Audited Financial Statements

For the Year Ended June 30, 2011

THE FLORIDA STATE UNIVERSITY
FOUNDATION

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Financial Statements and Reports
For the Year Ended June 30, 2011
With Summarized Financial Information for the Year Ended June 30, 2010

CONTENTS

Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

Report of Independent Certified Public Accountants

The Board of Trustees
The Florida State University Foundation, Inc.

We have audited the accompanying statement of financial position of The Florida State University Foundation, Inc. (the Foundation) as of June 30, 2011, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2010 financial statements and, in our report dated September 30, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

1109-1294277

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011 on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplemental schedules (balance sheet, income statement and cash flows) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

October 5, 2011

1109-1294277

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Statement of Financial Position
As of June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	$59,153,620	$20,074,962
Contributions receivable - net	11,392,365	12,002,106
Investments	411,234,427	388,716,526
Remainder interest trusts	9,304,895	8,395,379
Funds held in trust by others	10,047,705	14,449,033
Real estate held for resale	804,554	386,168
Land, buildings and equipment - net	1,096,125	1,616,788
Other assets	1,777,726	1,704,683
Total assets	**$504,811,417**	**$447,345,645**
Liabilities and net assets		
Liabilities		
Accounts payable	$1,446,472	$2,222,302
Refundable advances	4,100,000	8,100,000
Compensated absence liability	512,589	629,725
Agency liability	344,497	295,168
Annuity obligations	5,871,128	5,553,129
Total liabilities	12,274,686	16,800,324
Net assets (deficit)		
Unrestricted	(7,709,263)	(35,274,395)
Temporarily restricted	128,226,770	97,804,370
Permanently restricted	372,019,224	368,015,346
Total net assets	492,536,731	430,545,321
Total liabilities and net assets	**$504,811,417**	**$447,345,645**

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

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011
With Summarized Financial Information for the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Revenues					
Contributions	$526	$22,434,783	$5,927,627	$28,362,936	$28,340,607
State and University support	2,377,972	-	-	2,377,972	1,340,217
Other support	-	8,997,312	-	8,997,312	7,798,715
Interest and dividends	368	1,554,442	96,629	1,651,439	3,715,192
Net realized and unrealized gains (losses)	1,919	74,392,599	(713,134)	73,681,384	41,977,402
Recovery of previous losses in excess of temporarily restricted endowment assets (Note 12)	27,525,853	(27,525,853)	-	-	-
Other revenue	69,794	2,115,672	-	2,185,466	2,167,305
Net assets released from restrictions:					
Program and facilities support	39,690,487	(39,690,487)	-	-	-
Administrative support	10,950,508	(10,950,508)	-	-	-
Total revenues	80,617,427	31,327,960	5,311,122	117,256,509	85,339,438
Expenses					
Program	36,540,066	-	-	36,540,066	36,325,467
FSU facilities construction	3,649,305	-	-	3,649,305	2,143,763
Administrative	5,829,282	-	-	5,829,282	5,027,607
Fundraising	7,033,596	-	-	7,033,596	6,001,128
Provision for uncollectible pledges	46	905,560	1,307,244	2,212,850	1,699,924
Total expenses	53,052,295	905,560	1,307,244	55,265,099	51,197,889
Change in net assets	**27,565,132**	**30,422,400**	**4,003,878**	**61,991,410**	**34,141,549**
Net assets (deficit) at beginning of fiscal year	(35,274,395)	97,804,370	368,015,346	430,545,321	396,403,772
Net assets (deficit) at end of period	**($7,709,263)**	**$128,226,770**	**$372,019,224**	**$492,536,731**	**$430,545,321**

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

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Statement of Cash Flows
For the Year Ended June 30, 2011 and June 30, 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$61,991,410	$34,141,549
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions for long-term endowments	(5,927,627)	(13,558,706)
Noncash items:		
Noncash gifts	(716,021)	(2,760,285)
Realized and unrealized gains	(73,681,384)	(41,977,402)
Depreciation	551,333	570,407
Other adjustments	512	(1,014)
Noncash transfers	-	133,200
Provision for uncollectible pledges	2,212,850	1,699,924
Changes in assets and liabilities:		
Accounts and interest receivable	(79,634)	228,816
Contributions receivable	(1,603,109)	(1,005,365)
Funds held in trust by others	3,048,629	-
Refundable advances	(4,000,000)	(593,763)
Accounts payable	(775,830)	74,191
Compensated absence liability	(117,136)	36,467
Net cash flows used by operating activities	**(19,096,007)**	**(23,011,981)**
Cash flows from investing activities		
Proceeds from sale of investments	148,712,335	265,144,520
Proceeds from sale of real estate held for resale	7,092	353,718
Proceeds from sale of assets	4,000	-
Principal payments on notes and long-term receivables	3,420	2,719
Purchase of investments	(95,546,638)	(235,629,700)
Purchase of land, buildings and equipment	(32,638)	(33,692)
Payments of annuity obligations	(900,533)	(850,535)
Net cash flows provided by investing activities	**52,247,038**	**28,987,030**
Cash flows from financing activities		
Contributions for long-term endowments	5,927,627	13,558,706
Net cash flows provided by financing activities	**5,927,627**	**13,558,706**
Net change in cash and cash equivalents	39,078,658	19,533,755
Cash and cash equivalents - beginning of year	20,074,962	541,207
Cash and cash equivalents - end of period	**$59,153,620**	**$20,074,962**

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

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose – The Florida State University Foundation ("Foundation") was organized to aid the advancement of The Florida State University ("University" or "FSU") and its objectives and purposes.

