

Financial Statements



**Florida State University Research Foundation, Inc.**

*Years ended June 30, 2010 and 2009  
with Report of Independent Auditors*

Thomas Howell  
 Ferguson P.A.

Florida State University Research Foundation, Inc.

Financial Statements

Years ended June 30, 2010 and 2009

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## Report of Independent Auditors

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

We have audited the accompanying statements of financial position of the Florida State University Research Foundation, Inc. (the Research Foundation), a component unit of Florida State University, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Research Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida State University Research Foundation, Inc. as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010, on our consideration of the Research Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Thomas Howell Ferguson P.A.*

September 15, 2010

## 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 2010 and 2009. The intent of this discussion and analysis of financial performance is to provide readers with a comprehensive picture of the Research Foundation's financial condition and results of operations and should be read in conjunction with the audited financial statements and related footnotes as details provided there are not necessarily repeated in this analysis.

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

### FINANCIAL HIGHLIGHTS

- **Net assets** of the Research Foundation increased by \$457,825 in 2010. They increased from \$92.4 million to approximately \$92.8 million by June 30, 2010. A stable investment climate accounted for most of the net asset increase. Net assets indicate the overall financial strength of the Research Foundation and are equal to total assets less total liabilities. These net assets will provide the resources necessary to continue funding research programs and research facilities, as well as to meet other obligations in the coming years.
- **Revenues** at the Research Foundation consist of licensing and royalty revenues, privately-funded contracts and grants, building rentals, and investment earnings.
  - **Licensing fees and royalty revenues were fairly consistent with the previous year, overall.** Taxol produced \$182,000 less royalty income in 2010. This decrease was offset by the increase of \$107,000 in the Center for Prevention and Early Innovation Policy (CPEIP) royalty income and the receipt of \$100,000 from the Weather Predict royalty after a two year hiatus. For the near term, new and existing licensing agreements are expected to produce royalties for the Research Foundation of approximately \$700,000 per year.

## FINANCIAL HIGHLIGHTS (continued)

- **Privately-funded contracts and grant revenue** recognized in 2010 was 7% less than contract and grant revenue recognized in 2009 due to a decrease in the amount of grant spending.
- **Building revenues** increased by 13.5%, as tenants were placed in renovated spaces and recently purchased buildings in fiscal year 2010. Building expenses increased 7.7% overall. The University began receiving Plant Operation and Maintenance (PO&M) funds on July 1, 2009 for the Johnson, Sliger, and Shaw Buildings and therefore began paying the utilities for those buildings. The reduction in the amount that the Research Foundation was paying for utilities is offset by the increase in other costs associated with adding additional buildings. Amortization and depreciation increased with the completion of the Center for Advanced Power Systems (CAPS) Medium Voltage Laboratory adjacent to Building A, Building B renovations, Chemistry Laboratory in 3000 Commonwealth, and the completion of the renovations in 3200 Commonwealth.
- **Investment revenues** consisted of long-term gains of \$112,000, short-term realized gains from interest income of \$296,000, and short-term unrealized gains of \$518,000 for a total gain during fiscal year 2010 of over \$900,000. The change compared to 2009 is due to an overall stabilizing investment market. Prior year's investment losses resulted from a weak market performance with 2009 market losses averaging 30%, whereas the Research Foundation only recognized an 11% loss as a result of its investments in long-term bonds.

## RESEARCH FOUNDATION FUNDED PROGRAMS HIGHLIGHTS

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

- ***Cornerstone/Program Enhancement Grants*** – provide seed funding to FSU faculty in the Arts and Humanities as well as the Sciences for up to two years. Research activities of long-term importance are supported with a goal in mind to advance FSU research productivity as well as enhance the national and international reputation and stature of FSU. This grant program is no longer funded by the Research Foundation, however, past grants continue to be administered by the Research Foundation.
- ***Eppes Professorships*** – assist FSU in recruiting national scholars by providing a \$40K annual grant to selected scholars employed by FSU 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 FSU. It funds projects that FSU researchers and other interested parties agree will quickly improve the odds that current research results will lead to public availability of a new product or service. In fiscal year 2009, the Board of Directors approved this program extension for four years at \$250,000 per year.
- *Equipment and Infrastructure Enhancement Grants (EIEG)* – enable FSU faculty and staff to acquire equipment and other infrastructure-enhancing tools that will greatly augment research and/or creative activity across multiple disciplines within FSU. In fiscal year 2009, this four year program completed its final year of \$250,000 annual funding.

## OVERVIEW OF THE FINANCIAL STATEMENTS

### Statement of Financial Position

The Statement of Financial Position presents the assets, liabilities, and net assets of the Research Foundation as of the end of the fiscal year. From the data presented, readers are able to determine the assets available to continue the operations of the organization. In 2010, there was a \$617,000 increase in **Total assets**. Combined cash and investments decreased by approximately \$2.1 million for the year. The decline in cash and investments was a net effect of \$923K in investment revenue and \$3M cash outflow related to the various building projects.

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 \$272,277 in CAMP-MM and \$1,160,967 in Fund B at June 30, 2010.

The **short-term investments** decreased by approximately \$3.2M due to the net effect of the investment income and the spending of \$3M on various building projects for additional research facilities and other cash needs.

