domestic securities. The following table summarizes the Research Foundation's exposure to foreign currency risk in U.S. dollars as of June 30, 2020:

Currency by Investment and Fair Value					
	Equity	Total		Equity	Total
Australian Dollar	\$ 934,587	\$ 934,587	Malaysian Ringgit	128,171	128,171
Brazilian Real	249,944	249,944	Mexican Peso	138,075	138,075
Canadian Dollar	1,378,717	1,378,717	New Zealand Dollar	57,154	57,154
Chilean Peso	20,181	20,181	Norwegian Krone	545,134	545,134
Chinese Yuan	187,934	187,934	Pakistani Rupee	2,523	2,523
Colombian Peso	6,307	6,307	Philippine Peso	31,533	31,533
Czech Koruna	22,262	22,262	Polish Złoty	63,022	63,022
Danish Krone	181,101	181,101	Qatari Riyal	29,010	29,010
Egyptian Pound	5,045	5,045	Russian Ruble	124,410	124,410
Euro	11,341,484	11,341,484	Saudi Arabia Riyal	90,814	90,814
Great Britain Pound	3,028,518	3,028,518	Singapore Dollar	223,351	223,351
Hong Kong Dollar	2,285,552	2,285,552	South African Rand	169,854	169,854
Hungarian Forint	20,166	20,166	Swedish Krona	553,300	553,300
Indian Rupee	367,907	367,907	Swiss Franc	1,842,182	1,842,182
Indonesian Rupiah	138,187	138,187	New Taiwan Dollar	548,570	548,570
Israeli New Shekel	65,980	65,980	Thai Baht	164,302	164,302
Japanese Yen	5,440,175	5,440,175	Turkish Lira	22,703	22,703
Korean Won	1,134,411	1,134,411	UAE Dirham	20,181	20,181
Kuwait Dinar	22,703	22,703	Total	\$ 31,585,450	\$ 31,585,450

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(3) **Deposits and Investments:** (Continued)

The following table summarizes the Research Foundation's exposure to foreign currency risk in U.S. dollars as of June 30, 2019:

Currency by Investment and Fair Value					
	Equity	Total		Equity	Total
Australian Dollar	\$ 677,679	\$ 677,679	Malaysian Ringgit	73,598	73,598
Brazilian Real	291,519	291,519	Mexican Peso	117,334	117,334
Canadian Dollar	925,495	925,495	New Zealand Dollar	28,993	28,993
Chilean Peso	25,648	25,648	Norwegian Krone	165,287	165,287
Chinese Yuan	26,763	26,763	Pakistani Rupee	3,345	3,345
Colombian Peso	7,806	7,806	Philippine Peso	34,569	34,569
Czech Koruna	4,460	4,460	Polish Zloty	30,108	30,108
Danish Krone	324,109	324,109	Qatari Riyal	34,569	34,569
Egyptian Pound	5,576	5,576	Russian Ruble	90,324	90,324
Euro	5,657,642	5,657,642	Saudi Arabia Riyal	41,259	41,259
Great Britain Pound	2,438,331	2,438,331	Singapore Dollar	263,844	263,844
Hong Kong Dollar	1,825,820	1,825,820	South African Rand	235,287	235,287
Hungarian Forint	7,806	7,806	Swedish Krona	479,304	479,304
Indian Rupee	415,286	415,286	Swiss Franc	1,438,074	1,438,074
Indonesian Rupiah	77,043	77,043	New Taiwan Dollar	407,449	407,449
Israeli New Shekel	36,799	36,799	Thai Baht	184,185	184,185
Japanese Yen	3,174,610	3,174,610	Turkish Lira	27,110	27,110
Korean Won	649,623	649,623	UAE Dirham	22,302	22,302
Kuwait Dinar	21,187	21,187	Total	\$ 20,270,143	\$ 20,270,143

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(4) License Fees & Royalty Receivables, Grant Receivables, and Accounts Receivable:

License fees and royalties receivables consist of the following as of the years ended June 30:

	June 30,	
	2020	2019
License fees and royalties receivable, gross	\$ 306,741	\$ 207,486
Allowance for doubtful accounts	-	-
License fees and royalties receivable, net	\$ 306,741	\$ 207,486

Grants receivables consist of the following as of the years ended June 30:

	June 30,	
	2020	2019
Grants receivable, gross	\$ 1,145,682	\$ 1,777,805
Allowance for doubtful accounts	-	-
Grants receivable, net	\$ 1,145,682	\$ 1,777,805

Accounts receivable – other consists of the following as of the years ended June 30:

	June 30,	
	2020	2019
Due from Florida State University, gross	\$ 10,275	\$ 2,960
Patent & license cost reimbursement receivable, gross	427,027	435,505
Allowance for doubtful accounts	(132,825)	(114,712)
Accounts Receivable – other, net	\$ 304,477	\$ 323,753

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(5) Notes Receivable:

On May 19, 2015, the Research Foundation entered into a joint agreement with the Florida State University College of Medicine to plan and design a site for the purchase and installation of a Functional Magnetic Resonance Imaging Machine (fMRI). The Research Foundation provided a non-interest bearing loan to the College of Medicine for \$1,000,000. The College of Medicine fMRI project was completed in June 2017 and is currently in use. The loan agreement calls for annual payments of \$200,000 beginning October 1, 2017 and ending October 1, 2021. During the year 2019, an unexpended balance in the project account in the amount of \$52,633 was received and applied against the loan balance. In accordance with the loan agreement, the remaining payments have been reduced proportionately to \$182,456. As of June 30, 2020 and 2019, the note receivable balance was \$364,803 and \$547,367, respectively.

On September 14, 2011, the Research Foundation provided an entrepreneurial cash advance in the amount of \$25,000 to BioFront Technologies, Inc., a spinoff of intellectual property developed at Florida State University. The purpose of the advance was to accelerate license negotiations and technical/product development. The non-interest bearing advance was to be repaid by June 1, 2016 or a mutually agreeable repayment schedule was to be negotiated. On April 26, 2017, a repayment schedule was established with monthly payments beginning in July 2017 and continuing through January 2020. As of June 30, 2019, the note receivable balance was \$8,000. There was no remaining note receivable balance as of June 30, 2020.

On August 15, 2018, the Research Foundation provided an \$8,000,000 loan bearing interest of 3.25% to the Florida State University Board of Trustees for and on behalf of its Department of Intercollegiate Athletics (the Department) to fund the Seminole Golf Course and Club Capital Improvement Project. The promissory note calls for monthly payments of \$123,778 beginning January 15, 2019 and ending on December 15, 2024, with interest accruing from August 15, 2018 through the first payment on January 15, 2019. The Department intends to fund the repayment from pledged donations to the Seminole Golf Course and Club Capital Improvement Project. Note receivable balances as of June 30, 2020 and 2019 were \$6,218,564 and \$7,481,404, respectively.

(6) Deposits Held with Florida State University:

Deposits held with the University consist of a deposit balance of \$3,425,565 related to the architectural and engineering design agreement for the Inter-disciplinary Research and Commercialization Building (IRCB) entered into on May 4, 2015, and a deposit of \$789,803 made during the 2019 fiscal year related to current building renovations, which was utilized for renovations in fiscal year 2020. The IRCB balance of \$3,425,565 includes \$2,945,000 paid to the University as well as \$480,565 in architectural costs related to the IRCB project. As of the years ended June 30, the deposits held with Florida State University were as follows:

	June 30,	
	2020	2019
Beginning Balance	\$ 4,215,368	\$ 3,425,565
Additions	-	789,803
Deductions	773,305	-
Ending Balance	\$ 3,442,063	\$ 4,215,368

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(7) Royalty Allocations Payable:

Inventor's royalty allocation payable — 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, 2020 and 2019, the inventors' allocations payable balance was \$437,222 and \$311,576, respectively.

Departmental royalty allocation 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 to 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, 2020 and 2019, the inventors' department allocations payable balance was \$2,415,099 and \$1,907,105, respectively.

