

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

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
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JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida State University Research Foundation, Inc. (the Research Foundation), a direct-support organization and component unit of Florida State University, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Florida State University Research Foundation, Inc. as of June 30, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

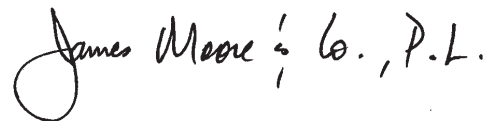
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, 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 15, 2018

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017

Florida State University Research Foundation, Inc. (the Research Foundation) is pleased to present its financial statements for fiscal years 2018 and 2017. 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 \$128.4 million to \$140.0 million at June 30, 2018. 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** increased slightly from the previous year. Royalties and license fees were approximately \$544,000 in fiscal year 2018 as compared to \$514,000 in fiscal year 2017.
- **Contract and grant revenues** decreased from the prior year. Contract and grant revenues were \$9.9 million in 2018 as compared to \$10.5 million in 2017. This decrease in contract and grant revenue is attributed to decreased contract and grant research activity during fiscal year 2018. The Research Foundation expects contract and grant revenue to decrease in future years as unearned revenue has decreased from fiscal year end 2017 to 2018 by \$1.1 million.
- **Building rental revenues** recognized in fiscal year 2018 were \$3.4 million, consistent with the fiscal year 2017 building revenues of \$3.4 million.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

- **Investment revenues** consisted of \$10.2 million during fiscal year 2018 compared to a total gain of \$9.2 million during fiscal year 2017. During the fiscal year 2018, the Research Foundation realized an investment return on its combination of equities and money market funds held at Northern Trust of 11.4%. Additionally, during fiscal year 2018 the Research Foundation invested in equity and fixed income funds at Vanguard for the month of June 2018 earning -0.6% for the one month period. During the fiscal year 2017, the Research Foundation realized an investment return on its combination of equities and money market funds held at Northern Trust of 10.2%.

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, 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 2018 there were 9 full Eppes professors, 1 partial Eppes professor and 1 Edgar professor for a total commitment of \$388,000 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 fourteen years.

OVERVIEW OF THE FINANCIAL STATEMENTS

Statements of Net Position

The Statements of Net Position present the assets, liabilities, and net position of the Research Foundation as of the end of the fiscal years. From the data presented, readers are able to determine the net position available to continue the operations of the organization. In 2018, there was an increase in total assets of \$10.1 million. The variance was mainly a result of fiscal year 2018 operating income and the increase in investments as a result of a favorable investment climate.

The current investments increased by \$11.0 million due to the combined effect of \$10.2 million in investment earnings and \$0.8 million of excess operating cash invested in the SBA-LGIP Fund-A during fiscal year 2018. Non-current investments increased to \$500,000 during fiscal year 2018 from \$0 in fiscal year 2017 due to the Research Foundation acquiring a 17.5% equity holding in a Florida Limited Liability Company that is in the business of producing materials resulting from intellectual property of Florida State University

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

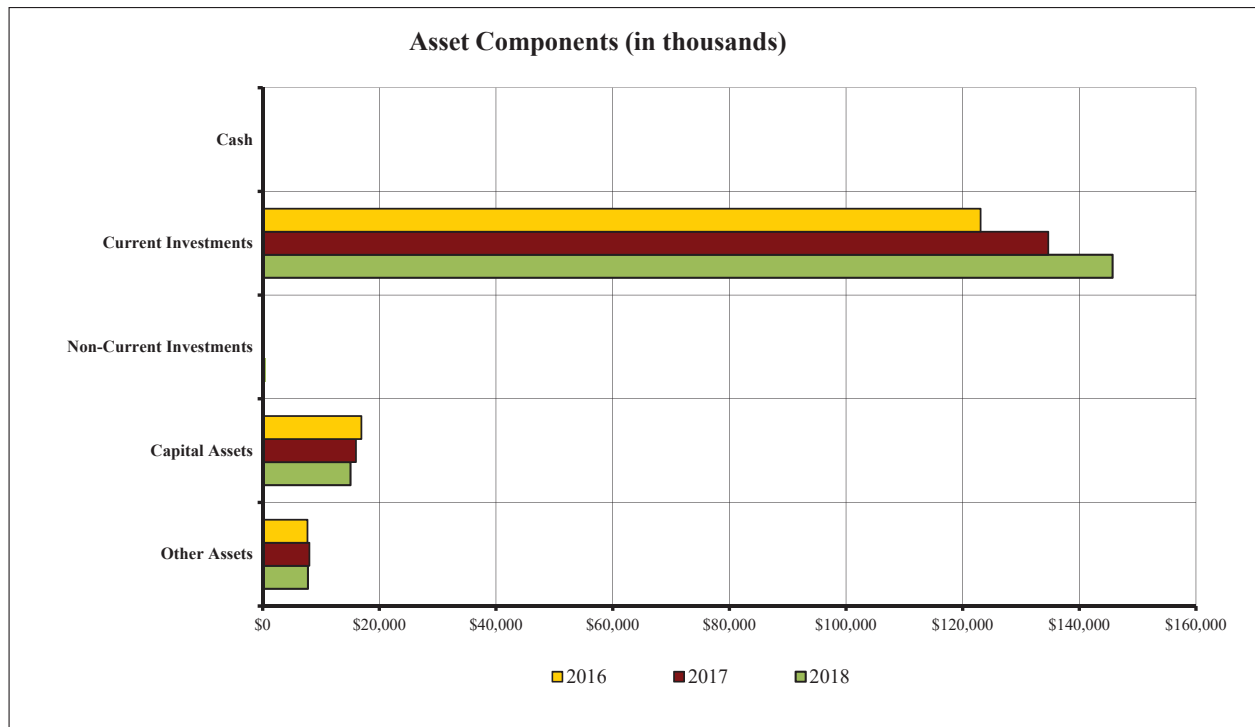
Property under capital leases (net) decreased by \$890,000 due to the amortization of the various properties under the capital lease agreements. These assets represent the current amortized cost of various Research Foundation leasehold agreements in Innovation Park.