**Property Under Capital Leases (Net)** decreased by \$177,000 due to the net effect of current year amortization expense of \$1.4M and the additions from the completed projects in the amount of \$1.2M. The fiscal year 2010 additions consisted of construction of the CAPS Medium Voltage Laboratory adjacent to Building A and renovations to Building B. These assets represent the current amortized cost of various Research Foundation leasehold agreements in Innovation Park.

## Statement of Financial Position (continued)

**Construction in Progress** decreased by \$616,000 as a result of the completion of various projects. One project currently in progress comprises the \$1.5 million balance at June 30, 2010:

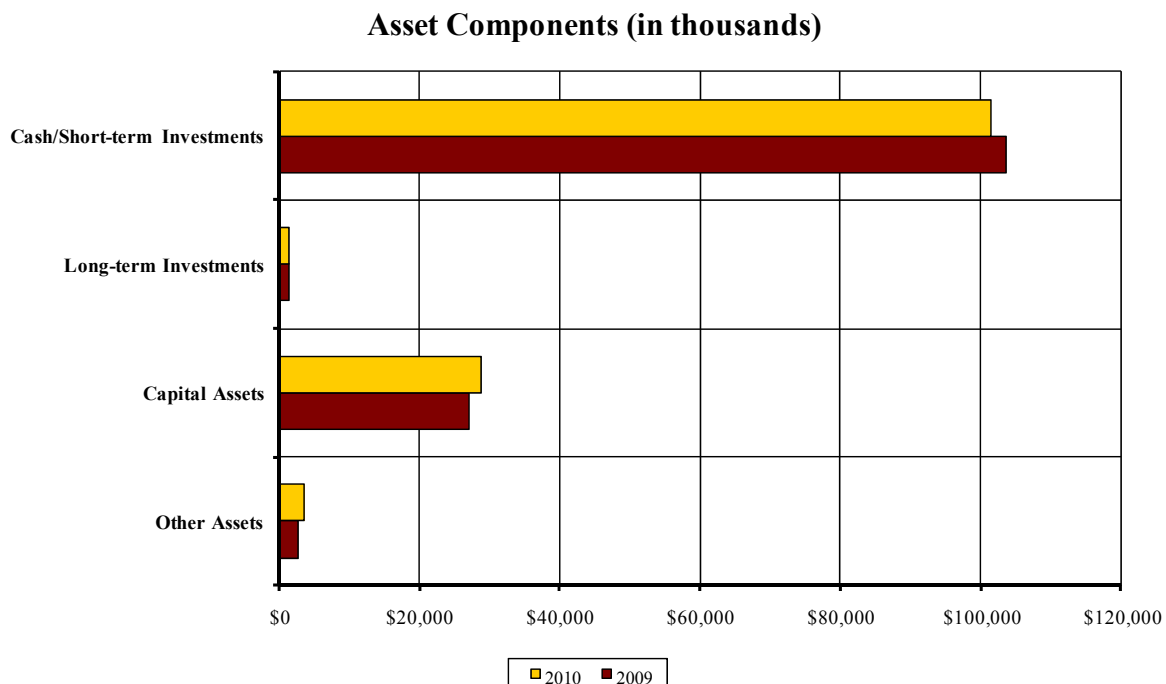
- *Transmission Electron Microscope* – during fiscal year 2009, the Research Foundation entered into a contract to construct a Transmission Electron Microscope and renovate an existing laboratory space to accommodate the microscope. The Research Foundation intends to pay for the construction and then transfer ownership of the microscope to FSU upon acceptance and completion.

**Total liabilities** remained consistent with only a \$159,000 increase in fiscal year 2010 largely due to continued departmental spending of royalty funds on deposit (see **Royalty allocations payable** below).

The **Royalty allocations payable** consists primarily of past royalties not yet spent by departments held on deposit at the Research Foundation. For 2010, this payable declined by \$1.5 million due to continued departmental spending.

**Deferred restricted revenue** consists of the unexpended portions of contract and grant revenue receipts that are being administered by the Research Foundation. Revenue per the Statements of Revenues, Expenses, and Changes in Fund Net Assets is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Deferred restricted revenue increased by \$1.7 million in 2010 due to the decreased grant expenditures and increase in contract and grant cash received.