(8) Patent and Licensing Costs:

Patent and licensing costs activity for the years ended June 30 are as follows:

	June 30,	
	2020	2019
Patent and licensing costs, gross	\$ 1,332,272	\$ 1,653,913
Reimbursements collected and receivable, gross	(479,290)	(499,475)
Increase in allowance for doubtful accounts	-	-
Patent and licensing costs, net	\$ 852,982	\$ 1,154,438

(9) Unearned Restricted Revenue:

Unearned restricted revenue consists of the unexpended portions of contracts and grants that are being administered by the Research Foundation. Revenue is recognized only to the extent expenses are incurred in executing the applicable contracts and grants.

Changes in unearned restricted revenue from these contracts and grants consist of the following as of June 30,:

	2020	2019
Beginning balance	\$ 13,017,691	\$ 9,583,062
Contracts and grants receipts	8,283,063	15,843,961
Restricted contracts and grants expenditures	(11,641,776)	(11,094,874)
Administrative contracts and grants expenditures	(1,190,661)	(1,314,458)
Ending balance	\$ 8,468,317	\$ 13,017,691

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(10) **Lease Payments in Advance:**

Materials Research Building (MRB)

The Research Foundation entered into an agreement with the University to construct the Materials Research 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 was substantially complete in December 2008. Costs expended by the Research Foundation net of University reimbursements were \$2,059,067. The Research Foundation entered into a lease agreement with the University to manage the building. 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 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 \$674,232. The Research Foundation entered into a lease agreement with the University to manage the building. 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 payment in advance will be amortized over the life of the lease, which runs through June 30, 2043, using the straight-line method.

Amounts related to lease payments in advance are summarized below:

	June 30, 2020			June 30, 2019		
	MRB	AME	Total	MRB	AME	Total
Original cost	\$ 2,059,067	\$ 674,232	\$ 2,733,299	\$ 2,059,067	\$ 674,232	\$ 2,733,299
Accumulated amortization	744,400	178,385	\$ 922,785	678,667	157,160	\$ 835,827
Net lease payment in advance	<u>\$ 1,314,667</u>	<u>\$ 495,847</u>	<u>\$ 1,810,514</u>	<u>\$ 1,380,400</u>	<u>\$ 517,072</u>	<u>\$ 1,897,472</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
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(11) **Capital Assets:**

Land and land improvements:

During fiscal year 2015, Chieftan, Inc., purchased land with a building referred to as the Chieftan Green Apartment Complex (Complex) with the intention to demolish the facility and build a research building in the future after renting out the facility for a few years. During fiscal year 2016, ownership of the Complex was transferred from Chieftan, Inc., to the Research Foundation. The Complex was demolished once the leases ended July 31, 2018, and a parking lot was constructed for temporary use. The temporary parking lot is managed by Florida State University Parking and Transportation and will provide revenue to the Research Foundation. The long-term purpose of the property continues to be the building of a biomedical facility on the property. As of June 30, 2020 and June 30, 2019 the Research Foundation has \$1,467,000 recorded as land and land improvements related to the Chieftan property.

In August 2018, the Research Foundation purchased property adjacent to the Chieftan Green Apartment Complex, known as Conradi, to provide additional land for the future biomedical facility. During the 2020 fiscal year, the Research Foundation demolished the existing building and expanded the temporary parking lot from the Chieftan Green Apartment Complex property. As of June 30, 2020 and June 30, 2019, the Research Foundation had \$366,820 and \$333,318 recorded as land and land improvements related to the Conradi property.

At June 30, 2020 and June 30, 2019, land consists of the Complex land and a donated property related to the gift annuity program as described in Note (13).

Capital leases:

The Research Foundation operates all or portions of seven buildings as lessor. Building A and Building B have their construction costs capitalized in these financial statements as capital leases. 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 part of the 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.