Accrual Basis – The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Basis of Presentation – The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, this information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor imposed stipulations.
>
> Temporarily restricted net assets – Net assets subject to donor imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.
>
> Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

The Foundation's policy is to recognize gifts of long-lived assets at fair value in the year received rather than over the useful lives of the assets.

Agency Transactions – The Foundation serves in an intermediary capacity for The Florida State University Alumni Association. The related assets held by the Foundation and the offsetting agency liabilities are included in the statement of financial position. Agency activities are not reflected on the statement of activities and changes in net assets.

Cash and Cash Equivalents – The Foundation considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash from each of the net asset classifications is pooled in the Foundation's main checking account. Excess cash is swept daily from this account and invested overnight in a money market fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contributions Receivable – These amounts, less an allowance for potentially uncollectible contributions receivable, are reported on a net present value basis using a discount rate based on a risk-free rate of return appropriate for the expected term of the promise to give. The discount rates are determined at the time the unconditional promise to give is initially recognized. The allowance for uncollectible pledges is based on pledge activity. If a pledge has no activity for two years it is deemed uncollectible. Large pledges are reviewed on a case-by-case basis. The write-off history as a percentage of outstanding contributions receivable is considered in establishing an appropriate allowance for uncollectible pledges.

Refundable Advances – Assets contributed with conditions are accounted for as refundable advances in the statement of financial position until the conditions have been substantially met or the conditions have been explicitly waived by the donor.

Fair Value of Financial Instruments – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.

- Cash and cash equivalents, accounts receivable, other assets, accounts payable, accrued liabilities, compensated absence liability and refundable advances have a carrying amount that is a reasonable estimate of the fair value because of the short maturity of these instruments.
- Contributions receivable are discounted at an approximate rate commensurate with the risks involved, which ranges from 1.76% to 5%. The discounted contributions receivable value approximates the fair value of these instruments.
- Annuity obligations are based on an actuarial calculation that considers the life expectancy of the annuitant and the expected rate of return to be earned on the annuitant's gift. The rate of return assumed in this calculation for each of the annuities is 6.15%, which is representative of its fair value.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 4.

Split Interest Agreements – The Foundation is trustee and beneficiary of numerous charitable trusts and gift annuities. The assets held are recorded at fair value. For gift annuities, a corresponding annuity obligation is recorded for the estimated future contractual payments based upon the life expectancy of beneficiaries, discounted to present value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments – Investments in marketable equity securities and debt securities, including mutual funds are recorded at their fair values, which are based on quoted market prices. Alternative investments (non-traditional, not readily-marketable assets), some of which are structured such that the Foundation holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuation of these investments and, therefore Foundation holdings, may be determined by the investment manager or general partner. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Foundation to securities lending, short sales of securities and trading in futures and forwards contracts, options, swap contracts and other derivative products.

While these financial instruments may contain varying degrees of risk, the Foundation's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

The Foundation manages its long-term investments, except for real estate investments and investments relating to split interest agreements, on a total return basis. To preserve the investments' long-term purchasing power, the Foundation makes available to be spent each year a percentage of the average market value of participating funds for the twelve (12) preceding quarters as authorized by the Foundation's Board of Trustees to fund operations of University programs. The effective spending rate was 3.76% and 4.12% for the year ended June 30, 2011 and 2010, respectively.

Concentration of Credit Risk – The Foundation maintains a cash account with a large financial institution. All accounts at the financial institution are guaranteed by the Federal Deposit Insurance Corporation up to $250,000. The Foundation has cash deposited that exceeds the federally insured deposit amount. Management does not anticipate nonperformance by the financial institution. The Foundation also places its cash equivalents and short-term investments with high-quality institutions.

Contributions – Donations of securities, real estate, and other non-monetary items are recorded at fair value at the date of the gift.

Income Taxes – The Foundation is a non-profit corporation exempt from Federal income taxes under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3), with the exception of any unrelated business income.

The Foundation has reviewed its tax status and related filings and determined that there are no tax positions for which an obligation needs to be recorded.

Advertising Costs - The Foundation expenses advertising costs as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Depreciation – Land, buildings and equipment with a cost equal to or greater than $1,000 are carried at cost or, if donated, at fair value, less accumulated depreciation. Items with a cost less than $1,000 are expensed. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from five to thirty years.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reported period. Actual results could differ from those estimates.

Subsequent Events – Subsequent events have been evaluated through the date the financial statements were available to be issued which is October 5, 2011.