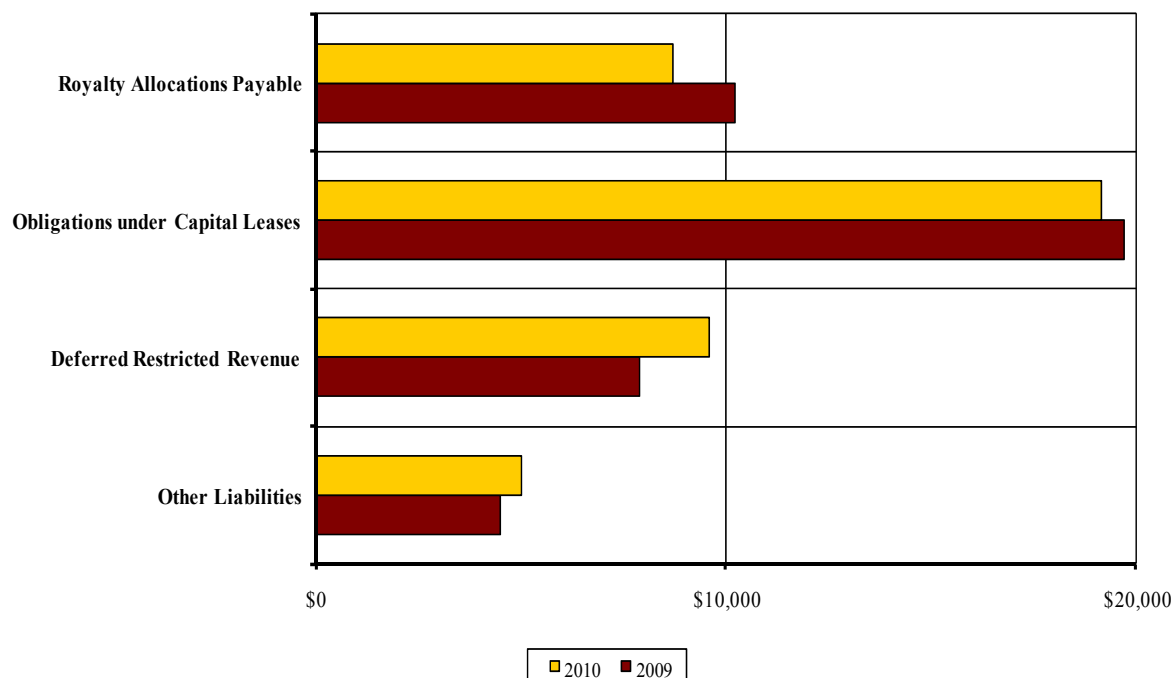
The following chart illustrates the **asset** components at June 30, 2010 and 2009:



## Statement of Financial Position (continued)

The following chart illustrates the **liability** components at June 30, 2010 and 2009:

**Liability Components (in thousands)**



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

<b>Net Assets (in millions), End of Year</b>			
	<b>2010</b>	<b>2009</b>	<b>% change</b>
Current and Other Assets	\$ 106.5	\$ 107.7	-1.1%
Capital Assets and Land	28.8	27.0	6.7%
<b>Total Assets</b>	<b>\$ 135.3</b>	<b>\$ 134.7</b>	<b>0.4%</b>
Debt Outstanding - Capital Assets	\$ 19.2	\$ 19.7	-2.5%
Other Liabilities	23.3	22.6	3.1%
<b>Total Liabilities</b>	<b>\$ 42.5</b>	<b>\$ 42.3</b>	<b>0.5%</b>
Invested in Capital Assets (net of debt)	\$ 9.3	\$ 6.9	34.8%
Unrestricted	83.5	85.5	-2.3%
<b>Total Net Assets</b>	<b>\$ 92.8</b>	<b>\$ 92.4</b>	<b>0.4%</b>

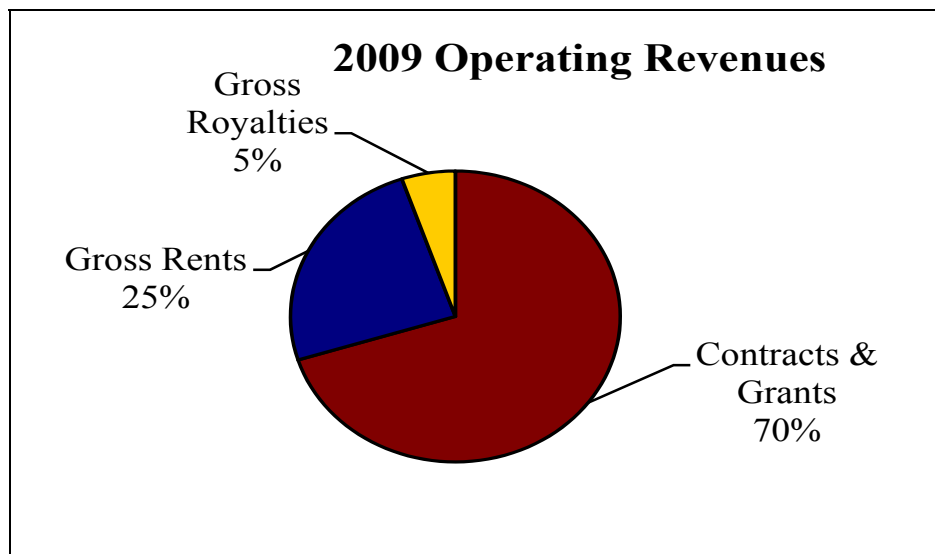
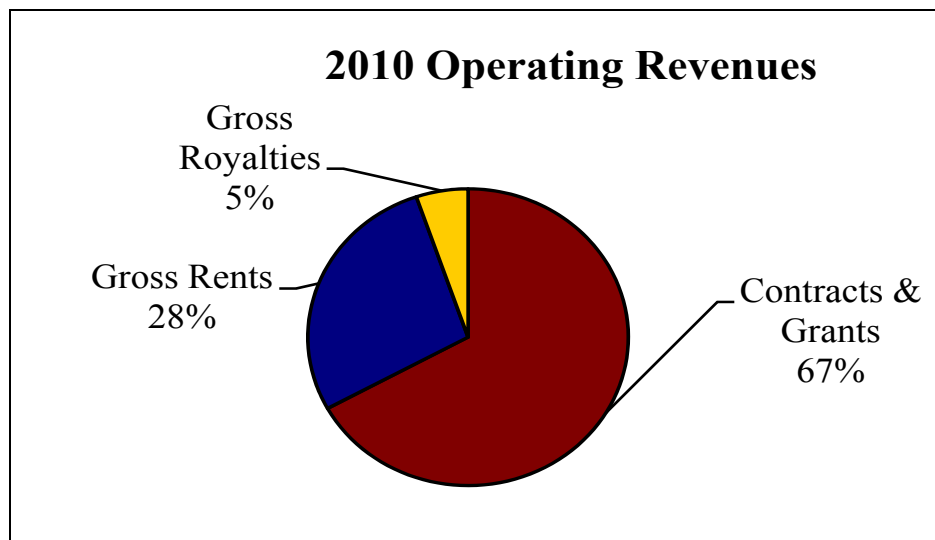
The Research Foundation's net assets have remained constant with previous year as a result of its operations. The Research Foundation's overall financial condition remains healthy.



