
**Audited Financial
Statements**

**For the Year Ended
June 30, 2012**



**THE FLORIDA STATE UNIVERSITY
FOUNDATION**

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Financial Statements and Reports
For the Year Ended June 30, 2012
With Summarized Financial Information for the Year Ended June 30, 2011

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Report of Independent Certified Public Accountants

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, 2012, 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 2011 financial statements and, in our report dated October 5, 2011, 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supplemental Schedules (balance sheet, income statement and statement of cash flows) are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked “unaudited,” has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portion marked “unaudited,” on which we express no opinion, is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

October 22, 2012

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Statement of Financial Position
As of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$66,847,149	\$59,153,620
Contributions receivable - net	15,724,361	11,392,365
Investments	393,452,417	411,234,427
Remainder interest trusts	9,623,847	9,304,895
Funds held in trust by others	9,216,422	10,047,705
Real estate held for resale	423,559	804,554
Land, buildings and equipment - net	540,610	1,096,125
Other assets	2,421,971	1,777,726
Total assets	<u>\$498,250,336</u>	<u>\$504,811,417</u>
Liabilities and net assets		
Liabilities		
Accounts payable	\$1,652,558	\$1,446,472
Refundable advances	-	4,100,000
Deferred revenue	3,800,000	-
Compensated absence liability	551,813	512,589
Agency liability	336,480	344,497
Annuity obligations	6,300,560	5,871,128
Total liabilities	12,641,411	12,274,686
Net assets (deficit)		
Unrestricted	(22,784,717)	(7,709,263)
Temporarily restricted	121,812,870	128,226,770
Permanently restricted	386,580,772	372,019,224
Total net assets	485,608,925	492,536,731
Total liabilities and net assets	<u>\$498,250,336</u>	<u>\$504,811,417</u>

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, 2012
With Summarized Financial Information for the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Revenues					
Contributions	\$3,000	\$18,867,663	\$16,836,477	\$35,707,140	\$28,362,936
State and University support	5,491,026	-	-	5,491,026	2,377,972
Other support	-	9,896,858	-	9,896,858	8,997,312
Interest and dividends	357	4,304,008	108,199	4,412,564	1,651,439
Net realized and unrealized (losses) gains	(120,040)	(12,511,811)	(1,794,482)	(14,426,333)	73,681,384
Losses in excess of temporarily restricted endowment assets (Note 12)	(17,927,498)	17,927,498	-	-	-
Other revenue	303,918	6,316,584	-	6,620,502	2,185,466
Net assets released from restrictions:					
Program and facilities support	38,621,896	(38,621,896)	-	-	-
Administrative support	11,085,462	(11,085,462)	-	-	-
Total revenues	<u>37,458,121</u>	<u>(4,906,558)</u>	<u>15,150,194</u>	<u>47,701,757</u>	<u>117,256,509</u>
Expenses					
Program	38,161,091	-	-	38,161,091	36,540,066
FSU facilities construction	671,375	-	-	671,375	3,649,305
Administrative	5,883,863	-	-	5,883,863	5,829,282
Fundraising	7,817,246	-	-	7,817,246	7,033,596
Provision for uncollectible pledges	-	1,507,342	588,646	2,095,988	2,212,850
Total expenses	<u>52,533,575</u>	<u>1,507,342</u>	<u>588,646</u>	<u>54,629,563</u>	<u>55,265,099</u>
Change in net assets	(15,075,454)	(6,413,900)	14,561,548	(6,927,806)	61,991,410
Net assets (deficit) at beginning of fiscal year	(7,709,263)	128,226,770	372,019,224	492,536,731	430,545,321
Net assets (deficit) at end of period	<u>(\$22,784,717)</u>	<u>\$121,812,870</u>	<u>\$386,580,772</u>	<u>\$485,608,925</u>	<u>\$492,536,731</u>