Inexhaustible Collections – The Foundation has elected to exercise the option of not capitalizing items that meet the definition of "collections" as prescribed by accounting principles generally accepted in the United States. All donations of collections are transferred to the University at the time of the gift. Therefore, the fair value of donated collections of art, historical treasures and similar items are not reflected in the accompanying financial statements.

Recent Accounting Pronouncements – In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements,* (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. The Foundation has fully adopted ASU 2010-06 as of June 30, 2011.

2. CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable. Contributions receivable are recorded at fair value as of the date of the gift less payments received and discounted to the present value of future cash flows. See Note 1 for discount rates used. Unconditional promises are expected to be realized in the following periods:

	2011	2010
In one year or less	$ 1,506,883	$4,094,900
Between one and five years	10,035,248	7,747,416
Greater than five years	2,153,111	2,842,617
Unconditional promises –face value	$13,695,242	$14,684,933
Less: Allowance for uncollectibles	(1,718,820)	(1,973,201)
Unamortized discount	(584,057)	(709,626)
Contributions receivable - net	**$11,392,365**	**$12,002,106**

Approximately 56% of contributions receivable at June 30, 2011 and 55% of contributions receivable at June 30, 2010 were provided by 12 donors respectively, some of whom are members of the Board of Trustees.

The Foundation is the beneficiary of numerous conditional promises to give. A conditional promise requires a future event to take place before the promise becomes binding on the donor. Typically, the Foundation can affect no control over the required event. At June 30, 2011 and 2010, conditional promises of approximately $250 million and $237 million respectively, were attributable to the face value of donor bequests and other conditional pledges. No receivable was recorded for these bequests and pledges, nor was the future support recognized.

At June 30, 2011, the Foundation had approximately $30.5 million of outstanding State matching funds pending appropriation. This represents gifts received by the Foundation that have been approved for State matching funds, however such matching funds have not yet been appropriated by the Florida Legislature. No receivable was recorded for the anticipated State funds, nor was the future support recognized.

3. INVESTMENTS

The investment goal of the Foundation is to invest its assets in a manner that will achieve a total rate of return sufficient to replace the assets spent on scholarships, grants and other program expenses and to recoup any value lost due to inflation. To achieve this goal, some investment risk must be taken. To minimize such risk, the Foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. Key decisions in this regard are made by the Foundation's Investment Committee, which has oversight responsibility for the Foundation's investment program. The committee identifies appropriate asset categories for investments, determines the allocation of assets to each category, and approves the investment strategies employed.

Effective April 2006, the Foundation engaged Cambridge Associates, LLC, an independent consulting firm, to execute the investment program, including the engagement of investment managers, oversight of those managers, investment policy planning, review and compliance, and investment performance reporting. All financial assets are held in custody for the Foundation in proprietary accounts by a major commercial bank, except those assets that have been invested in limited partnerships, hedge funds or in certain products with multiple investors, such as index funds, all of which have separate custodial arrangements appropriate to their legal structure.

3. INVESTMENTS *(continued)*

Investments as of June 30, 2011 and 2010 consist of the following amounts:

	2011	2010
Short-term investment fund	$ 110,541	$ 15,546,732
Fixed income:		
Institutional pooled funds	60,223,797	70,311,827
Equities:		
Institutional pooled funds	197,907,328	185,965,546
Hedge Funds:		
Fund of funds	-	1,132,981
Long/short equity		
U.S. long/short	13,991,293	12,448,493
Global long/short	18,771,145	20,082,643
Absolute return		
Diversified arbitrage	4,785,004	4,342,354
Event driven/open mandate	26,224,557	22,034,333
Credit strategies/distressed	17,169,193	15,483,256
Global macro	11,612,236	211,528
Limited partnerships:		
Venture capital	1,527,854	791,251
Private equity	13,703,851	5,466,415
Distressed assets	3,180,200	-
Real estate	4,659,332	1,948,056
Natural resources	1,465,771	989,802
Real assets:		
Marketable securities	-	2,573
Mutual funds	6,926,133	7,142,779
Institutional pooled fund	28,976,192	24,815,957
Total	**$411,234,427**	**$388,716,526**

Investment expenses for the year ended June 30, 2011 and 2010 totaled $3,735,805 and $2,468,145, respectively.

3. INVESTMENTS *(continued)*

Approximately 64.5% and 71.7% of the Foundation's investments at June 30, 2011 and 2010, respectively, are invested in institutional mutual funds, publicly traded securities that are listed on national exchanges, treasury and agency bonds of the U.S. government, bonds of sovereign foreign governments, investment & non-investment grade corporate bonds and certificates of deposit.

Approximately 22.5% and 19.5% of the Foundation's investments at June 30, 2011 and 2010, respectively, were invested in hedge fund-of-funds and hedge funds. These investments are not publicly listed or traded, and are not liquid investments. Each fund's investment manager calculates the fair value of investments on a monthly basis using the valuation guidelines stipulated in the respective investment agreements. Realized gains & losses and increases & decreases in fair value on such investments are reflected in net realized and unrealized (losses) gains in the statement of activities.