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

Royalty revenues, contract and grant revenues, building rents (**Operating income**) and investment earnings (**Nonoperating income**) provide the primary resources used to fund Research Foundation activities. The Research Foundation recognized \$7.6 million in contract and grant revenue during fiscal year 2010. This was a decrease of 7% from the \$8.2 million recognized in fiscal year 2009. Net building operations produced \$596,00 and \$375,000 of revenue in 2010 and 2009, respectively. Gross rents increased by 13.5% during fiscal year 2010, due to filling vacancies from 2009 and the rental of additional tenant space as a result of recent purchases and construction of additional buildings. Due to additional buildings and additional amortization and depreciation, building expenses increased 7.7% in fiscal year 2010.

The following charts depict the sources of operating revenues for the periods ending June 30, 2010 and 2009. The allocation of revenues remained relatively constant from 2009 to 2010.



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

**Other operating expenses** decreased \$1.5 million or 43% in 2010 which is primarily attributable to the decrease in **Contributions to Florida State University** (see below).

**Contributions to Florida State University** decreased \$1.2 million in 2010 from the prior year due to the net effect of the Contributions from FSU in fiscal year 2010 and the \$1 million contribution to the Arts and Sciences department in 2009. The following list describes the types of disbursements made as Contributions to Florida State University in 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Contributions Toward Technology Transfer	\$ 42,206	\$ 35,556
Indirect Cost Earned and Available for Research	49,063	10,028
Residuals Available for Research Spending	433,096	249,434
Advocacy Groups Assisting with Federal Funding	56,823	61,948
Contracted Services, Publications, Recruiting and Other	369,362	411,432
Contribution to Arts & Sciences	-	1,000,000
Contributions from FSU	(349,043)	-
	<b>\$ 601,507</b>	<b>\$ 1,768,398</b>

**Nonoperating revenues** for 2010 compared to 2009 increased over \$9.9 million. This increase was primarily due to the extremely weak investment market during 2009 and a conservative approach to investing by the Research Foundation. The Research Foundation had **investment revenues** of \$923,000 in 2010 compared to a loss of \$9 million in 2009.

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://www.vpfa.fsu.edu/control/reports.html>

Florida State University Research Foundation, Inc.

Statements of Financial Position

	June 30,	
	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,322,444	\$ 267,544
Short-term investments	100,171,674	103,353,652
License fees and royalties receivable	779	5,524
Grant receivables	837,025	137,805
Accounts receivable - other	32,172	21,448
Deposit	<u>25,000</u>	<u>-</u>
Total current assets	<b>102,389,094</b>	103,785,973
Noncurrent assets:		
Long-term investments	1,433,244	1,413,907
Land	2,385,000	1,385,000
Property under capital leases, net	21,570,157	21,747,016
Building and improvements, net	3,300,251	1,777,464
Equipment, net	46,460	-
Computer software, net	64,245	-
Construction in progress	1,459,433	2,075,690
Lease payment in advance, net	1,961,094	1,796,207
Other assets, net	<u>690,659</u>	<u>701,521</u>
Total noncurrent assets	<b>32,910,543</b>	30,896,805
Total assets	<b><u>\$ 135,299,637</u></b>	<b><u>\$ 134,682,778</u></b>
<b>Liabilities and fund net assets</b>		
Current liabilities:		
Royalty allocations payable	\$ 8,710,252	\$ 10,217,044
Other liabilities	497,043	340,466
Deferred restricted revenue	9,600,659	7,890,213
Florida State University fund payable	4,171,846	3,802,925
Obligations under capital leases, current portion	<u>570,000</u>	<u>550,000</u>
Total current liabilities	<b>23,549,800</b>	22,800,648
Noncurrent liabilities:		
Obligations under capital leases, long-term portion	18,595,000	19,165,000
Annuity obligation	<u>337,352</u>	<u>357,470</u>
Total noncurrent liabilities	<b>18,932,352</b>	19,522,470
Fund net assets:		
Invested in capital assets, net of related debt	9,323,194	6,912,700
Unrestricted	<u>83,494,291</u>	<u>85,446,960</u>
Total fund net assets	<b>92,817,485</b>	92,359,660
Total liabilities and fund net assets	<b><u>\$ 135,299,637</u></b>	<b><u>\$ 134,682,778</u></b>

See accompanying notes.