The royalty allocations payable consists primarily of past royalties not yet spent by departments held on deposit at the Research Foundation. For 2018, this payable increased by \$110,000 due to continued departmental spending being less than additions to the departmental funds held by the Research Foundation.

Unearned revenue consists of the unexpended portions of contract and grant revenue receipts that are being administered by the Research Foundation. Revenue per the Statements of Revenues, Expenses, and Changes in Net Position is recognized only to the extent expenses are incurred in executing the applicable contracts and grants. Unearned revenue decreased by \$1.1 million in 2018 due to the decrease in contract and grant funding received by the Research Foundation but not yet spent during fiscal year 2018.

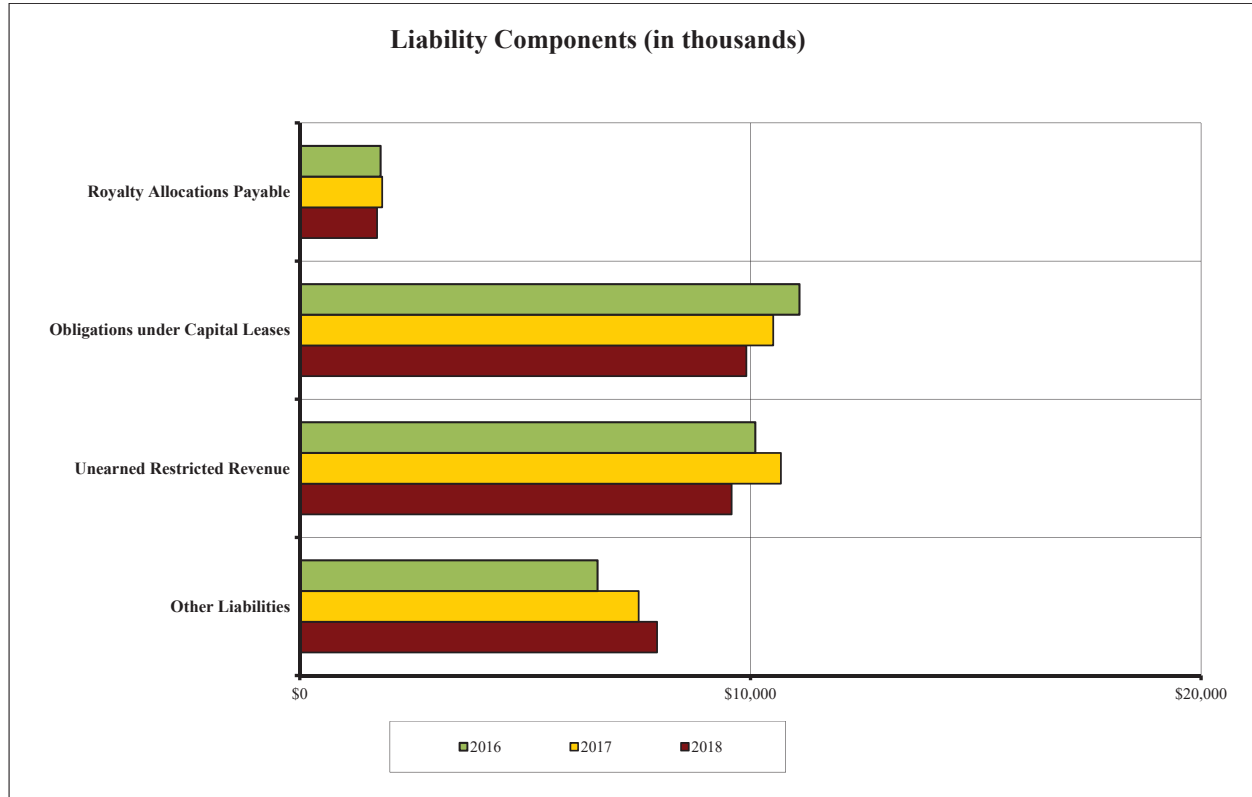
In 2018, total liabilities decreased by \$1.4 million. The combination of activities in the University fund payable, unearned revenues, and the obligations under capital leases offset each other. The University fund payable increased by \$700,000 partially due to accrued salary expenses due to the University. The obligations under capital leases, including unamortized bond issuance costs and premium, decreased by \$530,000, 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 \$1.1 million as noted above.

The following chart illustrates the asset components as June 30, 2018, 2017 and 2016:



FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

The following chart illustrates the liability components at June 30, 2018, 2017 and 2016:



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

Net Position (in millions)	Years Ended June 30,		
	2018	2017	2016
Current and Other Assets	\$ 154.0	\$ 143.0	\$ 130.9
Capital Assets and Land	15.0	16.0	16.9
Total Assets	\$ 169.0	\$ 159.0	\$ 147.8
Debt Outstanding - Capital Assets	\$ 9.9	\$ 10.5	\$ 11.1
Other Liabilities	19.2	20.0	18.5
Total Liabilities	\$ 29.1	\$ 30.5	\$ 29.6
Net Investment in Capital Assets	\$ 4.9	\$ 5.2	\$ 5.6
Unrestricted	135.0	123.3	112.6
Net Position	\$ 139.9	\$ 128.5	\$ 118.2

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

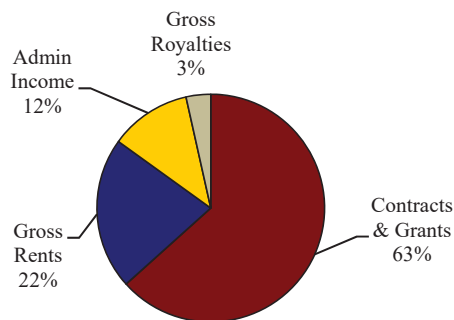
The Research Foundation's overall financial condition remains healthy with total assets exceeding total liabilities by \$139.9 million.

