

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

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
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JUNE 30, 2016 AND 2015

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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 Florida State University Research Foundation, Inc. (the Research Foundation), a direct-support organization and component unit of Florida State University, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida State University Research Foundation, Inc. as of June 30, 2016 and 2015, and the respective changes in its net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, 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
October 18, 2016

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015

Florida State University Research Foundation, Inc. (the Research Foundation) is pleased to present its financial statements for fiscal years 2016 and 2015. The intent of this discussion and analysis of financial performance is to provide readers with a comprehensive picture of the Research Foundation's financial condition and results of operations and should be read in conjunction with the audited financial statements and related footnotes as details provided there are not necessarily repeated in this analysis.

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

FINANCIAL HIGHLIGHTS

The net position of the Research Foundation increased from \$116.4 million to \$118.2 million at June 30, 2016. 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 plus deferred outflows, less liabilities and deferred inflows. The net position will provide the resources necessary to continue funding research programs and research facilities, as well as to meet other obligations in the coming years.

Revenues at the Research Foundation consist of licensing and royalty revenues, privately-funded contracts and grants, building rentals, and investment earnings.

- **Licensing fees and royalty revenues** remained consistent with the previous year. Royalties and license fees were \$577,000 in fiscal year 2016 as compared to \$579,000 in fiscal year 2015.
- **Privately-funded contract and grant revenue** recognized in fiscal year 2016 increased by \$2.8 million from the previous year. Contract and grant revenues were \$10.7 million in 2016 as compared to \$7.9 million in 2015. This increase in contract and grant revenue is attributed to increased contract and grant research activity during fiscal year 2016. The amount expended for contracts and grants attributed to the increase in the recognition of grant revenue. The Research Foundation expects contract and grant revenue to decrease in future years as deferred revenue has decreased from fiscal year end 2015 to 2016 by \$700,000.
- **Building rental revenues** recognized in fiscal year 2016 were \$3.4 million, a slight increase from the fiscal year 2015 building revenues of \$3.3 million.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015
(Continued)

- **Investment revenues** consisted of \$1.27 million during fiscal year 2016 compared to a total gain of \$3.29 million during fiscal year 2015. The Research Foundation realized an investment return on its equities in Northern Trust of 2.3% in fiscal year 2016, compared to 7.4% in fiscal year 2015.

RESEARCH FOUNDATION FUNDED PROGRAMS HIGHLIGHTS

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

- ***Eppes Professorships*** – assist the University in recruiting national scholars by providing a \$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, 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 \$800,000 committed to this program annually. During fiscal year 2016 there were 11 full Eppes professors, 1 partial Eppes professor and 1 Edgar professor for a total commitment of \$468,000 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 twelve years.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statements of Net Position

The Statements of Net Position present the assets, deferred outflows, liabilities, deferred inflows, and net position of the Research Foundation as of the end of the fiscal years. From the data presented, readers are able to determine the net position available to continue the operations of the organization. In 2016, there was an increase in total assets of \$2.3 million. The variance was mainly a result of fiscal year 2016 operating income and the increase in investments as a result of a favorable investment climate.

The current investments increased by \$3.8 million due to the combined effect of \$1.3 million in investment earnings and \$2.5 million of excess operating cash invested in the SBA-LGIP Fund-A during fiscal year 2016. Currently, there are non-current investments.

Property under capital leases (net) decreased by \$890,000 due to the amortization of the various properties under the capital lease agreements. These assets represent the current amortized cost of various Research Foundation leasehold agreements in Innovation Park.