Florida State University Research Foundation, Inc.

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

	<b>Years ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>License and grant revenues</b>		
Licensing fees and royalties	\$ 700,422	\$ 701,129
Contracts and grants - restricted	7,584,887	8,176,498
Administrative - unrestricted:		
Contracts and grants	1,243,433	1,023,462
Licenses and other	149,690	143,810
Total license and grant revenues	<u>9,678,432</u>	<u>10,044,899</u>
<b>License and grant expenses</b>		
Royalty allocations	(495,051)	(528,873)
Patent and licensing costs	(573,245)	(484,756)
Contracts and grants	(7,584,887)	(8,176,498)
Total license and grant expenses	<u>(8,653,183)</u>	<u>(9,190,127)</u>
Net license and grant income	<u>1,025,249</u>	<u>854,772</u>
<b>Rent revenues (expenses)</b>		
Rental income	3,715,299	3,272,582
Building occupancy:		
Interest on bonds	(914,324)	(921,193)
Amortization and depreciation	(1,588,053)	(1,399,188)
Management and leasing fees	(175,743)	(162,437)
Utilities, net of reimbursements	(87,836)	(130,959)
Other	(353,785)	(283,911)
Net rental income	<u>595,558</u>	<u>374,894</u>
<b>Other operating expenses</b>		
Personnel costs	(444,544)	(375,614)
Contributions to Florida State University	(601,507)	(1,768,398)
Software amortization	(3,381)	-
Miscellaneous	(32,804)	(174,449)
Research Foundation funded programs	(939,794)	(1,211,967)
Total other operating expenses	<u>(2,022,030)</u>	<u>(3,530,428)</u>
Operating loss	<u>(401,223)</u>	<u>(2,300,762)</u>
<b>Nonoperating revenues (expenses)</b>		
Investment revenue (loss)	923,406	(9,015,810)
Investment portfolio fees	(16,992)	(13,067)
Change in annuity value	(47,392)	(60,086)
Miscellaneous income	26	4,533
Total nonoperating revenues (expenses)	<u>859,048</u>	<u>(9,084,430)</u>
Change in fund net assets	457,825	(11,385,192)
Fund net assets, beginning of year	92,359,660	103,744,852
Fund net assets, end of year	<u>\$ 92,817,485</u>	<u>\$ 92,359,660</u>

*See accompanying notes.*

Florida State University Research Foundation, Inc.

Statements of Cash Flows

	<b>Years ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Licensed products and building program:		
Licensing fees and royalties	\$ 705,167	\$ 705,249
Administrative fees from licenses and other	149,690	143,810
Rental income	3,704,575	3,850,329
Departmental allocation payments	(2,001,843)	(2,026,340)
Patent and licensing costs	(602,635)	(530,939)
Building occupancy	(1,494,419)	(1,564,219)
Lease payments in advance	(230,487)	(1,818,074)
Net cash provided by (used in) licensed products and building program	<u>230,048</u>	<u>(1,240,184)</u>
Contracts and grants:		
Receipts	9,839,546	9,550,839
Disbursements	(7,565,783)	(8,354,503)
Net cash provided by contracts and grants	<u>2,273,763</u>	<u>1,196,336</u>
Other receipts/disbursements:		
Personnel costs	(444,544)	(424,371)
Research Foundation funded programs	(934,836)	(1,274,480)
Contributions to Florida State University	(232,586)	(1,767,203)
Other disbursements	(32,150)	(174,610)
Net cash used in other receipts/disbursements	<u>(1,644,116)</u>	<u>(3,640,664)</u>
Net cash provided by (used in) operating activities	<u>859,695</u>	<u>(3,684,512)</u>
<b>Noncapital financing activities</b>		
Gift annuity payments	(67,510)	(67,510)
Administrative fees and other	26	4,533
Net cash used in noncapital financing activities	<u>(67,484)</u>	<u>(62,977)</u>
<b>Investing activities</b>		
Purchases of investment securities	(3,344,132)	(107,890,722)
Sales of investment securities	7,413,187	119,169,849
Purchases of buildings and equipment	(2,107,500)	(2,403,590)
Purchase of software	(67,626)	-
Net cash provided by investing activities	<u>1,893,929</u>	<u>8,875,537</u>
<b>Capital and related financing activities</b>		
Building purchase and construction	(1,081,240)	(5,720,949)
Principal payments on obligations under capital leases	(550,000)	(525,000)
Net cash used in capital and related financing activities	<u>(1,631,240)</u>	<u>(6,245,949)</u>
Net change in cash and cash equivalents	<u>1,054,900</u>	<u>(1,117,901)</u>
Cash and cash equivalents, beginning of year	<u>267,544</u>	<u>1,385,445</u>
Cash and cash equivalents, end of year	<u>\$ 1,322,444</u>	<u>\$ 267,544</u>

(continued)

Florida State University Research Foundation, Inc.