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	(\$6,927,806)	\$61,991,410
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions for long-term endowments	(16,836,477)	(5,927,627)
Noncash items:		
Noncash gifts	(838,806)	(716,021)
Net realized and unrealized losses and (gains)	14,426,333	(73,681,384)
Depreciation	520,329	551,333
Other adjustments	557,353	512
Provision for uncollectible pledges	2,095,988	2,212,850
Changes in assets and liabilities:		
Accounts and interest receivable	(528,647)	(79,634)
Contributions receivable	(6,427,984)	(1,603,109)
Funds held in trust by others	-	3,048,629
Refundable advances	(4,100,000)	(4,000,000)
Deferred revenue	3,800,000	-
Accounts payable	206,086	(775,830)
Compensated absence liability	39,224	(117,136)
Net cash flows used by operating activities	(14,014,407)	(19,096,007)
 Cash flows from investing activities		
Proceeds from sale of investments	100,741,083	148,712,335
Proceeds from sale of real estate held for resale	4,955	7,092
Proceeds from sale of assets	65,000	4,000
Principal payments on notes and long-term receivables	3,074	3,420
Purchase of investments	(94,923,129)	(95,546,638)
Purchase of land, buildings and equipment	(87,326)	(32,638)
Payments of annuity obligations	(932,198)	(900,533)
Net cash flows provided by investing activities	4,871,459	52,247,038
 Cash flows from financing activities		
Contributions for long-term endowments	16,836,477	5,927,627
Net cash flows provided by financing activities	16,836,477	5,927,627
 Net change in cash and cash equivalents	7,693,529	39,078,658
Cash and cash equivalents - beginning of year	59,153,620	20,074,962
Cash and cash equivalents - end of period	\$66,847,149	\$59,153,620

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, 2012

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, 2011, 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.

Contributions –The Foundation reports gifts of cash and other assets as restricted support when the use of the related assets is limited by donor-imposed restrictions. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor restrictions as to how long the long-lived assets must be maintained, when donated or acquired long-lived assets are placed in service it is reflected as net assets released from restrictions.

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

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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

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.

Contributions Receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, which approximates fair value at the date of the pledges. Unconditional promises to give in future periods are initially recorded at estimated fair value (net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. The discount rates are determined at the time the unconditional promise to give is initially received, and are determined using a risk adjusted rate applied to most likely cash flows. 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.

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 1.72% 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 discount rate of return assumed in this calculation for each of the annuities ranges from 1.4% to 9.6%, 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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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

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.

As of June 30, 2012 and 2011, the Foundation held assets in excess of the minimum gift annuity reserves required by state law.

Investments – Investments in marketable equity securities and debt securities, including mutual funds are recorded at their estimated fair values, which are based on quoted market prices or recognized pricing services. 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 annualized spending rate was 3.79% and 3.76% for the year ended June 30, 2012 and 2011, respectively.

Concentration of Credit Risk – The majority of the Foundation's cash equivalents are invested in a short-term investment grade bond fund with underlying credit quality primarily rated Aaa to Baa and a local governments' trust fund administered by the State of Florida with underlying credit quality rated A-1+ to A-1. Cash is maintained in cash accounts with large financial institutions where accounts are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation has minimal cash deposited that exceeds the federally insured deposit amount. Management does not anticipate nonperformance by the financial institutions.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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

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.

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 is classified as an organization operated for the benefit of a college or university owned or operated by a governmental unit described in Section 170(b)(1)(A)(iv).

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. Advertising expenses for the year ended June 30, 2012 and 2011 totaled \$313,735 and \$129,267, respectively.

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 22, 2012.

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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements – In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs)*, (ASU 2011-04). ASU 2011-04 amended ASC 820 primarily to clarify existing fair value measurement guidance and was intended to align U.S. GAAP and IFRSs. Additionally, the guidance required several new disclosures. It does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The provisions of ASU 2011-04 will be effective for annual periods beginning after December 15, 2011. The Foundation is evaluating the effect that the provisions of ASU 2011-04 will have on its financial statements.

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:

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 2,665,815	\$1,506,883
Between one and five years	10,040,078	10,035,248
Greater than five years	<u>6,532,030</u>	<u>2,153,111</u>
Unconditional promises –face value	\$19,237,923	\$13,695,242
Less: Allowance for uncollectibles	(2,687,632)	(1,718,820)
Unamortized discount	<u>(825,930)</u>	<u>(584,057)</u>
Contributions receivable - net	<u>\$15,724,361</u>	<u>\$11,392,365</u>

Approximately 66% of contributions receivable at June 30, 2012 and 56% of contributions receivable at June 30, 2011 were provided by 12 donors respectively.