After the FSU Foundation vacated space in August 2018, the Research Foundation in conjunction with the Florida State University Vice President of Research Office began renovations to the third floor of Building B to meet the needs of the incoming research tenants. The renovations for Building B, third floor, were completed in June 2019 at a cost of \$667,000. As of June 30, 2019, the renovated space was fully occupied.

In June 2019, renovations began on the second floor of Building B and specified space on the third floor of Building A. These renovations were completed in August 2019 at a cost of \$818,000. The renovation costs for both buildings are reported as property under capital lease and will be amortized over the remaining life of the lease as of the date construction was completed.

Other:

The Research Foundations capital assets also consist of various other assets meeting the criteria for capitalization such as software and equipment. A comprehensive summary of capital asset activity for the year is presented below:

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(11) **Capital Assets:** (Continued)

	Balance			Balance
	June 30, 2019	Increases	Decreases	June 30, 2020
Capital Assets, Not Being Depreciated:				
Land	\$ 2,585,317	\$ 33,503	\$ -	\$ 2,618,820
Construction in Progress	175,451	-	(175,451)	-
Total Capital Assets Not Being Depreciated	2,760,768	33,503	(175,451)	2,618,820
Capital Assets Being Depreciated:				
Property under capital lease	26,331,266	819,357	-	27,150,623
Equipment	123,907	-	-	123,907
Computer software	79,658	-	-	79,658
Total Capital Assets Being Depreciated	26,534,831	819,357	-	27,354,188
Less Accumulated Depreciation For:				
Property under capital lease	(13,657,029)	(1,008,545)	-	(14,665,574)
Equipment	(54,835)	(14,599)	-	(69,434)
Computer software	(79,658)	-	-	(79,658)
Total Accumulated Depreciation	(13,791,522)	(1,023,144)	-	(14,814,666)
Total Capital Assets, Net of Depreciation	12,743,309	(203,787)	-	12,539,522
Capital Assets, Net	\$ 15,504,077	\$ (170,284)	\$ (175,451)	\$ 15,158,342

	Balance			Balance
	June 30, 2018	Increases	Decreases	June 30, 2019
Capital Assets, Not Being Depreciated:				
Land	\$ 1,326,654	\$ 1,258,663	\$ -	\$ 2,585,317
Construction in Progress	-	175,451	-	175,451
Total Capital Assets Not Being Depreciated	1,326,654	1,434,114	-	2,760,768
Capital Assets Being Depreciated:				
Property under capital lease	25,665,365	665,901	-	26,331,266
Buildings	952,287	-	(952,287)	-
Equipment	46,460	77,447	-	123,907
Computer software	79,658	-	-	79,658
Total Capital Assets Being Depreciated	26,743,770	743,348	(952,287)	26,534,831
Less Accumulated Depreciation For:				
Property under capital lease	(12,761,958)	(895,071)	-	(13,657,029)
Buildings	(115,738)	(2,886)	118,624	-
Equipment	(46,460)	(8,375)	-	(54,835)
Computer software	(79,658)	-	-	(79,658)
Total Accumulated Depreciation	(13,003,814)	(906,332)	118,624	(13,791,522)
Total Capital Assets, Net of Depreciation	13,739,956	(162,984)	(833,663)	12,743,309
Capital Assets, Net	\$ 15,066,610	\$ 1,271,130	\$ (833,663)	\$ 15,504,077

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(12) Property Leased to Others

In addition to the leases described in Notes (10) and (11), the buildings at 3000 Commonwealth and 3200 Commonwealth are owned by the University and either fully or partially managed/leased by the Research Foundation.

During the years ended June 30, 2020 and 2019, the Research Foundation recognized rental income from the properties described above in the amounts of \$3,165,465 and \$2,729,951, respectively.