Statements of Revenues, Expenses, and Changes in Net Position

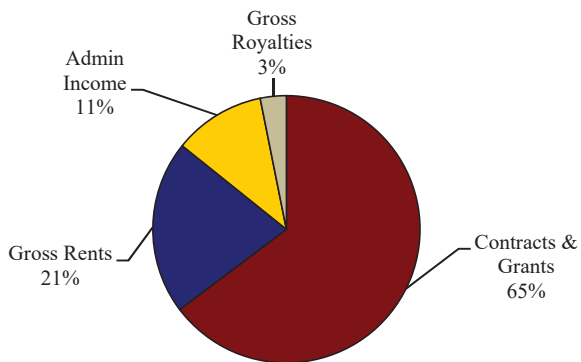
Revenues from licenses and copyrights, contracts and grants, administrative income, rental of research facilities, and investments provide the primary resources used to fund Research Foundation activities. The Research Foundation received \$25.8 million in total revenues during fiscal year 2018 compared to \$25.5 million in fiscal year 2017. The largest source of income in fiscal year 2018 resulted from the \$10.2 million in investment earnings. The Research Foundation also recognized \$3.4 million in rental income and \$9.9 million from contract and grant revenue during fiscal year 2018. During fiscal year 2017, 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, 2018, 2017 and 2016. The allocation of operating revenues has remained consistent from 2017 to 2018.

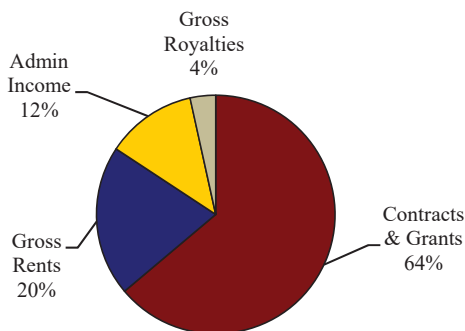
2018 Operating Revenues



2017 Operating Revenues



2016 Operating Revenues



FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017
(Continued)

Other operating expenses remained consistent at \$1.8 million in fiscal year 2018 as compared to \$1.7 million in fiscal year 2017. An increase of \$200,000 in contributions to Florida State University (see below) was offset by a decrease of \$200,000 in Research Foundation funded programs.

Contributions to Florida State University increased by \$200,000 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 2018, 2017, and 2016:

	Years Ended June 30,		
	2018	2017	2016
Contributions toward Office of Commercialization	\$ 46,370	\$ 53,862	\$ 56,724
Residuals available for research spending	367,448	261,920	416,224
Contracted services, recruiting, and other	177,381	143,001	95,599
Indirect Cost Distributed to Departments	250,000	250,000	150,000
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	(420,274)	(480,954)	(686,081)
	\$ 420,925	\$ 227,829	\$ 1,132,466

Non-operating revenues were \$1.0 million greater in 2018 compared to 2017. This increase was primarily due to increased investment earnings. The Research Foundation had investment revenues of \$10.2 million in 2018 compared to \$9.2 million in 2017.

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

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

Request for Information

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

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 86,964	\$ 271,760
Current investments	145,696,255	134,691,350
License fees and royalties receivable, net	150,880	43,750
Grants receivable	1,120,493	1,185,628
Note receivable, current portion	10,500	7,500
Accounts receivable, net	347,649	116,086
Prepaid expenses	113,432	146,639
Total current assets	147,526,173	136,462,713
Noncurrent assets		
Non-current investments	495,181	-
Note receivable, long term portion	607,000	1,017,500
Deposit held with Florida State University	3,425,565	3,425,565
Land	1,326,654	1,326,654
Property under capital lease, net	12,903,408	13,793,854
Buildings, net	836,549	871,178
Lease payments in advance, net	1,984,431	2,071,390
Total noncurrent assets	21,578,788	22,506,141
Total assets	169,104,961	158,968,854
<u>LIABILITIES</u>		
Current liabilities		
Inventors' royalty allocations payable	269,515	344,878
Departmental royalty allocations payable	1,446,212	1,481,929
Other liabilities	214,899	460,384
Unearned restricted revenue	9,583,062	10,676,868
Florida State University fund payable	7,489,835	6,832,308
Obligations under capital leases, current portion	550,000	530,000
Total current liabilities	19,553,523	20,326,367
Noncurrent liabilities		
Obligations under capital leases, long-term portion	8,505,000	9,055,000
Bond premium, net	855,643	921,462
Annuity obligations	223,100	225,569
Total noncurrent liabilities	9,583,743	10,202,031
Total liabilities	29,137,266	30,528,398
<u>NET POSITION</u>		
Net position		
Net investment in capital assets	4,932,868	5,259,655
Unrestricted	135,034,827	123,180,801
Total net position	\$ 139,967,695	\$ 128,440,456