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, 2012 and 2011, conditional promises of approximately \$255 million and \$250 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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

2. CONTRIBUTIONS RECEIVABLE (continued)

At June 30, 2012, the Foundation had approximately \$38.7 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 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 withdrawn in accordance with the Foundation's investment and spending policies. 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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

3. INVESTMENTS (continued)

Investments as of June 30, 2012 and 2011 consist of the following amounts:

	<u>2012</u>	<u>2011</u>
Short-term investment fund	\$ 1,331,211	\$ 110,541
Fixed income:		
Institutional pooled funds	59,311,899	60,223,797
Equities:		
Institutional pooled funds	176,153,026	197,907,328
Hedge Funds:		
Long/short equity		
U.S. long/short	9,760,472	13,991,293
Global long/short	22,488,547	18,771,145
Absolute return		
Diversified arbitrage	4,638,608	4,785,004
Event driven/open mandate	24,744,623	26,224,557
Credit strategies/distressed	17,022,029	17,169,193
Global macro	10,257,092	11,612,236
Limited partnerships:		
Venture capital	2,160,210	1,527,854
Private equity	18,702,312	13,703,851
Distressed assets	5,515,473	3,180,200
Real estate	6,137,335	4,659,332
Natural resources	2,632,553	1,465,771
Real assets:		
Mutual funds	7,001,680	6,926,133
Institutional pooled fund	<u>25,595,347</u>	<u>28,976,192</u>
Total	<u>\$393,452,417</u>	<u>\$411,234,427</u>

Investment expenses for the year ended June 30, 2012 and 2011 totaled \$4,137,078 and \$3,735,805, respectively.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

3. INVESTMENTS (continued)

Approximately 62.0% and 64.5% of the Foundation's investments at June 30, 2012 and 2011, 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 22.6% and 22.5% of the Foundation's investments at June 30, 2012 and 2011, respectively, were invested in 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 6.5% and 7.0% of the Foundation's investments at June 30, 2012 and 2011, 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 8.9% and 6.0% of the Foundation's investments at June 30, 2012 and 2011, 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, 2012, pursuant to its limited partnership agreements, the Foundation is committed to contributing \$69.5 million in capital over the next 15 years. As of this date, the total unfunded commitment to these partnerships is \$36.8 million.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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) 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, 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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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, 2012:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Cash and cash equivalents:				
Short-term investment fund	\$ 1,331,211	\$1,331,211	\$ -	\$ -
Fixed income:				
Domestic institutional pooled fund	39,577,563	-	39,577,563	-
Global institutional pooled fund	19,734,336	-	19,734,336	-
Equities:				
U.S. institutional pooled fund	89,412,935	-	89,412,935	-
Global ex U.S. institutional pooled fund	64,469,412	-	64,469,412	-
Emerging markets institutional pooled fund	22,270,679	-	22,270,679	-
Hedge funds:				
U.S. long/short	9,760,471	-	9,760,471	-
Global long/short	22,488,547	-	22,488,547	-
Diversified arbitrage	4,638,608	-	4,638,608	-
Event driven/open mandate	24,744,624	-	19,928,532	4,816,092
Credit strategies/distressed	17,022,029	-	17,022,029	-
Global macro	10,257,092	-	10,257,092	-
Limited partnerships:				
Venture capital L.P. fund	2,160,210	-	-	2,160,210
Private equity L.P. fund	18,702,312	-	-	18,702,312
Distressed assets L.P. fund	5,515,473	-	-	5,515,473
Real estate L.P. fund	6,137,335	-	-	6,137,335
Natural resources L.P. fund	2,632,553	-	-	2,632,553
Real assets:				
Global REIT mutual fund	7,001,680	-	7,001,680	-
Diversified inflation hedge institutional fund	25,595,347	-	25,595,347	-
Total investments	\$393,452,417	\$1,331,211	\$352,157,231	\$39,963,975
Remainder interest trusts				
Cash and cash equivalents:				
Short-term investment fund	\$ 247,786	\$247,786	\$ -	\$ -
Fixed income:				
Domestic institutional pooled fund	3,493,226	-	3,493,226	-
Equities:				
U.S. institutional pooled fund	3,043,491	-	3,043,491	-
Global ex U.S. institutional pooled fund	1,993,011	-	1,993,011	-
Real assets:				
Global REIT mutual fund	467,253	-	467,253	-
Commodity index fund	379,080	-	379,080	-
Total remainder interest trusts	\$9,623,847	\$247,786	\$9,376,061	\$ -
Funds held in trust by others	\$9,216,422	-	-	\$9,216,422
Total investments & financial instruments	<u>\$412,292,686</u>	<u>\$1,578,997</u>	<u>\$361,533,292</u>	<u>\$49,180,397</u>

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach. 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, 2012.