The following is a schedule of future rentals under non-cancellable leases as of June 30, 2020. Leases have an annual non-cancellable term and are renewed annually unless tenant notifies the Research Foundation in advance of the renewal date. 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
2021	\$ 3,181,529
2022	3,152,650
2023	425,104
2024	220,295
2025	-
Total	\$ 6,979,578

(13) Long Term Liabilities

Obligations under Capital Leases – Guaranty Agreements

Prior to 2013, the Research Foundation entered into a guaranty agreement for the issuance of Florida Board of Education Series 2001 Revenue Bonds, the proceeds of which were used to construct research and development facilities (Buildings A and B) for the benefit of the University. 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 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.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(13) **Long Term Liabilities** (Continued)

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, 2020 and 2019, the annuity payable is recorded at its present value of \$192,993 and \$192,685, respectively. A discount rate of 3.0% 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.

The table below summarizes long term liabilities for the years ended June 30, 2020 and June 30, 2019:

	June 30, 2019	Additions	Deletions	June 30, 2020	Due Within One Year
Obligations under capital leases, net	\$ 9,294,825	\$ -	\$ 640,819	\$ 8,654,006	\$ 595,000
Annuity obligations	192,685	308	-	192,993	-
Total long-term liabilities	<u>\$ 9,487,510</u>	<u>\$ 308</u>	<u>\$ 640,819</u>	<u>\$ 8,846,999</u>	<u>\$ 595,000</u>

	June 30, 2018	Additions	Deletions	June 30, 2019	Due Within One Year
Obligations under capital leases, net	\$ 9,910,643	\$ -	\$ 615,818	\$ 9,294,825	\$ 575,000
Annuity obligations	223,100	-	30,415	192,685	-
Total long-term liabilities	<u>\$ 10,133,743</u>	<u>\$ -</u>	<u>\$ 646,233</u>	<u>\$ 9,487,510</u>	<u>\$ 575,000</u>

The table below summarizes future maturities of obligations under capital leases:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 595,000	\$ 277,300	\$ 872,300
2022	620,000	253,500	873,500
2023	640,000	228,700	868,700
2024	670,000	203,100	873,100
2025	695,000	176,300	871,300
2026-2030	3,865,000	489,300	4,354,300
2031	845,000	25,350	870,350
Total	<u>\$ 7,930,000</u>	<u>\$ 1,653,550</u>	<u>\$ 9,583,550</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

(13) **Long Term Liabilities** (Continued)

Obligations under capital lease consists of the following:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Obligations under capital leases	\$ 7,930,000	\$ 8,505,000
Bond Premium	724,006	789,825
Obligations under capital leases, net	<u>\$ 8,654,006</u>	<u>\$ 9,294,825</u>

(14) **Risks and Uncertainties:**

During the year ended June 30, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Research Foundation as of September 23, 2020 management believes that a material impact on the Research Foundation's financial position and results of future operations is reasonably possible.

(15) **Designated Unrestricted Net Position:**

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

<u>As of June 30</u>	<u>2020</u>	<u>2019</u>
Designated		
Building Maintenance & Equipment Reserve	\$ 2,373,644	\$ 2,254,002
Building Vacancy & Renovation Reserve	2,157,255	1,789,168
Building Debt Guaranty Reserve	863,413	821,413
Inter-disciplinary Research & Commercialization Building	509,903	509,903
Research Enhancement	3,691,488	2,539,392
GAP Program	441,974	319,681
Total Designated	<u>10,037,677</u>	<u>8,233,559</u>
Total Non-Designated	<u>136,492,408</u>	<u>132,265,840</u>
Total Unrestricted Net Position	<u>\$ 146,530,085</u>	<u>\$ 140,499,399</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Florida State University Research Foundation, Inc. (the Research Foundation), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements, and have issued our report thereon dated September 23, 2020.

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) as a basis for designing 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 over financial reporting. 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.

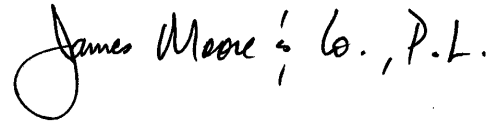
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Research Foundation's financial statements are free 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 financial statements. 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.

A handwritten signature in black ink that reads "James Moore & Co., P.L.". The signature is written in a cursive style with a large, looped initial "J".

Tallahassee, Florida
September 23, 2020