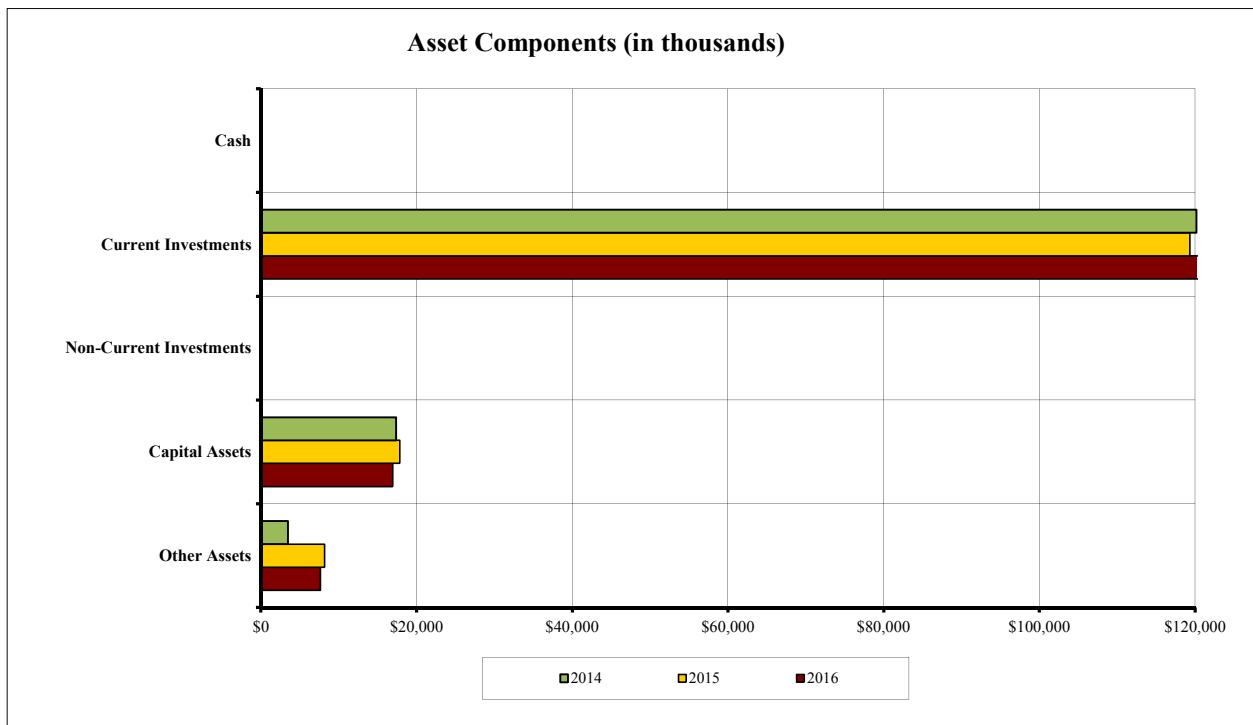
The royalty allocations payable consists primarily of past royalties not yet spent by departments held on deposit at the Research Foundation. For 2016, this payable increased by \$27,000 due to continued departmental spending being almost equal to additions to the departmental funds held by the Research Foundation.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015
(Continued)

Unearned revenue consists of the unexpended portions of contract and grant revenue receipts that are being administered by the Research Foundation. Revenue per the Statements of Revenues, Expenses, and Changes in Net Position is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Unearned revenue decreased by \$700,000 in 2016 due to the increase in the contracts and grants expenses during 2016.

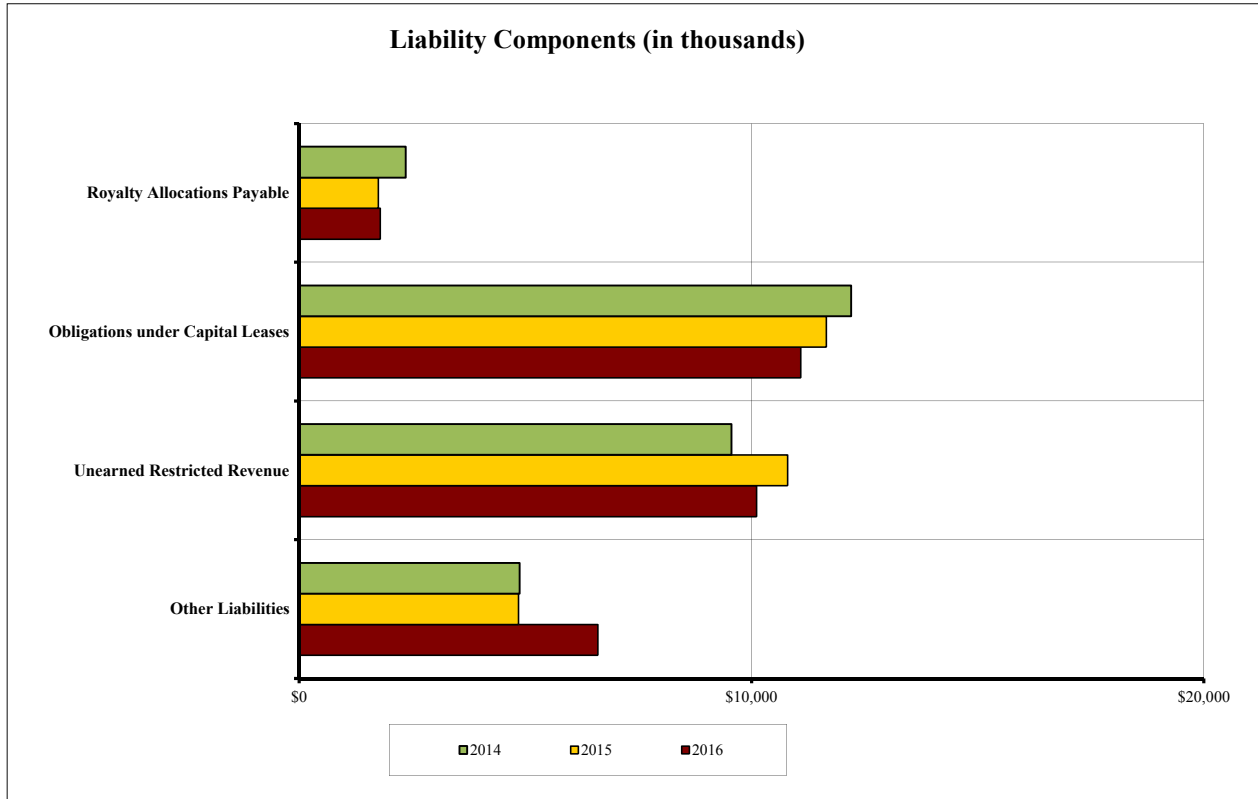
In 2016, total liabilities increased by \$500,000. The combination of activities in the University fund payable, unearned revenues, and the obligations under capital leases offset each other. The University fund payable increased by \$1.7 million which is equal to the unspent balance as of June 30, 2016, of projects established during fiscal year 2016 for the benefit of the University. The obligations under capital leases, including unamortized bond issuance costs and premium, decreased by \$565,000, which is equal to the annual principle payment to the State Board of Administration and the amortization of the bond premium. The unearned revenues decreased by \$700,000 as noted above.