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
License and grant revenues		
Licensing fees and royalties	\$ 543,539	\$ 513,749
Contracts and grants - restricted	9,868,280	10,535,027
Administrative - unrestricted		
Contracts and grants	1,541,780	1,666,511
Licenses and other	259,471	138,084
Total license and grant revenues	<u>12,213,070</u>	<u>12,853,371</u>
License and grant expense		
Inventors' royalty allocations	(242,904)	(246,806)
Departmental royalty allocations	(132,428)	(153,929)
Patent and licensing costs	(476,732)	(806,362)
Contracts and grants	(9,868,280)	(10,535,027)
Total license and grant expenses	<u>(10,720,344)</u>	<u>(11,742,124)</u>
Net license and grant income	<u>1,492,726</u>	<u>1,111,247</u>
Rent revenues (expenses)		
Rental revenue	3,363,147	3,421,932
Building occupancy costs:		
Interest on bonds	(277,681)	(293,131)
Amortization and depreciation	(1,012,034)	(1,012,034)
Management and leasing fees	(10,837)	(14,130)
Other	(311,488)	(334,620)
Net rental income	<u>1,751,107</u>	<u>1,768,017</u>
Other operating expenses		
Personnel costs	(745,710)	(681,805)
Contributions to Florida State University	(420,925)	(227,829)
Miscellaneous	(103,364)	(99,567)
Research Foundation funded programs	(507,365)	(715,378)
Total other operating expenses	<u>(1,777,364)</u>	<u>(1,724,579)</u>
Operating income	<u>1,466,469</u>	<u>1,154,685</u>
Nonoperating revenues (expenses)		
Investment revenue	10,234,575	9,229,601
Investment portfolio fees	(108,801)	(97,097)
Change in annuity value	(65,041)	(49,762)
Miscellaneous revenue	37	25,455
Total nonoperating revenues	<u>10,060,770</u>	<u>9,108,197</u>
Change in net position	11,527,239	10,262,882
Net position, beginning of year	128,440,456	118,177,574
Net position, end of year	<u>\$ 139,967,695</u>	<u>\$ 128,440,456</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, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Licensed products and building program:		
Licensing fees and royalties	\$ 436,409	\$ 558,491
Administrative fees from licenses and other	259,471	138,084
Rental income	3,363,209	3,443,834
Departmental allocation payments	(486,412)	(367,817)
Patent and licensing costs	(728,299)	(793,684)
Building occupancy	(675,769)	(693,272)
Net cash provided by licensed products and building program	2,168,609	2,285,636
Contracts and grants:		
Receipts	10,381,389	12,271,954
Disbursements	(10,017,861)	(10,409,444)
Net cash provided by contracts and grants	363,528	1,862,510
Other receipts/disbursements:		
Personnel costs	(745,710)	(681,805)
Research Foundation funded programs	(536,384)	(714,958)
Contributions to Florida State University	233,829	551,925
Other disbursements	(104,383)	(117,884)
Net cash used in other receipts/disbursements	(1,152,648)	(962,722)
Net cash provided by operating activities	1,379,489	3,185,424
Cash flows from noncapital financing activities		
Gift annuity payments	(67,510)	(67,510)
Administrative fees and other	37	25,455
Net cash used in noncapital financing activities	(67,473)	(42,055)
Cash flows from investing activities		
Purchase of investments	(96,644,804)	(6,714,392)
Sale of investments	95,270,492	4,247,998
Collections on notes receivable	407,500	-
Net cash used in investing activities	(966,812)	(2,466,394)
Cash flows from capital and related financing activities		
Principal payments on obligations under capital leases	(530,000)	(515,000)
Net cash used in capital and related financing activities	(530,000)	(515,000)
Net increase (decrease) in cash and cash equivalents	(184,796)	161,975
Cash and cash equivalents, beginning of year	271,760	109,785
Cash and cash equivalents, end of year	\$ 86,964	\$ 271,760

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, 2018 AND 2017
(Continued)

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,466,469	\$ 1,154,685
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization and depreciation of capital assets	1,012,034	1,012,034
Amortization of bond premium	(65,818)	(65,819)
Changes in operating assets and liabilities:		
License fees and royalties receivables	(47,130)	(15,258)
Other receivables	(166,428)	(471,717)
Prepaid expenses	33,207	(47,574)
Note receivable	-	(25,000)
Change in allowance	(60,000)	114,472
Royalty allocations payable	(111,080)	32,918
Florida State University fund payable	671,295	815,968
Other liabilities	(259,254)	113,113
Unearned restricted revenue	(1,093,806)	567,602
Net cash provided by operating activities	\$ 1,379,489	\$ 3,185,424
Supplemental noncash information		
Unrealized net investment gain (loss)	\$ (587,310)	\$ 5,405,129

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, 2018 AND 2017

(1) **Reporting Entity:**

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

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

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

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

(e) **Investments**—Investments are carried at fair value. Current investments have maturities of one year or less. As of June 30, 2018, current investments consist of SBA Florida PRIME Money Market Pool, Northern Trust Money Market Fund, and Vanguard Index Funds. As of June 30, 2017, current investments consist of SBA Florida PRIME Money Market Pool, Northern Trust Equity Mutual Fund, and Northern Trust Money Market Fund. Non-Current Investments have maturities of greater than one year. As of June 30, 2018, non-current investments consist of an equity interest in a Florida Limited Liability Company. As of June 30, 2017, the Research Foundation held no non-current investments.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

(f) **Accounts receivable**—Receivables include grants receivables, license and royalty receivables, and other receivables such as rents and expense reimbursements, all of which are valued at net realizable value and are unsecured. It is the Research Foundation's policy to provide an allowance for accounts receivable that are not expected to be collected.

(g) **Deposit held with Florida State University**—The Research Foundation reports costs and contributions to Florida State University related to the architectural and engineering of the Interdisciplinary Research and Commercialization Building (IRCB) as deposit held with Florida State University.

(h) **Notes receivable**—Notes receivable include an amount due from the Florida State University College of Medicine and an amount due from a private corporation.

(i) **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.

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

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

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

(m) **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.

(n) **Revenue recognition**—

(i) *Operating revenues*—includes activities that have the characteristics of exchange transactions, such as contracts and grants, building rental, and royalties and licensing. Exchange transactions are transactions in which each party receives and gives up essentially equal values.