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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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. To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach, as well as recent observable transactions and recent statement of changes for the funds.

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 1 and 2. The fair value of the short-term investment fund is classified as Level 1. The Level 2 trust assets are invested in equity, fixed income and real assets vehicles which are comprised of institutional pooled (commingled funds). To estimate the fair value, the Foundation used an industry standard valuation model which is based on a market approach. Its fair value is based on multiple sources of information, which may include market data and/or quoted market prices from either markets 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 estimated using the income approach and 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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

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 transfers that occurred between Level 1 and Level 2 during the year ended June 30, 2012. 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, 2012:

	<u>Venture capital</u>	<u>Private equity</u>	<u>Distressed assets</u>	<u>Event driven/ open mandate</u>	<u>Real estate</u>	<u>Natural resources</u>	<u>Funds held in trust by others</u>	<u>Total</u>
Beginning balances at July 1, 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
Transfers into Level 3	-	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-	-
Net realized and unrealized gains (losses) included in change in net assets	263,070	849,393	276,604	30,981	773,060	379,282	(831,283)	1,741,107
Purchases, sales issuances and settlements								
Purchases	369,286	5,109,953	2,058,669	-	840,000	787,500	-	9,165,408
Sales	-	(960,885)	-	-	(135,057)	-	-	(1,095,942)
Issuances	-	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-	-
Ending balances at June 30, 2012	<u>\$2,160,210</u>	<u>\$18,702,312</u>	<u>\$5,515,473</u>	<u>\$4,816,092</u>	<u>\$6,137,335</u>	<u>\$2,632,553</u>	<u>\$9,216,422</u>	<u>\$49,180,397</u>

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

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, 2012:

	<u>Total Fair Value</u>	<u>Unfunded Commitments</u>	<u>Exit Frequency</u>	<u>Days Notice</u>
<u>Hedge funds</u>				
Long/short equity (a)				
U.S. long/short	\$9,760,471	\$ -	Annually	60
Global long/short	22,488,547	-	Quarterly/Annually/ Every 3 Years	45-65
Absolute return (b)				
Diversified arbitrage	4,638,608	-	Quarterly	45
Event driven/open mandate	24,744,624	-	Quarterly/Annually/ Every 12 months	30-90
Credit strategies/distressed	17,022,029	-	Quarterly/Annually/ Every 24 months	45-90
Global macro	10,257,092	-	Monthly	10
<u>Limited partnerships (c)</u>				
Venture capital	2,160,210	10,712,500		
Private equity	18,702,312	14,449,759		
Distressed assets	5,515,473	900,000		
Real estate	6,137,335	3,022,500		
Natural resources	<u>2,632,553</u>	<u>7,762,500</u>		
Total	<u>\$124,059,254</u>	<u>\$36,847,259</u>		

(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 18% 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 82% can be redeemed in less than one year at June 30, 2012.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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, 2012 was \$3,707,121. 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 37% 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 63% can be redeemed in less than one year at June 30, 2012.

(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, 2012, 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, 2012, contributions of \$1,381,525 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 loss of \$110,480.

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

	<u>2012</u>	<u>2011</u>
Fair value of securities held	\$9,623,847	\$9,304,895
Annuity obligations	<u>(6,300,560)</u>	<u>(5,871,128)</u>
Net present value	<u>\$3,323,287</u>	<u>\$3,433,767</u>

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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, 2012, 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 \$831,283.

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

	<u>2012</u>	<u>2011</u>
Market value	\$ 15,279,164	\$ 16,257,828
Discount to present value	<u>(6,062,742)</u>	<u>(6,210,123)</u>
Net present value	<u>\$9,216,422</u>	<u>\$10,047,705</u>

7. REAL ESTATE HELD FOR RESALE

Effective July 2011, The Florida State University Real Estate Foundation (Real Estate Foundation) was created to receive real estate gifts. Gifts or bequests made prior to the establishment of the Real Estate Foundation which designated the FSU Foundation as beneficiary will be received by the FSU Foundation and transferred to the Real Estate Foundation. Real estate gifts transferred to the Real Estate Foundation are subsequently marketed and sold, with proceeds going to support The Florida State University. Carrying values for real estate held by the FSU Foundation for resale at June 30, 2012 and 2011 were \$423,559 and \$804,554, respectively. At June 30, 2012, there was one property held for resale located in Tallahassee, FL.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

8. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of the following at June 30, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Buildings and leasehold improvements	\$516,050	\$678,550
Furniture, fixtures and equipment	<u>2,968,754</u>	<u>3,009,477</u>
Total depreciable assets	\$3,484,804	\$3,688,027
Less: Accumulated depreciation	<u>(2,944,194)</u>	<u>(2,710,902)</u>
Buildings, furniture, fixtures and equipment – net	\$540,610	\$977,125
Land	<u>-</u>	<u>119,000</u>
Land, buildings and equipment – net	<u>\$540,610</u>	<u>\$1,096,125</u>

Total depreciation expense for the year ended June 30, 2012 and 2011 was \$520,329 and \$551,333, respectively.