The following chart illustrates the asset components as June 30, 2016, 2015 and 2014:



FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015
(Continued)

The following chart illustrates the liability components at June 30, 2016, 2015 and 2014:



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

Net Position (in millions)	Years Ended June 30,		
	2016	2015	2014
Current and Other Assets	\$ 130.9	\$ 127.7	\$ 124.2
Capital Assets and Land	16.9	17.8	17.3
Total Assets	\$ 147.8	\$ 145.5	\$ 141.5
Debt Outstanding - Capital Assets	\$ 11.1	\$ 11.7	\$ 12.2
Other Liabilities	18.5	17.4	16.8
Total Liabilities	\$ 29.6	\$ 29.1	\$ 29.0
Net Investment in Capital Assets	\$ 5.6	\$ 5.9	\$ 4.8
Unrestricted	112.6	110.5	107.7
Net Position	\$ 118.2	\$ 116.4	\$ 112.5

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015
(Continued)

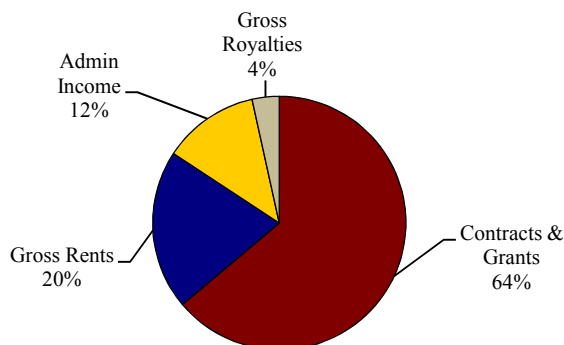
The Research Foundation's overall financial condition remains healthy with total assets exceeding total liabilities by \$118.2 million.

Statements of Revenues, Expenses, and Changes in Net Position

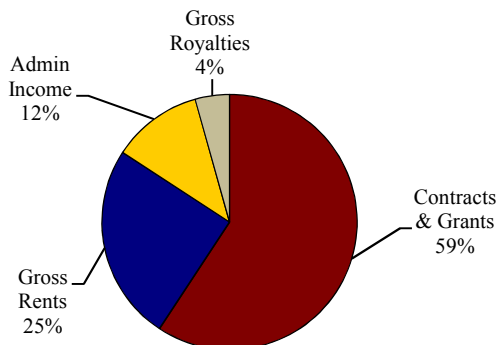
Revenues from licenses and copyrights, contracts and grants, administrative income, rental of research facilities, and investments provide the primary resources used to fund Research Foundation activities. The Research Foundation received \$18 million in total revenues during fiscal year 2016 compared to \$16.6 million in fiscal year 2015. The largest source of income in fiscal year 2016 resulted from the \$10.7 million in contract and grant earnings. The Research Foundation also recognized \$3.4 million in rental income and \$1.3 million from investment earnings during fiscal year 2016. During fiscal year 2015, the largest source of income resulted from contract and grant earnings.