Approximately 7.0% and 6.4% of the Foundation's investments at June 30, 2011 and 2010, respectively, are invested in diversified inflation-protection securities. The objective of these investments is to provide returns in excess of the US CPI+5% over the long-term by investing in liquid-asset categories that offer strong relative performance in a rising inflation environment. The fund's investment manager calculates the fair market value of the investments on a monthly basis, the majority of which are valued at quoted closing prices at year end. Realized gains & losses and increases & decreases in fair value on such investments are reflected in net realized and unrealized (losses) gains in the statement of activities.

Approximately 6.0% and 2.4% of the Foundation's investments at June 30, 2011 and 2010, respectively, are invested with numerous partnerships, in which the Foundation is a limited partner, that specialize in making venture capital, buyout, distressed debt, special situation and equity-based real estate investments. Such investments, typically investments in private equity or debt securities of companies or properties that are not publicly listed or traded, are not liquid investments. The value of such investments is determined by the partnerships' general partners, who must follow the valuation guidelines, such as appraisals and comparable company trade data, stipulated in the respective limited partnership agreements. The June 30th valuations of the investments in limited partnerships are based upon the value determined by the partnerships' general partner as of March 31st, adjusted for capital contributions and distributions that occurred during the quarter ended June 30th. These amounts may differ from values that would be determined if the investments in limited partnerships were publicly traded or if the June 30th valuation amounts were currently available. Realized gains & losses and increases & decreases in fair value on such investments are reflected in the statement of activities. All limited partnerships are audited annually by independent certified public accounting firms. As of June 30, 2011, pursuant to its limited partnership agreements, the Foundation is committed to contributing $54.5 million in capital over the next 15 years. As of this date, the total unfunded commitment to these partnerships is $31.5 million.

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Accounting Standards Codification (ASC) (ASC 820) of the Financial Standards Accounting Board (FASB). ASC 820 establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of the asset or liability as of the measurement date. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access.

Level 2 Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date. Level 2 inputs may include quoted prices for similar assets or liabilities in non-active markets or pricing models whose inputs are observable for substantially the full term of the asset or liability. Instruments in this category include institutional pooled funds, fund of funds, a unit trust fund, offshore funds, mutual funds, and remainder interest trusts.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Instruments in this category include investments in limited partnerships.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS *(continued)*

The following table presents financial instruments that are measured at fair value on a recurring basis as of June 30, 2011.

	Total	Level 1	Level 2	Level 3
Investments				
Cash and cash equivalents:				
Short-term investment fund	$ 110,541	$110,541	$ -	$ -
Fixed income:				
Domestic institutional pooled fund	40,004,621	-	40,004,621	-
Global institutional pooled fund	20,219,176	-	20,219,176	-
Equities:				
U.S. institutional pooled fund	98,769,415	-	98,769,415	-
Global ex U.S. institutional pooled fund	82,503,988	-	82,503,988	-
Emerging markets institutional pooled fund	16,633,925	-	16,633,925	-
Hedge funds:				
U.S. long/short	13,991,293	-	13,991,293	-
Global long/short	18,771,145	-	18,771,145	-
Diversified arbitrage	4,785,004	-	4,785,004	-
Event driven/open mandate	26,224,557	-	21,439,446	4,785,111
Credit strategies/distressed	17,169,193	-	17,169,193	-
Global macro	11,612,236	-	11,612,236	-
Limited partnerships:				
Venture capital L.P. fund	1,527,854	-	-	1,527,854
Private equity L.P. fund	13,703,851	-	-	13,703,851
Distressed assets L.P. fund	3,180,200	-	-	3,180,200
Real estate L.P. fund	4,659,332	-	-	4,659,332
Natural resources L.P. fund	1,465,771	-	-	1,465,771
Real assets:				
Global REIT mutual fund	6,926,133	-	6,926,133	-
Diversified inflation hedge institutional fund	28,976,192	-	28,976,192	-
Total investments	**$411,234,427**	**$110,541**	**$381,801,767**	**$29,322,119**
Other financial instruments				
Remainder interest trusts	**9,304,895**	**-**	**9,304,895**	**-**
Funds held in trust by others	**10,047,705**	**-**	**-**	**10,047,705**
Total investments & financial instruments	**$430,587,027**	**$110,541**	**$391,106,662**	**$39,369,824**

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2011

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS *(continued)*

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1.

Fixed income - Investments in fixed income vehicles are comprised of domestic and global institutional pooled (commingled) funds which are classified as Level 2, based on multiple sources of information. These sources may include market data for assets from markets that are not active and/or quoted market prices for the same or similar assets in active markets. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach.

Equities – Investments in equity vehicles are comprised of U.S., Global ex U.S., and Emerging Markets institutional pooled (commingled) funds which are classified as Level 2, based on multiple sources of information. These sources may include market data for assets from markets that are not active and/or quoted market prices for the same or similar assets in active markets. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach.