Statements of Cash Flows (continued)

	<b>Years ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<hr/>	<hr/>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>		
Operating loss	\$ (401,223)	\$ (2,300,762)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Amortization and depreciation of capital assets	1,591,434	1,399,188
Changes in operating assets and liabilities:		
License fees and royalties receivable	4,745	4,119
Other receivables	(709,944)	454,075
Royalty allocations payable	(1,506,792)	(1,497,467)
Florida State University fund payable	368,921	1,195
Other liabilities	32,595	(415,471)
Deferred restricted revenue	1,710,446	488,685
Lease payments in advance	(230,487)	(1,818,074)
Net cash provided by (used in) operating activities	<u>\$ 859,695</u>	<u>\$ (3,684,512)</u>

*See accompanying notes.*

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

Years ended June 30, 2010 and 2009

### **1. Summary of Significant Accounting Policies**

#### **Reporting Entity**

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

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

#### **Basis of Accounting**

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

#### **Fund Accounting**

To ensure observance of limitations and restrictions placed on the use of resources available to the Research Foundation, the accounts of the Research Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, for financial statement reporting purposes all funds are combined.

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### **1. Summary of Significant Accounting Policies (continued)**

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

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

The cash deposits of the Research Foundation are swept nightly into a money market mutual fund for interest earning purposes. The money market mutual fund is rated AAAM by Standard & Poors. These overnight investments are not covered by federal insurance or collateralized by any other securities.

#### **Investments**

Short-term funds consist of monies invested with the State Board of Administration (SBA) Local Government Investment Pool (LGIP). The Research Foundation invests in the pool of investments and owns a share of the respective pool, not the underlying securities. The LGIP's underlying investments consist of federal agency obligations, U.S. Treasury bonds, commercial paper, and various other securities with short-term maturities. The LGIP is not a registrant with the Securities and Exchange Commission (SEC), and operates as an SEC Rule 2a-7 like fund.

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, 2010, the Research Foundation has \$272,277 invested in CAMP MM and \$1,160,967 in Fund B.



# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### **1. Summary of Significant Accounting Policies (continued)**

#### **Accounts Receivable**

Receivables are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. However, no allowance was deemed necessary at June 30, 2010 and 2009.

#### **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, 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.

#### **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, 2010 and 2009, the inventors' department allocations payable balance was \$8,606,672 and \$10,177,566, respectively.

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### Royalty Allocations Payable (continued)

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, 2010 and 2009, the inventors' allocations payable balance was \$103,580 and \$39,478, respectively.

#### Patent and Licensing Costs

The Research Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2010 and 2009, the Research Foundation incurred patent and licensing costs of \$658,079 and \$491,357, respectively, and received reimbursements of \$84,834 and \$6,601 for the net expense of \$573,245 and \$484,756, 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.

#### 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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

**1. Summary of Significant Accounting Policies (continued)**

**Administrative Revenue - Unrestricted (continued)**

The revenue breakdown for administrative revenue is as follows:

	<b>Year ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Administrative overhead:		
Contracts and grants	\$ 810,337	\$ 774,028
Licenses and other	149,690	143,810
Contract and grant residuals	433,096	249,434
	<b>\$ 1,393,123</b>	<b>\$ 1,167,272</b>

**Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**2. Investments**

Investments at June 30, 2010 and 2009, consist of investments held in multiple investment pools at the SBA. 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.

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

<b>Investment Type</b>	<b>Fair Value</b>
Short-term – SBA LGIP Fund A	\$ 100,171,674
Long-term – SBA LGIP Fund B	1,160,967
Long-term – SBA CAMP-MM Restricted	272,277
Taxolog, Inc. stock	-
Total	<b>\$ 101,604,918</b>

At June 30, 2009, the Research Foundation had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>
Short-term – SBA LGIP Fund A	\$ 103,188,619
Long-term – SBA CAMP	165,033
Long-term – SBA LGIP Fund B	1,141,712
Long-term – SBA CAMP-MM Restricted	272,195
Taxolog, Inc. stock	-
Total	<b>\$ 104,767,559</b>

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### 2. Investments (continued)

*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. The LGIP and Fund B's weighted average life at June 30, 2010, is 46 days and 8.05 years, respectively. Fund B's underlying investments are illiquid and the Research Foundation has no access or control over the fund. The weighted average life 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, 2010, the Research Foundation received distributions of approximately \$34,370 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, 2010. The Fund B is not rated by any nationally recognized statistical rating agency.