(ii) *Nonoperating revenues*—includes activities that have characteristics of nonexchange transactions, such as investment income. Nonexchange transactions are transactions in which an entity either gives or receives value to another party without directly giving or receiving equal value in exchange.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

(o) **Licensing fees and royalties**—The Research Foundation recognizes licensing and royalty revenues on commercialization agreements resulting from intellectual property produced at Florida State University. Revenue is reported net of changes in allowance for doubtful accounts on related receivables. For the years ended June 30, 2018 and 2017, the Research Foundation earned gross license and royalty revenues of \$543,539 and \$573,749, respectively, and 2017 revenue was reduced by increasing allowance for doubtful accounts by \$60,000. There was no allowance for doubtful accounts in 2018.

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

The revenue breakdown for administrative revenue is as follows:

	Years ended June 30,	
	2018	2017
Administrative overhead:		
Contracts and grants	\$ 1,174,107	\$ 1,404,591
Licenses and other	259,471	138,084
Contract and grant residuals	367,673	261,920
Total administrative revenue	\$ 1,801,251	\$ 1,804,595

(q) **Pronouncements issued**—GASB issued Statement No. 87, *Leases*, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases. The provisions in GASB 87 are effective for periods beginning after December 15, 2019.

GASB also issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB No. 84 seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2018.

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

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

(s) **Subsequent events**—The Research Foundation evaluated all events and transactions that occurred from July 1, 2018 through October 15, 2018, the date the financial statements were available for issuance. During the period from July 1, 2018 to October 15, 2018 the Research Foundation did not have any material recognized subsequent events. The Research Foundation did have non-recognized subsequent events described in the related note disclosure. See Notes 6 and 11 for specific detail relating to subsequent events.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(3) Deposits and Investments:

Custodial credit risk—Custodial credit risk is the risk of loss attributed to the magnitude of the Research Foundation’s investments held by outside parties. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor or collateralized with securities in Florida’s multiple financial institution collateral pool pursuant to Chapter 280, Florida Statutes. At June 30, 2018, bank deposits did not exceed the \$250,000 FDIC limit. At June 30, 2017, bank deposits exceeded the \$250,000 FDIC limit by \$98,195. The Research Foundation has not experienced any losses in such accounts.

Partnership investment—During the year ended June 30, 2018 the Research Foundation acquired 17.5% equity holdings in a Florida Limited Liability Company that is in the business of producing materials resulting from intellectual property of Florida State University. Partnership investment is reported as a non-current investment and is recorded at fair value using the cost approach.

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

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

At June 30, 2018, the Research Foundation has the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money Market Accounts	\$ 60,847,924	\$ 60,675,481	\$ 172,443	\$ -	\$ -
Domestic Equity Index Funds	32,771,823	No Maturity			
International Equity Index Funds	22,111,030	No Maturity			
Domestic Bond Index Funds	20,986,311	1,087,416	10,535,468	7,266,866	2,096,561
International Bond Index Funds	8,979,167	44,896	3,663,500	2,738,646	2,532,125
Partnership Investment	495,181	No Maturity			
	<u>\$ 146,191,436</u>	<u>\$ 61,807,793</u>	<u>\$ 14,371,411</u>	<u>\$ 10,005,512</u>	<u>\$ 4,628,686</u>

Money Market Accounts includes \$40,796,465 invested in SBA Florida PRIME with a Weighted Average Maturity (WAM) of 30 days.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

At June 30, 2017, the Research Foundation has the following investments and maturities:

	Fair Market Value	Years			
		Less Than 1	1-5	6-10	More Than 10
Money Market Accounts	\$ 78,481,994	\$ 78,481,994	\$ -	\$ -	\$ -
Domestic Equity Index Funds	56,209,356	No Maturity			
	<u>\$ 134,691,350</u>	<u>\$ 78,481,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Money Market Accounts includes \$38,917,111 invested in SBA Florida PRIME with a Weighted Average Maturity (WAM) of 39 days, and \$39,564,883 invested in Northern Trust Gov't Money Market with a Weighted Average Maturity (WAM) of 39 days.

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

As of June 30, 2018, the Research Foundation has the following debt instrument credit quality ratings:

	Fair Market Value	AAA (AAAm)	Aa	A	Less than A rated	Not Rated
Money Market Accounts	\$ 60,847,924	\$ 40,796,465	\$ -	\$ -	\$ -	\$ 20,051,459
Domestic Bond Index Funds	20,986,311	2,602,467	1,586,967	4,872,805	3,891,924	8,032,148
International Bond Index Funds	8,979,167	2,047,250	2,415,396	3,052,917	1,463,604	-
	<u>\$ 90,813,402</u>	<u>\$ 45,446,182</u>	<u>\$ 4,002,363</u>	<u>\$ 7,925,722</u>	<u>\$ 5,355,528</u>	<u>\$ 28,083,607</u>

Debt Instruments whose credit quality is not rated includes \$7,921,087 of US Government, \$111,061 of not rated domestic bond index funds, and \$20,051,459 of not rated money market funds.

As of June 30, 2017, the Research Foundation has the following debt instrument credit quality ratings:

	Fair Market Value	AAAm
Money Market Accounts	\$ 78,481,994	\$78,481,994

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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

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

Level 2 – Inputs are significant other observable inputs.

Level 3 – Inputs are significant unobservable inputs.