The following charts depict the sources of operating revenues for the periods ending June 30, 2016, 2015 and 2014. The allocation of operating revenues has remained fairly consistent from 2015 to 2016.

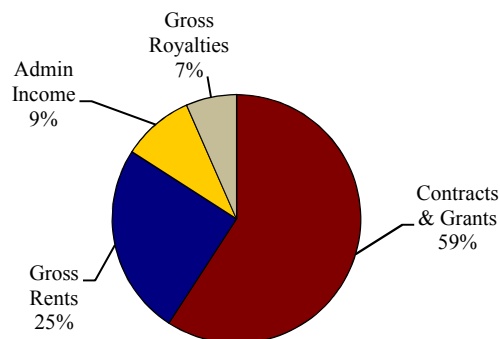
2016 Operating Revenues



2015 Operating Revenues



2014 Operating Revenues



FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015
(Continued)

Other operating expenses increased by \$1.1 million in 2016 which is primarily attributable to the increase in Contributions to Florida State University (see below).

Contributions from/to Florida State University increased by \$1.1 million from the prior year. During fiscal year 2016 the Research Foundation established two projects, for the benefit of the University, in the amount of \$1.1 million and \$2 million, which were recorded as contributions to the University. During fiscal year 2016 the Research Foundation received a \$2 million contribution from the University which was to be used in funding one of the new projects for the benefit of the University. The following list describes the types of receipts and disbursements made as Contributions from/to the University in 2016 and 2015:

	Years Ended June 30,		
	2016	2015	2014
Contributions toward Office of Commercialization	\$ 56,724	\$ 75,559	\$ 80,256
Residuals available for research spending	416,224	362,952	182,879
Advocacy groups assisting with federal funding	-	-	90,000
Contracted services, recruiting, and other	95,599	97,567	278,706
Indirect Cost Distributed to Departments	150,000	150,000	270,000
Donation of property to the University/Termination of leases	-	-	863,350
Projects established at the Research Foundation, for the benefit of the University	3,100,000	-	-
Transfer from the Office of Research to fund University projects at the Research Foundation	(2,000,000)	-	-
Contributions from the University	(686,081)	(700,000)	(950,000)
	<u>\$ 1,132,466</u>	<u>\$ (13,922)</u>	<u>\$ 815,191</u>

Non-operating revenues were \$2.0 million less in 2016 compared to 2015. This decrease was primarily due to reduced investment earnings. The Research Foundation had investment revenues of \$1.3 million in 2016 compared to \$3.3 million in 2015.

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

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

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	2016	2015
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 109,785	\$ 164,067
Current investments	123,083,371	119,322,705
License fees and royalties receivable, net	88,492	13,518
Grants receivable	688,442	1,351,059
Accounts receivable - other	205,108	9,414
Prepaid expenses	99,065	123,703
Total current assets	124,274,263	120,984,466
Noncurrent assets		
Note receivable from Florida State University	1,000,000	1,000,000
Deposit held with Florida State University	3,425,565	3,425,565
Land	1,326,654	1,326,654
Property under capital lease, net	14,684,300	15,574,747
Buildings, net	905,806	940,435
Lease payments in advance, net	2,158,349	2,245,308
Total noncurrent assets	23,500,674	24,512,709
Total assets	147,774,937	145,497,175
<u>LIABILITIES</u>		
Current liabilities		
Royalty allocations payable	1,793,889	1,749,216
Other liabilities	327,634	211,723
Unearned restricted revenue	10,109,266	10,796,989
Florida State University fund payable	6,035,976	4,378,109
Obligations under capital lease, current portion	515,000	500,000
Total current liabilities	18,781,765	17,636,037
Noncurrent liabilities		
Obligations under capital leases, long-term portion	9,585,000	10,100,000
Bond premium, net	987,281	1,053,100
Annuity obligations	243,317	258,360
Total noncurrent liabilities	10,815,598	11,411,460
Total liabilities	29,597,363	29,047,497
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	5,586,162	5,930,376
Unrestricted	112,591,412	110,519,302
Total net position	\$ 118,177,574	\$ 116,449,678