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

Fifty thousand (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 are 270,000 shares of Series C convertible preferred stock at 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 historical 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.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

**2. Investments (continued)**

**Investment Revenues (Loss)**

Investment revenues (loss) consisted of the following amounts:

	<b>Year ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Sweep interest	\$ (30)	\$ 1,357
Realized gains (losses) on long-term investments	112,203	(8,582,778)
Unrealized losses on long-term investments	(2,462)	(108,539)
Realized gains on short-term investments	295,824	541,163
Unrealized gains (losses) on short-term investments	517,871	(867,013)
Total	\$ 923,406	\$ (9,015,810)

**3. Deferred Restricted Revenue**

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

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

	<b>2010</b>	<b>2009</b>
Beginning balance	\$ 7,890,213	\$ 7,401,528
Contracts and grants	10,538,766	9,544,891
Restricted expenditures	(7,584,887)	(8,176,498)
Miscellaneous	-	143,754
Admin. revenue – contracts and grants	(1,243,433)	(1,023,462)
Ending balance	\$ 9,600,659	\$ 7,890,213

**4. Lease Payments in Advance**

**Material 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. As of June 30, 2010, the University funded a total of \$14,601,334 towards the construction and the Research Foundation had expended or obligated a total of \$16,649,895. 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. At June 30, 2009, the Research Foundation recorded a lease payment in advance in the amount of \$1,818,074. During fiscal year 2010, the Research Foundation

Florida State University Research Foundation, Inc.

Notes to Financial Statements

**4. Lease Payments in Advance (continued)**

**Material Research Building (continued)**

expended additional resources to complete contract commitments in relation to the original construction of the building and installation of a fume hood. The lease payment in advance balance at June 30, 2010, is \$2,048,561, with accumulated amortization of \$87,467. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2040, using the straight-line method.

**5. Buildings**

3000 Commonwealth Boulevard

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

On May 1, 2010, the Research Foundation completed construction of a Chemistry Laboratory in the 3000 Commonwealth Boulevard Building. The total cost of the Chemistry Laboratory was \$498,519. It will be depreciated over the remaining useful life of the building.

3200 Commonwealth Boulevard

On December 1, 2008, the Research Foundation purchased a building and land for \$2.1 million (including land of \$1 million) and subsequently renovated the building.

On September 1, 2009, the Research Foundation completed renovations of this building. The Research Foundation intends to transfer the ownership of the property to the University in a subsequent fiscal year. The Research Foundation is depreciating the total cost of the building and renovations over the estimated remaining useful life of the building at the date of acquisition of 23 years using the straight-line method.

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>
3000 Commonwealth	\$ 1,803,590	\$ -	\$ -	\$ 1,803,590
Chemistry Laboratory	-	498,519	-	498,519
3200 Commonwealth	-	1,139,169	-	1,139,169
Accumulated depreciation	<u>(26,126)</u>	<u>(114,901)</u>	<u>-</u>	<u>(141,027)</u>
	<u>\$ 1,777,464</u>	<u>\$ 1,522,787</u>	<u>\$ -</u>	<u>\$ 3,300,251</u>

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### 6. Capital Leases

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

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

#### **Obligations Under Capital Leases - Guaranty Agreements**

On November 1, 1994, the Research Foundation entered into a guaranty agreement for the issuance by the Leon County Research and Development Authority of \$3,865,000 of Series 1994 Lease Revenue Bonds, the proceeds of which were to be used to finance the construction of a research facility to be leased to the Research Foundation. Upon completion of the facility, the Johnson Building, on November 1, 1995, the Research Foundation redeemed the outstanding bonds for the entire principal amount of \$3,865,000, thereby fully extinguishing its obligations under the guaranty agreement dated November 1, 1994. The Research Foundation continues to operate the rental of the building.

On July 1, 1996, the Research Foundation executed a guaranty agreement on a \$4,400,000 Leon County Research and Development Authority bond issued to construct the Shaw Building. During 2007, the Research Foundation redeemed the outstanding bonds for the remaining principal amount of \$2,597,816, thereby fully extinguishing its obligations under the guaranty agreement dated July 1, 1996. Subsequent to this debt pay-off, the Research Foundation initiated a renovation project but continued to operate the rental of the building during the fiscal year.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

**6. Capital Leases (continued)**

**Obligations Under Capital Leases - Guaranty Agreements (continued)**

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

**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, 2010, is as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2010</b>
Johnson Building	\$ 3,888,544	\$ -	\$ -	\$ 3,888,544
Shaw Building	4,594,292	-	-	4,594,292
Building A	13,920,020	536,889	-	14,456,909
Building B	<u>10,422,042</u>	<u>682,942</u>	<u>-</u>	<u>11,104,984</u>
	<u>\$32,824,898</u>	<u>\$ 1,219,831</u>	<u>\$ -</u>	<u>\$ 34,044,729</u>

Changes in accumulated amortization for each building is as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2010</b>
Johnson Building	\$ 3,306,202	\$ 249,872	\$ -	\$ 3,556,074
Shaw Building	2,981,030	296,617	-	3,277,647
Building A	2,900,004	470,392	-	3,370,396
Building B	<u>1,890,646</u>	<u>379,809</u>	<u>-</u>	<u>2,270,455</u>
	<u>\$11,077,882</u>	<u>\$ 1,396,690</u>	<u>\$ -</u>	<u>\$ 12,474,572</u>



Florida State University Research Foundation, Inc.