<u>As of June 30, 2018</u>	<u>Total Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Domestic Equity Index Funds	\$ 32,771,823	\$ 32,081,785	\$ 689,798	\$ 240
International Equity Index Funds	22,111,030	4,230,991	17,811,172	68,867
Domestic Bond Index Funds	20,986,311	217,756	20,731,483	37,072
International Bond Index Funds	8,979,167	25,617	8,953,550	-
Partnership Investment	495,181	-	-	495,181
Total Investments by Fair Value Level	<u>\$85,343,512</u>	<u>\$ 36,556,149</u>	<u>\$ 48,186,003</u>	<u>\$ 601,360</u>
Other				
SBA Florida PRIME (<i>amortized cost</i>)	\$ 40,796,465			
Northern Trust Money Market (<i>amortized cost</i>)	20,051,459			
Total Other Investments	<u>60,847,924</u>			
Total Investments	<u>\$ 146,191,436</u>			

Investments measured at fair market value as of June 30, 2018 are comprised of the following:

Domestic Equity Index Funds – Three Vanguard domestic equity index funds valued on a combination of Level 1, Level 2, and Level 3 inputs.

International Equity Index Funds – Three Vanguard international equity index funds valued on a combination of Level 1, Level 2, and Level 3 inputs.

Domestic Bond Index Funds – Three Vanguard domestic bond index funds valued on a combination of Level 1, Level 2, and Level 3 inputs.

International Bond Index Funds – One Vanguard international bond index fund valued on a combination of Level 1 and Level 2 inputs.

Partnership Investment – Valued using the cost approach, classified as Level 3.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Investments not reported at fair market value as of June 30, 2018 are comprised of the following:

SBA Florida PRIME – An SEC Rule “2a7-like” external investment pool measured at amortized cost.

Northern Trust Money Market – The Northern Trust Common Short-Term Investment Fund is measured at amortized cost.

<u>As of June 30, 2017</u>	<u>Total Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by Fair Value Level				
Money Market Account	\$ 39,564,883	\$ 39,564,883	\$ -	\$ -
Domestic Equity Index Funds	56,209,356	-	56,209,356	-
Total Investments by Fair Value Level	<u>\$ 95,774,239</u>	<u>\$ 39,564,883</u>	<u>\$ 56,209,356</u>	<u>\$ -</u>
Other				
SBA Florida PRIME (<i>amortized cost</i>)	<u>\$ 38,917,111</u>			
Total Other Investments	<u>38,917,111</u>			
Total Investments	<u><u>\$ 134,691,350</u></u>			

Investments measured at fair market value as of June 30, 2017 are comprised of the following:

Money Market Account – 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.

Domestic Equity Index Funds – 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)

Investments not reported at fair market value as of June 30, 2017 are comprised of the following:

SBA Florida PRIME – An SEC Rule “2a7-like” external investment pool measured at amortized cost.

Investment revenues consisted of the following amounts:

	<u>Years Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Realized gains on current investments	\$ 32,254,476	\$ 3,824,472
Unrealized losses/gains on current investments	(22,019,901)	5,405,129
Total investment revenues	<u>\$ 10,234,575</u>	<u>\$ 9,229,601</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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

The Research Foundation has no formal investment policy with regard to foreign currency risk for the investments, consisting of various Vanguard index funds which all state that there are inherent risks involved when investing in international securities through index funds that are not present with investments in domestic securities. The Research Foundation had no exposure to foreign currency risk as of June 30, 2017. The following table summarizes the Research Foundation's exposure to foreign currency risk in U.S. dollars as of June 30, 2018:

Currency by Investment and Fair Value					
	Equity	Total		Equity	Total
Australian dollar	\$ 629,696	\$ 629,696	Mexican peso	78,687	78,687
Brazilian real	220,792	220,792	New Taiwan dollar	52,602	52,602
British pound	2,882,155	2,882,155	New Zealand dollar	25,047	25,047
Canadian dollar	946,231	946,231	Norwegian krone	209,767	209,767
Chilean peso	28,482	28,482	Pakistani rupee	4,655	4,655
Chinese yuan	1,131,926	1,131,926	Peruvian sol	6,982	6,982
Colombian peso	8,755	8,755	Philippine peso	32,739	32,739
Czech koruna	4,433	4,433	Polish zloty	27,928	27,928
Danish krone	121,576	121,576	Qatari riyal	19,616	19,616
Egyptian pound	5,541	5,541	Russian ruble	92,701	92,701
Euro	5,491,801	5,491,801	Singapore dollar	238,999	238,999
Hong Kong dollar	627,193	627,193	South African rand	204,769	204,769
Hungarian forint	7,093	7,093	Swedish krona	576,993	576,993
Indian rupee	368,484	368,484	Swiss franc	1,150,880	1,150,880
Indonesian rupiah	96,095	96,095	New Taiwan dollar	344,337	344,337
Israeli new shekel	39,787	39,787	Thai baht	168,026	168,026
Japanese yen	3,586,514	3,586,514	Turkish lira	44,773	44,773
Korean won	654,156	654,156	UAE dirham	19,284	19,284
Malaysian ringgit	73,367	73,367	Total	\$ 20,222,862	\$ 20,222,862

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
License fees and royalties receivable, gross	\$ 150,880	\$ 103,750
Allowance for doubtful accounts	-	(60,000)
License fees and royalties receivable, net	<u>\$ 150,880</u>	<u>\$ 43,750</u>

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

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Grants receivable, gross	\$ 1,120,493	\$ 1,185,628
Allowance for doubtful accounts	-	-
Grants receivable, net	<u>\$ 1,120,493</u>	<u>\$ 1,185,628</u>

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

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Due from Florida State University, gross	\$ 1,889	\$ 1,110
Building receivables, gross	100	100
Patent & license cost reimbursement receivable, gross	400,132	169,348
Allowance for doubtful accounts	(54,472)	(54,472)
Accounts Receivable – other, net	<u>\$ 347,649</u>	<u>\$ 116,086</u>

(5) Deposit held with Florida State University:

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, 2018 and as of June 30, 2017, 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. As of the years ended June 30, the deposit held with Florida State University activity follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Beginning Balance	\$ 3,425,565	\$ 3,425,565
Additions	-	-
Deductions	-	-
Ending Balance	<u>\$ 3,425,565</u>	<u>\$ 3,425,565</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(6) Notes Receivable:

On May 19, 2015, the Research Foundation entered into a joint agreement with the Florida State University College of Medicine to plan and design a site for the purchase and installation of a Functional Magnetic Resonance Imaging Machine (fMRI). The Research Foundation provided a loan to the College of Medicine for \$1,000,000. The loan agreement calls for annual payments of \$200,000 beginning October 1, 2017 and ending October 1, 2021. Subsequent to June 30, 2017, the Research Foundation agreed to modify the payment schedule to begin on October 1, 2018 and end on October 1, 2022. The original principal amount does not bear interest. Notwithstanding the modified payment schedule, the College of Medicine made two \$200,000 payments during the year reducing the loan balance at June 30, 2018 to \$600,000 and agreed to revert to the original loan agreement terms. The College of Medicine fMRI project was completed in June 2017 and is currently in use.

On September 14, 2011, the Research Foundation provided an entrepreneurial cash advance in the amount of \$25,000 to BioFront Technologies, Inc., a spinoff of intellectual property developed at Florida State University. The purpose of the advance was to accelerate license negotiations and technical/product development. The non-interest bearing advance was to be repaid by June 1, 2016 or a mutually agreeable repayment schedule was to be negotiated. On April 26, 2017, a repayment schedule was established with monthly payments beginning in July 2017 and continuing through January 2020. Payments in the amount of \$7,500 were received during the year reducing the balance at June 30, 2018 to \$17,500.

On August 15, 2018, the Research Foundation provided an \$8,000,000 loan bearing interest of 3.25% to the Florida State University Athletics Department to fund the Seminole Golf Course and Club Capital Improvement Project. The promissory note calls for monthly payments of \$123,778 beginning January 15, 2019 and ending on December 15, 2024, with interest accruing from August 15, 2018 through the first payment on January 15, 2019. The Florida State University Athletic Department intends to fund the repayment from pledged donations to the Seminole Golf Course and Club Capital Improvement Project.

(7) Royalty Allocations Payable:

Inventor's royalty allocation payable — The inventors' allocations payable is comprised of monies due to individuals responsible for the development of various patented or copyrighted research. As royalties are accrued, the Research Foundation calculates the amount due to the inventors, and records an expense and accrues a liability for this amount. Subsequent distributions are then charged against the accrued liability in the following fiscal year. As of June 30, 2018 and 2017, the inventors' allocations payable balance was \$269,515 and \$344,878, respectively.

Departmental royalty allocation payable — The inventors' department allocations payable makes up the largest piece of this liability. The department or unit of which the inventor is a member receives a percentage of royalties earned. When royalties are accrued, the Research Foundation calculates the amount due to the department and records an expense and a liability. Allocations stay on deposit with the Research Foundation and departments have authority to spend down the balance on research-related items. At year end, the payable reflects amounts earned and available to the departments. As of June 30, 2018 and 2017, the inventors' department allocations payable balance was \$1,446,212 and \$1,481,929, respectively.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(8) Patent and Licensing Costs:

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

	June 30,	
	2018	2017
Patent & licensing costs, gross	\$ 1,011,254	\$ 1,185,766
Reimbursements collected & receivable, gross	(534,522)	(433,876)
Increase in allowance for doubtful accounts	-	54,472
Patent & licensing costs, net	\$ 476,732	\$ 806,362

(9) Unearned Restricted Revenue:

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

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

	2018	2017
Beginning balance	\$ 10,676,868	\$ 10,109,266
Contracts and grants	10,316,254	12,769,140
Restricted contracts and grants expenditures	(9,868,280)	(10,535,027)
Administrative contracts and grants expenditures	(1,541,780)	(1,666,511)
Ending balance	\$ 9,583,062	\$ 10,676,868

(10) 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, 2018 is \$1,446,133 including accumulated amortization of \$612,934. The lease payment in advance balance as of June 30, 2017 is \$1,511,865 including accumulated amortization of \$547,200. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2040, using the straight-line method.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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, 2018 is \$538,298 including accumulated amortization of \$135,932. The lease payment in advance balance as of June 30, 2017 is \$559,525 including accumulated amortization of \$114,707. The payment in advance will be amortized over the life of the lease, which runs through June 30, 2043, using the straight-line method.

(11) **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 consisted 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, 2018 and June 30, 2017, 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.

Subsequent to the year ended June 30, 2018, the Research Foundation will be demolishing the Complex in order to create a parking lot to be managed by Florida State University Parking and Transportation. The parking lot will provide revenue to be shared by Florida State University and the Research Foundation. The long-term purpose of the property will be to build a biomedical facility on the property.

Additionally subsequent to the year ended June 30, 2018, the Research Foundation entered into a contract to purchase property adjacent to the Chieftan Green Apartment Complex, to provide additional land for the future biomedical facility. The Research Foundation plans to demolish the existing building on this property to expand the parking lot on the Chieftan Green Apartment Complex property.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(11) **Building and Land:** (Continued)

Building activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Building	\$ 952,287	\$ -	\$ -	\$ 952,287
Less: Accumulated depreciation	(81,109)	(34,629)	-	(115,738)
Total	\$ 871,178	\$ (34,629)	\$ -	\$ 836,549

Building activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Building	\$ 952,287	\$ -	\$ -	\$ 952,287
Less: Accumulated depreciation	(46,481)	(34,628)	-	(81,109)
Total	\$ 905,806	\$ (34,628)	\$ -	\$ 871,178

Land activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Land	\$ 1,326,654	\$ -	\$ -	\$ 1,326,654

Land activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Land	\$ 1,326,654	\$ -	\$ -	\$ 1,326,654

(12) **Capital Leases:**

The Research Foundation operates all or portions of seven buildings as lessor. Building A and Building B have their construction costs capitalized in these financial statements as capital leases. The Research Foundation has guaranteed bonds associated with the construction of each of these buildings as described in the following section. Under the agreements, the Research Foundation receives rents, pays part of the operating costs, and is responsible for making the debt service payments on the related bonds. Construction costs for each of these buildings were funded from bond proceeds and the discounted present value of the debt payments were recorded as obligations under capital lease liabilities.