Hedge funds - Investments in an offshore fund (event driven/open mandate) for which there is no readily determinable fair value are classified as Level 3, as the valuation is based on significant unobservable inputs. These unobservable inputs are based upon the best available information in the circumstances and always include the investee's own data. Investments in offshore funds (U.S. and global long/short, diversified arbitrage, event driven/open mandate, credit strategies/distressed and global macro) and a unit trust fund (event driven/open mandate), where the investee provides its investors with a net asset value (NAV) per share (or its equivalent), are classified as Level 2. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach. The fair value for these assets is estimated by adjusting the NAV provided by the investee for cash receipts, cash disbursements, and significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30, 2011.

Classification within the fair value hierarchy investments that are measured at NAV per share (or its equivalent) requires judgment, considering the following:

- If the Foundation has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the balance sheet (measurement) date, the fair value measurement of the investment is categorized as a Level 2 fair value measurement.

- If the Foundation will never have the ability to redeem its investment with the investee at net asset value per share (or its equivalent), the fair value measurement of the investment is categorized as a Level 3 fair value measurement.

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS *(continued)*

- If the Foundation cannot redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date but the investment may be redeemable with the investee at a future date, the Foundation considers the length of time until the investment will become redeemable in determining whether the fair value measurement of the investment will be categorized as a Level 2 or a Level 3 fair value measurement.

Limited partnerships – Investments in limited partnerships (venture capital, private equity, distressed assets, real estate, and natural resources) for which there is no readily determinable fair value are classified as Level 3, as the valuation is based on significant unobservable inputs. These unobservable inputs are based upon the best available information in the circumstances and always include the investee's own data.

Real assets - Investments in a diversified inflation hedge institutional pooled (commingled) fund and a global real estate investment trust mutual fund, which are classified as Level 2, are based on multiple sources of information. These sources may include market data for assets from markets that are not active and/or quoted market prices for the same or similar assets in active markets. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach.

Remainder interest trusts - The Foundation's beneficial interest in funds held in trust administered by a third party are classified as Level 2. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach. The trust assets are invested in both equity and fixed income vehicles which are comprised of institutional pooled (commingled) and money market funds. Its fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either market that are not active or are for the same or similar assets in active markets. The Foundation has an irrevocable right to receive the remaining trust assets once the trusts mature and thus the fair value of the Foundation's beneficial interest is estimated to approximate the fair value of the trusts' assets.

Funds held in trust by others - The Foundation's beneficial interest in irrevocable split interest agreements held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the Foundation expects to receive over the term of the agreements.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS *(continued)*

The Foundation's policy is to recognize transfers in and transfers out at the beginning of the reporting period. There were no significant transfers that occurred between Level 1 and Level 2 during the year ended June 30, 2011. Relating to Level 3, the following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs for the year ended June 30, 2011:

	Venture capital	Private equity	Distressed assets	Event driven/ open mandate	Real estate	Natural resources	Funds held in trust by others	Total
Beginning balances at July 1, 2010	**$791,251**	**$5,466,415**	**$79,393**	**$4,395,164**	**$1,948,056**	**$989,802**	**$14,449,032**	**$28,119,113**
Transfers into Level 3	-	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-	-
Net realized and unrealized gains (losses) included in change in net assets	211,603	1,243,849	166,688	389,947	723,776	247,496	(1,352,698)	1,630,661
Purchases, sales issuances and settlements								
Purchases	525,000	6,993,587	3,000,000	-	1,987,500	228,473	-	12,734,560
Sales	-	-	(65,881)	-	-	-	-	(65,881)
Issuances	-	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	(3,048,629)	(3,048,629)
Ending balances at June 30, 2011	**$1,527,854**	**$13,703,851**	**$3,180,200**	**$4,785,111**	**$4,659,332**	**$1,465,771**	**$10,047,705**	**$39,369,824**

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS *(continued)*

The following table discloses the nature and risk of alternative investments (including hedge funds and limited partnerships) by strategy and style as of June 30, 2011:

	Total Fair Value	Unfunded Commitments	Exit Frequency	Days Notice
Hedge funds				
Long/short equity (a)				
U.S. long/short	$13,991,293	$ -	Annually	60
Global long/short	18,771,145	-	Quarterly/Annually/ Every 3 Years	45-65
Absolute return (b)				
Diversified arbitrage	4,785,004	-	Quarterly	45
Event driven/open mandate	26,224,557	-	Quarterly/Annually/ Every 12 months	30-90
Credit strategies/distressed	17,169,193	-	Quarterly/Annually/ Every 24 months	45-90
Global macro	11,612,236	-	Monthly	10
Limited partnerships (c)				
Venture capital	1,527,854	1,143,750		
Private equity	13,703,851	19,111,226		
Distressed assets	3,180,200	3,000,000		
Real estate	4,659,332	4,312,500		
Natural resources	1,465,771	3,887,500		
Total	**$117,090,436**	**$31,454,976**		

(a) Long/short equity - This category includes investments in offshore funds that invest both long and short in domestic and international equity securities. The funds can also opportunistically invest in other domestic and international securities and instruments where the managers deem appropriate. The managers of the funds seek to provide either superior risk-adjusted return or capital appreciation within their specific investment styles which can include U.S. Growth, U.S. Value, Global and Sector-specific. The fair value of the investments in this category has been estimated using the net asset value per share of the investments. Investments representing approximately 51% of the value of the investments in this category can be redeemed in one year or later due to restrictions in place at the time of acquisition. The remaining 49% can be redeemed in less than one year at June 30, 2011.