Notes to Financial Statements

**6. Capital Leases (continued)**

**Obligations Under Capital Leases**

Obligations under capital leases described above consist of the following at June 30, 2010:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Buildings A and B	\$ <u>19,715,000</u>	\$ <u>-</u>	\$ <u>550,000</u>	\$ <u>19,165,000</u>	\$ <u>570,000</u>

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

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Buildings</u> <u>A and B</u>	<u>Interest</u>	<u>Principal</u>
2011	\$ 1,465,071	\$ 895,071	\$ 570,000
2012	1,467,271	872,271	595,000
2013	1,463,471	848,471	615,000
2014	1,463,256	823,256	640,000
2015	1,466,376	796,376	670,000
2016-2020	7,329,392	3,509,392	3,820,000
2021-2025	7,324,106	2,529,106	4,795,000
2026-2030	7,320,069	1,255,069	6,065,000
2031	<u>1,463,006</u>	<u>68,006</u>	<u>1,395,000</u>
Total	<u>\$30,762,018</u>	<u>\$11,597,018</u>	<u>\$19,165,000</u>

**Property Leased to Others**

During the years ended June 30, 2010 and 2009, the Research Foundation recognized rental income from the properties described in Notes 4 through 6 in the amounts of \$3,715,299 and \$3,272,582, respectively. As of June 30, 2010, the tenants occupied approximately 91% of the available rental space.

Florida State University Research Foundation, Inc.

Notes to Financial Statements

**6. Capital Leases (continued)**

**Property Leased to Others (continued)**

The following is a schedule of future rentals under noncancellable leases as of June 30, 2010. The amounts reflected below may differ from actual future rental income due to new leases entered into, the expiration of existing leases, or the recognition of rental income resulting from escalators, if any:

<u>Year Ending June 30,</u>	<u>Rental Income</u>
2011	\$ 3,812,394
2012	3,508,508
2013	1,895,392
2014	822,650
2015	384,263
Thereafter	<u>205,267</u>
	<u>\$ 10,628,474</u>

**7. Construction in Progress**

*Transmission Electron Microscope* - During fiscal year 2009, the Research Foundation entered into a contract to construct a transmission electron microscope and renovate an existing laboratory to accommodate the microscope. As of June 30, 2010, \$1,459,433 of these costs are contained in the construction in progress balance. The Research Foundation intends to transfer ownership of this equipment to the University upon completion and acceptance of the microscope.

	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
	<u>July 1, 2009</u>			<u>June 30, 2010</u>
Construction in progress	<u>\$ 2,075,690</u>	<u>\$ 4,716,251</u>	<u>\$ 5,332,508</u>	<u>\$ 1,459,433</u>

**8. Gift Annuity Program**

In July of 2002, the Research Foundation accepted a donation of land with an appraised value at the time of donation of \$785,000. As a condition of the donation, the Research Foundation entered into a charitable gift annuity agreement with the donor. Required payments under the annuity agreement are \$67,510 per year, payable in equal quarterly payments beginning September 30, 2002. At June 30, 2010 and 2009, the annuity payable is recorded at its present value of \$337,352 and \$357,470, respectively. A discount rate of 3.4% is used. The annuity obligation is adjusted at the end of each year based on life expectancy tables.

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### 8. Gift Annuity Program (continued)

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. Designated Fund Net Assets

Designated unrestricted fund net assets are reserved by the Board for special use. The Board may rescind its action at any time. Since these assets have no donor-imposed or contractual restrictions, they are reflected as unrestricted net assets in the statements of financial position. At June 30, 2010, fund net assets were designated for the following purposes:

Transmission Electron Microscope	\$ <u>3,040,566</u>
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### 10. Commitments

#### Capital Asset Contract Commitments

The Research Foundation entered into various contracts in relation to the construction and renovations of its capital assets. As of June 30, 2010, the Research Foundation has \$2,713,512 in outstanding commitments.

Additionally, in June 2010, the Research Foundation entered into a contract to purchase a building for \$2.4 million. The anticipated closing date is September 30, 2010. The Research Foundation expects to lease the building to future tenants.

#### 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.

# Florida State University Research Foundation, Inc.

## Notes to Financial Statements

### 10. Commitments (continued)

#### Property Management Services (continued)

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

<b>Year ending June 30,</b>	<b>Property Management and Leasing Fees</b>
2011	\$ 77,975
2012	78,146
2013	64,470
2014	56,029
2015	56,062
Thereafter	<u>3,046,857</u>
	<u>\$ 3,379,539</u>

### 11. Subsequent Events

The Research Foundation transferred \$63 million of its investments to Northern Trust, a custodian and asset manager, on July 1, 2010. The \$63 million was invested equally into two funds, the Northern Institutional Government Select Portfolio and the QM Common Daily United States IMI Fund - Non-Lending. The Northern Institutional Government Select Portfolio is a short-term fund that invests exclusively in high-quality money market instruments. The QM Common Daily United States IMI Fund - Non-Lending is an equity fund that approximates the overall performance of the MSCI® United States Investable Market Index. Both funds are rated AAAM by Standard and Poor's.

## Other Reports

## 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.

We have audited the financial statements of the Florida State University Research Foundation, Inc. (the Research Foundation), a component unit of Florida State University, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* 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 Research Foundation's financial statements will not be prevented or detected and corrected on a timely basis.

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

### Compliance and Other Matters

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

\* \* \* \* \*

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

*Thomas Howell Ferguson P.A.*

September 15, 2010