9. OTHER ASSETS

Other assets consist of the following at June 30, 2012, and 2011:

	<u>2012</u>	<u>2011</u>
Accounts receivable	\$828,803	\$390,413
Less: allowance for uncollectibles	<u>(18,007)</u>	<u>(108,263)</u>
Total accounts receivable - net	\$810,796	\$282,150
Note receivable	45,790	47,704
Asset held for resale	16,500	-
Cash surrender value of life insurance	<u>1,548,885</u>	<u>1,447,872</u>
Other Assets	<u>\$2,421,971</u>	<u>\$1,777,726</u>

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, 2012 and 2011 is approximately \$6.4 million and \$6.5 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, 2012 and 2011 is \$336,480 and \$344,497, respectively.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

11. NET ASSETS

At June 30, 2012 and 2011, net assets included unrestricted funds and funds restricted by donors for the following purposes:

	<u>2012</u>	<u>2011</u>
Unrestricted		
Unrestricted net assets before adjustment for losses	\$9,503,701	\$ 6,651,657
Losses in excess of temporarily restricted endowment assets	<u>(32,288,418)</u>	<u>(14,360,920)</u>
Total unrestricted net deficit	<u>(\$22,784,717)</u>	<u>(\$7,709,263)</u>
Temporarily restricted		
Faculty and staff support	\$ 75,895,813	\$ 81,506,075
Student financial aid	28,872,407	30,575,671
Student organizations	1,223,395	1,185,371
University administration	5,732,445	4,757,068
Research	720,024	861,293
Facilities, equipment and other	<u>9,368,786</u>	<u>9,341,292</u>
Total temporarily restricted net assets	<u>\$121,812,870</u>	<u>\$128,226,770</u>
Permanently restricted		
Faculty and staff support	\$ 245,122,281	\$ 241,369,899
Student financial aid	127,216,280	118,696,188
Student organizations	457,105	442,717
University administration	86,064	84,674
Research	957,295	929,403
Facilities and equipment	4,180,315	4,123,771
Remainder interest in trusts	<u>8,561,432</u>	<u>6,372,572</u>
Total permanently restricted net assets	<u>\$386,580,772</u>	<u>\$372,019,224</u>
Total net assets	<u>\$485,608,925</u>	<u>\$492,536,731</u>

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 required by ASC 958-205 for all not-for-profit organizations.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

12. ENDOWMENT *(continued)*

The Foundation's endowment consists of approximately 1,251 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.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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 and the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment returns.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.
Notes to Financial Statements
For the Year Ended June 30, 2012

12. ENDOWMENT (continued)

Changes in endowment funds for the year ended June 30, 2012, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets (deficit), beginning of year	\$1,731,326	\$38,984,893	\$346,081,505	\$386,797,724
Investment return:				
Investment income	-	3,217,446	-	3,217,446
Net realized and unrealized gains	-	<u>(21,173,418)</u>	-	<u>(21,173,418)</u>
Total investment return	-	(17,955,972)	-	(17,955,972)
Contributions	-	449,506	14,253,146	14,702,652
Appropriation of endowment assets for expenditure	-	(13,049,604)	-	(13,049,604)
Other changes:				-
Reclassification of assets	<u>257,155</u>	<u>(896,448)</u>	<u>639,293</u>	<u>-</u>
Endowment net assets, end of period	<u>\$1,988,481</u>	<u>\$7,532,375</u>	<u>\$360,973,944</u>	<u>\$370,494,800</u>

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, 2012 and 2011 was \$32,288,418 and \$14,360,920, respectively and is classified as part of unrestricted net assets.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

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, 2012 and 2011 is summarized below:

	<u>2012</u>	<u>2011</u>
FSUF Investment Portfolio Total Return (net of fees)	-2.81%	20.40%
Less: Budgeted Spending Rate and Administrative Fee	-6.50%	-6.50%
Inflation (Higher Education Price Index)	<u>-1.70%</u>	<u>-2.30%</u>
Net Real Return	<u>-11.01%</u>	<u>11.60%</u>