4. FINANCIAL INSTRUMENTS - FAIR VALUE MEASUREMENTS *(continued)*

(b) Absolute return - This category includes investments are all offshore funds, except for one unit trust fund, that are designed to produce results that are largely independent of, or have low correlation to, the broader markets. The unit trust fund's value at June 30, 2011 was $4,881,626. The absolute return strategies will potentially benefit the Foundation by generating returns from a variety of sources, helping lower portfolio volatility, and diversifying portfolios with low-correlation returns. The strategies include diversified arbitrage, event driven/open mandate, credit strategies/distressed, and global macro. The fair values of the investments of all the managers in this category have been estimated using the net asset value per share of the investments. Investments representing approximately 21% of the value of the investments in this category can be redeemed in one year or later due to restrictions in place at the time of acquisition. The remaining 79% can be redeemed in less than one year at June 30, 2011.

(c) Limited partnerships - This category includes investments in several limited partnership funds that invest in private equity, venture capital, distressed assets, natural resources and real estate. The nature of the investment in this category is that distributions are received through the liquidation of underlying assets. If these investments are held, it is estimated that the underlying assets of the funds would be liquidated over 5 to 15 years. However, as of June 30, 2011, it is probable that all of the investments in this category will be sold at an amount different from the net asset value of the company's ownership interest and partners' capital. Therefore, the fair values of the investments in this category have been estimated using recent observable transactions and recent statement of changes for the funds.

5. REMAINDER INTEREST TRUSTS

The Foundation is the beneficiary of numerous irrevocable charitable trusts and gift annuities. These assets have been donated to the Foundation for investment, in return for payments to the donor(s) or their designees. Upon the satisfaction of the terms of each trust or annuity, the Foundation receives the balance of the invested assets. These assets are then added to the endowment per the donor’s direction. For gift annuities, the related annuity liability is valued, using IRS tables, at the net present value each year. See Note 1 for the discount rate used.

For the year ended June 30, 2011, contributions of $405,000 were received and the change in the value of split interest agreements included in net realized and unrealized gains (losses) in the statement of activities was a gain of $591,517.

The following are the invested assets and annuity obligations at June 30:

	2011	2010
Fair value of securities held	$9,304,895	$8,395,379
Annuity obligations	(5,871,128)	(5,553,129)
Net present value	**$3,433,767**	**$2,842,250**

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2011

6. FUNDS HELD IN TRUST BY OTHERS

The Foundation is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Foundation. The Foundation has legally enforceable rights or claims to its portion of such assets or income therefrom. Net realized and unrealized gains in trusts held by others are reported as permanently restricted because appreciation in such funds is not available for use by the Foundation unless appropriated by the respective trustees. Upon the satisfaction of the terms of each trust, the Foundation receives the remainder interest which is added to the endowment per the donor's direction. Funds held in trust by others are valued, using IRS tables, at their net present value each year. See Note 1 for the discount rate used.

For the year ended June 30, 2011, contributions of $0 were received and the change in the value of funds held in trust by others included in net realized and unrealized gains (losses) in the statement of activities was a loss of $1,352,698.

Net present value of these funds at June 30 is as follows:

	2011	2010
Market value	$ 16,257,828	$ 17,665,505
Discount to present value	(6,210,123)	(3,216,472)
Net present value	**$10,047,705**	**$14,449,033**

7. REAL ESTATE HELD FOR RESALE

The Foundation receives real estate gifts, which are subsequently marketed and sold, with proceeds going to support The Florida State University. Carrying values for real estate held for resale at June 30, 2011 and 2010 were $804,554 and $386,168, respectively. At June 30, 2011, there were three properties held for resale; one located in Miramar Beach, Florida, one located in Tallahassee, FL and one in the Bahamas.

8. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2011, and 2010:

	2011	**2010**
Buildings and improvements	$678,550	$678,550
Furniture, fixtures and equipment	3,009,477	3,101,393
Vehicles	-	31,000
Total depreciable assets	$3,688,027	$3,810,943
Less: Accumulated depreciation	(2,710,902)	(2,313,155)
Buildings, furniture, fixtures and equipment – net	$977,125	$1,497,788
Land	119,000	119,000
Land, buildings and equipment – net	**$1,096,125**	**$1,616,788**

Total depreciation expense for the years ended June 30, 2011 and 2010 was $551,333 and $570,407, respectively.