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(12) **Capital Leases:** (Continued)

Subsequent to the year ended June 30, 2018, the Research Foundation will begin renovations to Building B. The FSU Foundation vacated space in Building B on August 16, 2018. The Research Foundation has identified six new and expanding research centers to move into the available space. Building B will need varying degrees of renovation to meet the needs of the incoming tenants. The Research Foundation has been working closely with our in-house architect on this project. An architecture firm is under contract and is currently working on plans for the space. A construction manager has also been contacted to give input and initial, verbal estimates for the project.

The Materials Research Building and AME Building described in Note 10 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, 2018, and are fully or partially managed/leased by the Research Foundation.

Additionally, the Research Foundation was assigned the master lease and operated as lessor for the Sliger Building and the Shaw Building. The bonds previously associated with these buildings 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 these buildings. Effective September 1, 2017, lease management of the Sliger Building was transferred back to Florida State University. 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, 2018 AND 2017

(12) **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, 2018, is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Building A	\$ 14,562,880	\$ -	\$ -	\$ 14,562,880
Building B	11,102,484	-	-	11,102,484
Total	\$ 25,665,364	\$ -	\$ -	\$ 25,665,364

The detail of capitalized costs and amortization as of June 30, 2017, is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Building A	\$ 14,562,880	\$ -	\$ -	\$ 14,562,880
Building B	11,102,484	-	-	11,102,484
Total	\$ 25,665,364	\$ -	\$ -	\$ 25,665,364

Changes in accumulated amortization for each building for the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Building A	\$ 6,829,402	\$ 494,496	\$ -	\$ 7,323,898
Building B	5,042,108	395,950	-	5,438,058
Total	\$ 11,871,510	\$ 890,446	\$ -	\$ 12,761,956

Changes in accumulated amortization for each building for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Building A	\$ 6,334,906	\$ 494,496	\$ -	\$ 6,829,402
Building B	4,646,158	395,950	-	5,042,108
Total	\$ 10,981,064	\$ 890,446	\$ -	\$ 11,871,510

Obligations Under Capital Leases

Obligations under capital leases described above consist of the following for the year ended June 30, 2018:

	Balance July 1, 2017	Principal Payments	Balance June 30, 2018
Buildings A and B	\$ 9,585,000	\$ (530,000)	\$ 9,055,000

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(12) **Capital Leases:** (Continued)

Obligations under capital leases described above consist of the following for the year ended June 30, 2017:

	<u>Balance July 1, 2016</u>	<u>Principal Payments</u>	<u>Balance June 30, 2017</u>
Buildings A and B	\$ 10,100,000	\$ (515,000)	\$ 9,585,000

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>
2019	\$ 872,300	\$ 322,300	\$ 550,000
2020	875,300	300,300	575,000
2021	872,300	277,300	595,000
2022	873,500	253,500	620,000
2023	868,700	228,700	640,000
2024-2028	4,354,800	744,800	3,610,000
2029-2031	2,614,250	149,250	2,465,000
Total	<u>\$ 11,331,150</u>	<u>\$ 2,276,150</u>	<u>\$ 9,055,000</u>

Property Leased to Others

During the years ended June 30, 2018 and 2017, the Research Foundation recognized rental income from the properties described in Notes 10 through 12 in the amounts of \$3,363,147 and \$3,421,932, respectively. As of June 30, 2018 and June 30, 2017, the tenants occupied approximately 98% of the available rental space.

The following is a schedule of future rentals under non-cancellable leases as of June 30, 2018. 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:

<u>Year Ending June 30,</u>	<u>Rental Income</u>
2019	\$ 2,709,548
2020	2,711,162
2021	2,792,497
2022	2,839,387
2023	174,151
Total	<u>\$ 11,226,745</u>

FLORIDA STATE UNIVERSITY RESEARCH FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

(13) 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, 2018 and 2017, the annuity payable is recorded at its present value of \$223,100 and \$225,569, respectively. A discount rate of 3.1% 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.

(14) 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>2018</u>	<u>2017</u>
Designated		
Building Maintenance & Equipment Reserve	\$ 3,433,516	\$ 3,000,121
Building Vacancy & Renovation Reserve	1,871,431	1,281,961
Building Debt Guaranty Reserve	776,413	736,413
Inter-disciplinary Research & Commercialization Building	508,498	508,498
Research Enhancement	5,843,392	5,833,183
GAP Program	187,924	120,019
Total Designated	<u>12,621,174</u>	<u>11,480,195</u>
Total Non-Designated	<u>122,413,654</u>	<u>111,700,606</u>
Total Unrestricted Net Position	<u>\$ 135,034,828</u>	<u>\$ 123,180,801</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, 2018, 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 15, 2018.

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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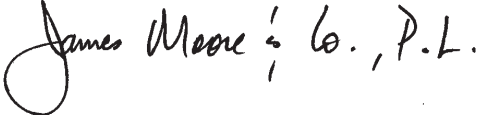
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Compliance and Other Matters

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.

Tallahassee, Florida
October 15, 2018