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
License and grant revenues		
Licensing fees and royalties	\$ 577,153	\$ 579,209
Contracts and grants - restricted	10,655,507	7,883,931
Administrative - unrestricted		
Contracts and grants	1,919,686	1,370,503
Licenses and other	130,174	153,772
Total license and grant revenues	<u>13,282,520</u>	<u>9,987,415</u>
License and grant expense		
Royalty allocations	(432,440)	(420,951)
Patent and licensing costs	(803,577)	(1,110,228)
Contracts and grants	(10,655,507)	(7,883,931)
Total license and grant expenses	<u>(11,891,524)</u>	<u>(9,415,110)</u>
Net license and grant income	<u>1,390,996</u>	<u>572,305</u>
Rent revenues (expenses)		
Rental revenue	3,403,295	3,315,027
Building occupancy costs:		
Interest on bonds	(308,131)	(322,681)
Amortization and depreciation	(1,012,034)	(998,549)
Management and leasing fees	(95,041)	(114,239)
Other	(319,381)	(260,005)
Net rental income	<u>1,668,708</u>	<u>1,619,553</u>
Other operating revenues (expenses)		
Personnel costs	(512,880)	(554,434)
Contributions (to) from Florida State University	(1,132,466)	13,922
Software amortization	-	(12,400)
Miscellaneous	(62,371)	(93,617)
Research Foundation funded programs	(753,878)	(733,670)
Total other operating expenses	<u>(2,461,595)</u>	<u>(1,380,199)</u>
Operating income	<u>598,109</u>	<u>811,659</u>
Nonoperating revenues (expenses)		
Investment revenue	1,274,077	3,288,432
Investment portfolio fees	(86,987)	(86,727)
Change in annuity value	(52,467)	(53,575)
Miscellaneous revenue (expense)	(4,836)	12,074
Total nonoperating revenues	<u>1,129,787</u>	<u>3,160,204</u>
Change in net position	1,727,896	3,971,863
Net position, beginning of year	116,449,678	112,477,815
Net position, end of year	<u>\$ 118,177,574</u>	<u>\$ 116,449,678</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, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Licensed products and building program:		
Licensing fees and royalties	\$ 502,179	\$ 587,429
Administrative fees from licenses and other	130,174	153,772
Rental income	3,389,803	3,310,733
Departmental allocation payments	(387,767)	(1,026,225)
Patent and licensing costs	(908,184)	(1,156,365)
Building occupancy	(737,159)	(694,187)
Lease payments in advance	-	(27,414)
Net cash provided by licensed products and building program	1,989,046	1,147,743
Contracts and grants:		
Receipts	12,550,087	10,180,041
Disbursements	(10,575,149)	(7,948,358)
Net cash provided by contracts and grants	1,974,938	2,231,683
Other receipts/disbursements:		
Personnel costs	(512,880)	(554,434)
Research Foundation funded programs	(745,670)	(744,491)
Contributions to Florida State University	525,401	203,955
Other disbursements	(64,295)	(86,559)
Net cash used in other receipts/disbursements	(797,444)	(1,181,529)
Net cash provided by operating activities	3,166,540	2,197,897
Cash flows from noncapital financing activities		
Gift annuity payments	(67,510)	(84,388)
Administrative fees and other	(4,836)	12,074
Deposit made to Florida State University	-	(3,425,565)
Net cash used in noncapital financing activities	(72,346)	(3,497,879)
Cash flows from investing activities		
Purchase of investment securities	(10,916,576)	(7,228,509)
Sale of investment securities	8,333,919	11,565,000
Note receivable from Florida State University	-	(1,000,000)
Net cash provided by (used in) investing activities	(2,582,657)	3,336,491
Cash flows from capital and related financing activities		
Principal payments on obligations under capital leases	(500,000)	(485,000)
Bond premium, net	(65,819)	(65,818)
Purchase of land, buildings, and/or equipment	-	(1,493,941)
Net cash used in capital and related financing activities	(565,819)	(2,044,759)
Net decrease in cash and cash equivalents	(54,282)	(8,250)
Cash and cash equivalents, beginning of year	164,067	172,317
Cash and cash equivalents, end of year	\$ 109,785	\$ 164,067

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, 2016 AND 2015
(Continued)

	2016	2015
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 598,109	\$ 811,659
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and depreciation of capital assets	1,012,035	1,010,949
Changes in operating assets and liabilities:		
License fees and royalties receivables	(74,974)	8,220
Other receivables	476,004	(318,092)
Prepaid expenses	24,638	(30,079)
Lease payments in advance	-	(27,414)
Royalty allocations payable	44,673	(605,274)
Florida State University fund payable	1,612,873	190,033
Other liabilities	160,905	(81,097)
Unearned restricted revenue	(687,723)	1,238,992
Net cash provided by operating activities	\$ 3,166,540	\$ 2,197,897
Supplemental noncash information		
Unrealized net investment loss	\$ (1,053,272)	\$ (5,801,215)

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, 2016 AND 2015

(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.