9. OTHER ASSETS

Other assets consist of the following at June 30, 2011, and 2010:

	2011	**2010**
Accounts receivable	$390,413	$364,676
Less: allowance for uncollectibles	(108,263)	(162,160)
Total accounts receivable - net	$282,150	$202,516
Note receivable	47,704	49,668
Cash surrender value of life insurance	1,447,872	1,452,499
Other Assets	**$1,777,726**	**$1,704,683**

The cash surrender value of life insurance policies is net of any outstanding policy loans. The net benefit value of the underlying life insurance in force at June 30, 2011 and 2010 is approximately $6.5 million and $6.4 million, respectively. Various individuals have donated the policies, with the Foundation designated as beneficiary and owner. However, only the cash surrender value is reflected in these financial statements, since the insured individuals can stop paying policy premiums at their discretion.

10. AGENCY LIABILITY

The Foundation holds assets, primarily reported as investments, for the FSU Alumni Association, Inc. The funds held on their behalf are reported as agency liabilities. The fair value of these investments as of June 30, 2011 and 2010 is $344,497 and $295,168, respectively.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2011

11. NET ASSETS

At June 30, 2011 and 2010, net assets included unrestricted funds and funds restricted by donors for the following purposes:

	2011	2010
Unrestricted		
Unrestricted net assets before adjustment for losses	$6,651,657	$ 6,612,378
Losses in excess of temporarily restricted endowment assets	(14,360,920)	(41,886,773)
Total unrestricted net deficit	**($7,709,263)**	**($35,274,395)**
Temporarily restricted		
Faculty and staff support	$ 81,506,075	$ 60,710,204
Student financial aid	30,575,671	23,642,640
Student organizations	1,185,371	1,761,062
University administration	4,757,068	3,547,165
Research	861,293	1,030,360
Facilities, equipment and other	9,341,292	7,112,939
Total temporarily restricted net assets	**$128,226,770**	**$97,804,370**
Permanently restricted		
Faculty and staff support	$ 241,369,899	$ 241,399,925
Student financial aid	118,696,188	115,618,169
Student organizations	442,717	406,221
University administration	84,674	79,634
Research	929,403	895,203
Facilities and equipment	4,123,771	4,355,353
Remainder interest in trusts	6,372,572	5,260,841
Total permanently restricted net assets	**$372,019,224**	**$368,015,346**
Total net assets	**$492,536,731**	**$430,545,321**

12. ENDOWMENT

The Not-for-Profit Entities Presentation of Financial Statements Subtopic of the ASC (ASC 958-205) provides guidance, among other things, on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA). During the year ended June 30, 2011, the State of Florida adopted UPMIFA. Although the effective date of the legislation enacting Florida UPMIFA is July 1, 2012, the following disclosures are made as required by ASC 958-205.

12. ENDOWMENT *(continued)*

The Foundation's endowment consists of approximately 1,211 funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

Interpretation of Relevant Law

The management of the Foundation's endowed funds is guided by the laws of the State of Florida. Specifically, Title XLVIII, K-20 Education Code, Chapter 1010.10 – the Florida Uniform Management of Institutional Funds Act (FLUMIFA). The Board of Trustees of the Foundation has interpreted FLUMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by FLUMIFA. In accordance with FLUMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1) The purposes of the institution;
2) The intent of the donors of the endowment fund;
3) The terms of the applicable instrument;
4) The long-term and short-term needs of the institution in carrying out its purposes;
5) The general economic conditions;
6) The possible effect of inflation or deflation;
7) The other resources of the institution; and
8) Perpetuation of the endowment.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specific period(s). Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return net of inflation, spending distributions and administrative fees each year.

12. ENDOWMENT *(continued)*

The objectives of the Foundation's investment portfolio are the enhancement of capital and real purchasing power while limiting exposure to risk of loss. Real purchasing power or real rate of return will be defined as returns in excess of inflation as defined by the Higher Education Price Index (HEPI). At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the assets while providing the necessary capital to fund the annual spending policy of 4% plus an additional 2.5% to cover administrative fees. Therefore, the desired minimum real rate of return is equal to HEPI plus 650 basis points (6.5%) on an annualized basis. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints. The assets are invested for the long term and higher short-term volatility in these assets is to be expected and accepted.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation's current spending policy is 4% of a three-year moving average of the quarterly market values of participating funds. Spending distributions are made to participating funds on a quarterly basis (1% per quarter) based on their pro-rata share of the total of all participating funds. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

12. ENDOWMENT *(continued)*

Changes in endowment funds for the year ended June 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets (deficit), beginning of year	$1,768,732	($10,748,052)	$337,222,881	$328,243,561
Investment return:				
Investment income	-	2,608,916	-	2,608,916
Net realized and unrealized gains	-	59,633,764	-	59,633,764
Total investment return	-	62,242,680	-	62,242,680
Contributions	-	951,314	8,856,556	9,807,870
Appropriation of endowment assets for expenditure	-	(13,506,170)	-	(13,506,170)
Other changes:				-
Reclassification of assets	(37,406)	45,121	2,068	9,783
Endowment net assets, end of year	**$1,731,326**	**$38,984,893**	**$346,081,505**	**$386,797,724**

From time to time, the fair value of assets associated with individual, donor-restricted endowment funds may fall below historical dollar value (the aggregate value of all contributions to an endowment fund at the time they were made). These deficiencies result from unfavorable market fluctuations, continued appropriations for certain programs that were deemed prudent by the Board of Trustees and administrative fees. The total amount of deficiencies of this nature as of June 30, 2011 and 2010 was $14,360,920 and $41,886,773, respectively and is classified as part of unrestricted net assets. The recovery of previous losses of $27,525,853 during the year ended June 30, 2011 is reported in the statement of activities.