14. PROGRAM EXPENDITURES

At June 30, 2012 and 2011, expenditures for program support included the following purposes:

	<u>2012</u>	<u>2011</u>
Athletic development	\$8,040,315	\$7,297,682
Salary supplements	7,540,614	7,288,062
Scholarships, grants and fellowships	6,343,721	6,357,253
Travel and entertainment	5,441,570	4,587,212
Equipment and supplies	2,944,235	4,494,140
Printing and marketing	2,023,420	1,658,995
Professional services	1,908,361	1,209,945
Taxes and license fees	1,298,576	2,753,532
Utilities and maintenance	353,764	278,048
Rents and leases	272,063	200,008
Insurance	8,530	-
Other university support	<u>1,985,922</u>	<u>415,189</u>
Total program expenditures	<u>\$38,161,091</u>	<u>\$36,540,066</u>

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

15. OPERATING LEASE

The Foundation has a lease agreement relating to office facilities with a non-cancelable term ending March 31, 2013. This lease may be renewed for another year through March 31, 2014 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 year ended June 30, 2012 and 2011.

The following is a schedule by years of future minimum rental payments required under the existing operating lease.

Fiscal Year ending June 30:

2013	<u>\$478,989</u>
Total minimum lease payments required	<u>\$478,989</u>

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, 2012, the Foundation has not made any payments as guarantor nor accrued any liability for this guarantee.

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 11% of the base salary for each employee to the plan, plus an additional amount up to 4% of annual salary to match voluntary employee contributions. To date, the Foundation has made contributions of \$8,944,972, net of unvested forfeitures. Of this total, \$894,118 and \$874,453 was contributed during the year ended June 30, 2012 and 2011, respectively. In the event the plan is terminated, vested employees will at that time have a non-forfeitable interest in the annuity contract.

THE FLORIDA STATE UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

For the Year Ended June 30, 2012

18. RELATED PARTY TRANSACTIONS

The Foundation recognized support from the University of \$5,491,026 and \$2,377,972 for the year ended June 30, 2012 and 2011, respectively. These monies support fundraising activities and salaries.

In October of 2011, the Foundation entered into a \$4.0 million contract with the University to conduct a comprehensive fundraising campaign to raise philanthropic funds for FSU priorities. The initial term of the agreement was through June 30, 2012. As the campaign is expected to last approximately eight years, and continued support from FSU may be required to conduct the campaign, the agreement is renewable on a year-to-year basis. Such renewal and the renewal amount will be documented annually by an amendment to the original agreement. On June 1, 2012, the contract was extended to June 30, 2013. This extension included a prepayment discount of 5% if the contract amount was paid prior to June 30, 2012. Payment of \$3.8 million was received in June 2012 and is reflected in the statement of financial position as deferred revenue which will be recognized as services are performed during fiscal year 2013.

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. 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. Since July 1, 2007, funding for the accounting staff has been provided by the University.

19. THE FLORIDA STATE REAL ESTATE FOUNDATION, INC.

The Florida State Real Estate Foundation (Real Estate Foundation) was approved as a Direct Support Organization of The Florida State University in June 2011 and held its inaugural board meeting in July 2011. The Real Estate Foundation operates exclusively to receive, hold, invest, and administer property for the benefit of The Florida State University. The Real Estate Foundation receives contributions of real estate, to hold, manage, lease, mortgage, develop, administer or sell in order to contribute or distribute all or a portion of the net proceeds from such activity to The Florida State University, the Foundation, or such other entity as the Real Estate Foundation Board may determine appropriate.

During fiscal year 2012, the Foundation transferred three properties valued at \$620,000 to the Real Estate Foundation. No proceeds from the Real Estate Foundation were received by the Foundation during the year ended June 30, 2012.

The Foundation provided support for the Real Estate Foundation of \$16,993 for the year ended June 30, 2012. These monies support administrative expenses. In addition, as of June 30, 2012 the Foundation had a receivable of \$1,209 for holding costs incurred for one of the properties transferred. This receivable will be repaid when the property is sold.

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*

Board of Trustees, Thomas Jennings, Foundation President, and
Gerald Ganz, Foundation Chief Financial Officer
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, 2012, and have issued our report thereon dated October 22, 2012. 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

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 22, 2012