During fiscal year 2015, the Research Foundation obtained an ownership interest in Chieftan, Inc. Chieftan, Inc. was incorporated in February 2015 for the purpose of operating the Chieftan Green Apartment Complex. The Research Foundation owned 100% of the stock of Chieftan, Inc. Chieftan, Inc. is included in the financial statements of the Research Foundation as a consolidated entity for the year ended June 30, 2015. During fiscal year 2016, ownership of the Chieftan Green Apartment Complex was transferred to the Research Foundation, and Chieftan, Inc. was dissolved and all assets were transferred to the Research Foundation.

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

(a) **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.

(b) **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.

(c) **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.

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

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

(e) **Investments**—Investments are carried at fair value. Current investments have maturities of one year or less. Current investments consist of monies invested with the State Board of Administration (SBA) Local Government Investment Pool (LGIP) and two funds with Northern Trust, the Northern Institutional Government Select Portfolio (GSP) and the QM Common Daily United States IMI Fund-Non-Lending (NTGI-QM). The Research Foundation invests in the LGIP and owns a share of the respective pool, not the underlying securities. The LGIP's underlying investments consist of federal agency obligations, U.S. Treasury bonds, commercial paper, and various other securities with short-term maturities. The LGIP is not a registrant with the Securities and Exchange Commission (SEC), and operates as an SEC Rule 2a-7 like fund. The Northern Trust GSP is a short-term fund that invests exclusively in high-quality money market instruments. The NTGI-QM is an equity fund that approximates the overall performance of the MSCI United States Investable Market Index. Long-term investments have maturities of greater than one year. Currently, there are no long-term investments.

(f) **Accounts receivable**—Receivables include grants receivables and other receivables such as rents and expense reimbursements, all of which are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected. No allowances were deemed necessary for grants and other receivables at June 30, 2016 and 2015.

(g) **Deposit**—On May 4, 2015, the University entered into an architectural and engineering agreement to design the Inter-disciplinary Research and Commercialization Building (IRCB). The Research Foundation did not contribute additional funding during the year. As of June 30, 2015 and as of June 30, 2016, the deposit balance of \$3,425,565 includes \$2,945,000 paid to the University as well as \$480,565 in architectural costs related to the project.

(h) **Note receivable from Florida State University**—On May 19, 2015, the Research Foundation entered into a joint agreement with the University College of Medicine to plan and design a site for the purchase and installation of the Functional Magnetic Resonance Imaging Machine (fMRI). The Research Foundation provided a loan to the College of Medicine for \$1,000,000. The loan will be repaid beginning July 1, 2017 with annual payments of \$200,000 until July 1, 2021. The original principal amount does not bear interest. The College of Medicine fMRI project was completed in June 2016 and is currently in use.

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

(j) **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.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

(k) **Royalty allocations payable**—Royalty allocations payable consists of two balance sheet 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 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, 2016 and 2015, the inventors' department allocations payable balance was \$1,445,595 and \$1,427,610, respectively.

The inventors' allocations payable is comprised of monies due to individuals responsible for the development of various patented or copyrighted research. As royalties are accrued, the Research Foundation calculates the amount due to the inventors, and records an expense and accrues a liability for this amount. Subsequent distributions are then charged against the accrued liability in the following fiscal year. As of June 30, 2016 and 2015, the inventors' allocations payable balance was \$384,294 and \$321,606, respectively.

(l) **Bond issuance costs and premiums**—The Research Foundation amortizes bond premiums over the term of the related obligations under capital leases (bonds) using the straight-line method. Due to the implementation of a new accounting principle during the year ended June 30, 2014, the Research Foundation expensed its remaining unamortized bond issuance costs.

(m) **Patent and licensing costs**—The Research Foundation expenses patent and licensing costs as incurred. For the years ended June 30, 2016 and 2015, the Research Foundation incurred patent and licensing costs of \$1,098,188 and \$1,137,682, respectively, and recognized reimbursements from licensees in the amount of \$294,611 and \$27,454 resulting in a net expense of \$803,577 and \$1,110,228, respectively.

(n) **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.

(o) **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.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

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

The revenue breakdown for administrative revenue is as follows:

	Years ended June 30,	
	2016	2015
Administrative overhead:		
Contracts and grants	\$ 1,503,462	\$ 1,007,551
Licenses and other	130,174	153,772
Contract and grant residuals	416,224	362,952
Total administrative revenue	\$ 2,049,860	\$ 1,524,275

(q) **Pronouncements issued**—The GASB issued Statement No. 72 in February of 2015. The Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The provisions of the Statement are effective for reporting periods beginning after June 15, 2015.

(3) **Investments:**

Investments at June 30, 2016 and 2015, consist of investments held in multiple investment pools at the SBA and funds held at Northern Trust.