13. LONG-TERM INVESTMENT PORTFOLIO

All endowment funds of the Foundation are combined, or pooled, for purposes of investment. Each endowment receives its proportionate share of the investment portfolio's total return. From this, an administrative fee is transferred to the unrestricted fund to support the Foundation's operations, a spending distribution is transferred to the endowment's restricted expendable fund and the remaining gain or loss is added to the endowment.

A portion of restricted, expendable funds is also invested in the long-term investment portfolio. Annually, 6% of these funds are transferred to the unrestricted fund to support the Foundation's operations.

The performance of the Foundation's long-term investment portfolio for the year ended June 30, 2011 and 2010 is summarized below:

	2011	**2010**
FSUF Investment Portfolio Total Return (net of fees)	20.40%	12.59%
Less: Budgeted Spending Rate and Administrative Fee	6.50%	6.50%
Inflation (Higher Education Price Index)	1.60%	0.90%
Net Real Return	**12.30%**	**5.19%**

14. PROGRAM EXPENDITURES

At June 30, 2011 and 2010, expenditures for program support included the following purposes:

	2011	**2010**
Athletic development	$7,289,382	$7,129,770
Salary supplements	7,288,062	7,048,081
Scholarships, grants and fellowships	6,357,253	6,409,158
Equipment and supplies	6,161,436	7,899,280
Travel and entertainment	4,587,212	3,908,631
Taxes and license fees	2,753,532	288,942
Professional services	1,209,945	1,113,222
Other university support	415,188	2,134,847
Utilities and maintenance	278,048	248,762
Rents and leases	200,008	144,774
Total program expenditures	**$36,540,066**	**$36,325,467**

15. OPERATING LEASE

The Foundation has a lease agreement relating to office facilities with a one-year term ending March 31, 2012. This lease may be renewed for another year through March 31, 2013 with a rental rate increase of 3% per year. In the normal course of business, it is expected that this lease will be renewed or replaced by the purchase or lease of other facilities. Lease expense totaled $620,048 and $620,048 for the years ended June 30, 2011 and 2010.

The following is a schedule by years of future minimum rental payments required under the operating lease that has an initial or remaining non-cancelable lease term in excess of one year:

Fiscal Year ending June 30:	
2012	$624,702
2013	478,989
Total minimum lease payments required	**$1,103,691**

16. COMMITMENTS AND CONTINGENCIES

In October 2004, The Florida State University Foundation ceded operational control and ownership of the Appleton Museum of Art and certain collections of art to the Central Florida Community College and Central Florida Community College Foundation. As part of the transfer, the Foundation agreed to guarantee operating funds up to $1.3 million per year for the period of October 2004 through September 2015, payable in the event the State of Florida specifically reduces or eliminates the appropriated recurring operating funds currently included in the legislative budget. As of June 30, 2011, the Foundation has not made any payments as guarantor.

17. FSU FOUNDATION EMPLOYERS CONTRIBUTION PLAN

The Foundation established a 403(b) tax deferred retirement plan to purchase annuity contracts for all employees to provide funds for retirement. Participants in the plan become vested after three years of continuous service. All benefits under the plan are provided through the purchase of individual or group fixed or variable annuity contracts.

The Foundation contributes a percentage of the base salary for each employee to the plan, 11% in fiscal year 2011, 5% in fiscal year 2010, plus an additional amount up to 4% of annual salary to match voluntary employee contributions. To date, the Foundation has made contributions of $7,865,014, net of unvested forfeitures. Of this total, $874,453 and $492,928 was contributed during the years ended June 30, 2011 and 2010, respectively. In the event the plan is terminated, vested employees will at that time have a non-forfeitable interest in the annuity contract.

18. RELATED PARTY TRANSACTIONS

The Foundation recognized support from the University of $2,377,972 and $1,340,217 for the years ended June 30, 2011 and 2010, respectively. These monies support fundraising activities and salaries. The employees of the Foundation's Accounting Office are employed by the University and report to the Associate Vice President for Budget Planning and Financial Services in the Division of Finance and Administration. As of July 1, 2007, funding for the accounting staff is provided by the University. In May of 2004, the Foundation and University signed an operating agreement outlining the duties and responsibilities of the Foundation Accounting Office and detailing the University's operational oversight.

Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
www.ey.com

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
The Florida State University Foundation, Inc.

We have audited the financial statements of The Florida State University Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

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

This report is intended solely for the information and use of management, the Audit Committee, the Board of Trustees, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

October 5, 2011