The Research Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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.

The Research Foundation has the following recurring fair value measurements as of June 30, 2016 and 2015.

- SBA LGIP Fund A is a SEC Rule “2a7-like” external investment pool measured at amortized cost as provided by paragraph 16 of GASB Statement No. 31. Amortized cost is considered fair value of the investment.
- Northern Trust - Northern Institutional Government Select Portfolio (GSP) invests exclusively in high-quality money market instruments. The Northern Trust GSP is valued at the closing price as reported by the fund. (Level 1 inputs)
- Northern Trust QM Common Daily United States IMI Fund-Non-Lending (NTGI-QM) is an equity fund that approximates the overall performance of the MSCI United States Investable Market Index. The Northern Trust NTGI-QM is valued at Net Asset Value as reported by the fund. (Level 2 inputs)

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(3) **Investments:** (Continued)

At June 30, 2016, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
SBA LGIP Fund A	\$ 35,693,642
Northern Trust GSP (Level 1)	39,919,670
Northern Trust NTGI-QM (Level 2)	47,470,059
Total	<u>\$ 123,083,371</u>

At June 30, 2015, the Research Foundation had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
SBA LGIP Fund A	\$ 30,406,632
Northern Trust GSP (Level 1)	46,418,617
Northern Trust NTGI-QM (Level 2)	42,497,456
Total	<u>\$ 119,322,705</u>

Interest rate risk—In accordance with its investment policy, the Research Foundation manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than eight years. At June 30, 2016, the weighted average maturity of the GSP is 56 days, and there are no weighted average maturities for the NTGI-QM as those investments are considered to be perpetual maturity holdings. The LGIP's weighted average maturity at June 30, 2016, is 39 days.

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, 2016. The NTGI-QM fund is an equity fund and therefore S&P bond ratings do not exist on its underlying holdings.

Investment revenues consisted of the following amounts:

	<u>Years Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Realized gains on non-current investments	\$ 40,350	\$ 29,633
Realized gains on current investments	2,286,999	9,060,014
Unrealized losses/gains on current investments	(1,053,272)	(5,801,215)
Total investment revenues	<u>\$ 1,274,077</u>	<u>\$ 3,288,432</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(4) 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:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 10,796,989	\$ 9,557,997
Contracts and grants	11,887,470	10,493,426
Restricted contracts and grants expenditures	(10,655,507)	(7,883,931)
Administrative contracts and grants expenditures	(1,919,686)	(1,370,503)
Ending balance	<u>\$ 10,109,266</u>	<u>\$ 10,796,989</u>

(5) Lease Payments in Advance:

Materials Research Building

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 lease payment in advance balance as of June 30, 2016 is \$1,577,600 including accumulated amortization of \$481,467. The lease payment in advance balance as of June 30, 2015 is \$1,643,332 including accumulated amortization of \$415,734. 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 lease payment in advance balance as of June 30, 2016 is \$580,749 including accumulated amortization of \$93,483. The lease payment in advance balance as of June 30, 2015 is \$601,976 including accumulated amortization of \$72,256. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2043, using the straight-line method.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(6) Building and Land:

During fiscal year 2015, Chieftan, Inc. purchased a building with land referred to as the Chieftan Green Apartment Complex (Complex) with the intention to demolish the facility and build a research building in the future. During fiscal year 2016, ownership of the Complex was transferred from Chieftan, Inc. to the Research Foundation. The Complex currently consists of 20 residential rental units. The total acquisition cost of \$1,493,941 includes building and land of \$952,287 and \$541,654, respectively. At June 30, 2016 and June 30, 2015, land consists of the Complex land and a donated property related to the gift annuity program as described in Note 8. The building is being depreciated over the life of the asset, using the straight-line method.

Building activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Building	\$ 952,287	\$ -	\$ -	\$ 952,287
Less: Accumulated Depreciation	(11,852)	(34,629)	-	(46,481)
Total	\$ 940,435	\$ (34,629)	\$ -	\$ 905,806

Building activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Building	\$ -	\$ 952,287	\$ -	\$ 952,287
Less: Accumulated Depreciation	-	(11,852)	-	(11,852)
Total	\$ -	\$ 940,435	\$ -	\$ 940,435

Land activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Land	\$ 1,326,654	\$ -	\$ -	\$ 1,326,654

Land activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Land	\$ 785,000	\$ 541,654	\$ -	\$ 1,326,654

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(7) **Capital Leases:**

The Research Foundation operates all or portions of eight 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.

The Materials Research Building and AME Building described in Note 5 have various lease payments in advance recognized by the Research Foundation in addition to being operated by the Research Foundation as lessor. Two other buildings, 3000 Commonwealth and 3200 Commonwealth, are owned by Florida State University as of June 30, 2016, and are fully or partially managed/leased by the Research Foundation.

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

Obligations Under Capital Leases – Guaranty Agreements

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, 2016 AND 2015

(7) **Capital Leases:** (Continued)

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, 2016, is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Building A	\$ 14,562,880	\$ -	\$ -	\$ 14,562,880
Building B	11,102,484	-	-	11,102,484
Total	<u>\$ 25,665,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,665,364</u>

The detail of capitalized costs and amortization as of June 30, 2015, is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Building A	\$ 14,562,880	\$ -	\$ -	\$ 14,562,880
Building B	11,102,484	-	-	11,102,484
Total	<u>\$ 25,665,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,665,364</u>

Changes in accumulated amortization for each building for the year ended June 30, 2016 are as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Building A	\$ 5,840,410	\$ 494,496	\$ -	\$ 6,334,906
Building B	4,250,207	395,951	-	4,646,158
Total	<u>\$ 10,090,617</u>	<u>\$ 890,447</u>	<u>\$ -</u>	<u>\$ 10,981,064</u>

Changes in accumulated amortization for each building for the year ended June 30, 2015 are as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Building A	\$ 5,345,914	\$ 494,496	\$ -	\$ 5,840,410
Building B	3,854,257	395,950	-	4,250,207
Total	<u>\$ 9,200,171</u>	<u>\$ 890,446</u>	<u>\$ -</u>	<u>\$ 10,090,617</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(7) **Capital Leases:** (Continued)

Obligations Under Capital Leases

Obligations under capital leases described above consist of the following for the year ended June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Principal Payments</u>	<u>Balance June 30, 2016</u>
Buildings A and B	\$ 10,600,000	\$ (500,000)	\$ 10,100,000

Obligations under capital leases described above consist of the following for the year ended June 30, 2015:

	<u>Balance July 1, 2014</u>	<u>Principal Payments</u>	<u>Balance June 30, 2015</u>
Buildings A and B	\$ 11,085,000	\$ (485,000)	\$ 10,600,000

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

<u>Year Ending June 30,</u>	<u>Buildings A and B</u>	<u>Interest</u>	<u>Principal</u>
2017	\$ 873,950	\$ 358,950	\$ 515,000
2018	873,500	343,500	530,000
2019	872,300	322,300	550,000
2020	875,300	300,300	575,000
2021	872,300	277,300	595,000
2022-2026	4,355,100	1,010,100	3,345,000
2027-2031	4,356,150	366,150	3,990,000
Total	<u>\$ 13,078,600</u>	<u>\$ 2,978,600</u>	<u>\$ 10,100,000</u>

Property Leased to Others

During the years ended June 30, 2016 and 2015, the Research Foundation recognized rental income from the properties described in Notes 5 through 7 in the amounts of \$3,403,295 and \$3,315,027, respectively. As of June 30, 2016 and June 30, 2015, the tenants occupied approximately 98% and 99% of the available rental space, respectively.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(7) **Capital Leases:** (Continued)

Property Leased to Others (Continued)

The following is a schedule of future rentals under non-cancellable leases as of June 30, 2016. 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
2017	\$ 3,335,190
2018	1,847,706
2019	1,079,477
2020	469,746
2021	108,998
Thereafter	-0-
Total	\$ 6,841,118

(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, 2016 and 2015, the annuity payable is recorded at its present value of \$243,317 and \$258,360, respectively. A discount rate of 2.0% 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.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(9) **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 had designated portions of the unrestricted net position for the following purposes:

<u>As of June 30</u>	<u>2016</u>	<u>2015</u>
Designated		
Building Maintenance & Equipment Reserve	\$ 2,575,217	\$ 2,115,507
Building Vacancy & Renovation Reserve	1,083,429	878,429
Building Debt Guaranty Reserve	681,413	626,413
Inter-disciplinary Research & Commercialization Building	508,596	509,381
Research Enhancement	4,693,184	3,681,134
GAP Program	181,422	191,470
Total Designated	<u>9,723,261</u>	<u>8,002,334</u>
Total Non-Designated	102,868,151	102,516,968
Total Unrestricted Net Position	<u><u>\$ 112,591,412</u></u>	<u><u>\$ 110,519,302</u></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, 2016, 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 October 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Research Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Research Foundation's internal control 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.

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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*.

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.

James Moore & Co., P.L.C.

Tallahassee, Florida
October 18, 2016